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CHINA PETROLEUM & CHEMICAL CORP  
Form 6-K  
August 31, 2005

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 6-K

Report of Foreign Private Issuer  
Pursuant to Rule 13a-16 or 15d-16 of  
The Securities Exchange Act of 1934

For the month of August, 2005

CHINA PETROLEUM & CHEMICAL CORPORATION  
A6, Huixindong Street,  
Chaoyang District Beijing, 100029  
People's Republic of China  
Tel: (8610) 6499-0060

(Indicate by check mark whether the registrant files or will file  
annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F  Form 40-F

(Indicate by check mark whether the registrant by furnishing the  
information contained in this form is also thereby furnishing the information  
to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act  
of 1934. )

Yes  No

(If "Yes" is marked, indicate below the file number assigned to  
registrant in connection with Rule 12g3-2(b): 82-\_\_\_\_\_.)

N/A

This Form 6-K consists of:

The 2005 Interim Results of China Petroleum & Chemical Corporation (the  
"Registrant"), made by the Registrant in English on August 26, 2005.

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

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IMPORTANT NOTICE: THE BOARD OF DIRECTORS OF CHINA PETROLEUM & CHEMICAL CORPORATION ("SINOPEC CORP.") AND THE DIRECTORS WARRANT THAT THERE ARE NO MATERIAL OMISSIONS, OR MISREPRESENTATIONS OR MISLEADING STATEMENTS CONTAINED IN THIS INTERIM REPORT AND SEVERALLY AND JOINTLY ACCEPT FULL RESPONSIBILITY FOR THE AUTHENTICITY, ACCURACY AND COMPLETENESS OF THE INFORMATION CONTAINED IN THIS INTERIM REPORT. MESSRS. MOU SHULING, GAO JIAN, FAN YIFEI, SHI WANPENG AND ZHANG YOUCAI, DIRECTORS OF SINOPEC CORP., DID NOT ATTEND THE 19TH MEETING OF THE SECOND SESSION OF THE BOARD FOR REASONS OF OFFICIAL DUTIES. MR. MOU SHULING, DIRECTOR OF SINOPEC CORP., AUTHORISED MR. CAO XIANGHONG, DIRECTOR OF SINOPEC CORP., MR. GAO JIAN, DIRECTOR OF SINOPEC CORP., AUTHORISED MR. CHEN TONGHAI, CHAIRMAN OF THE BOARD, MR. FAN YIFEI, DIRECTOR OF SINOPEC CORP., AUTHORISED MR. WANG JIMING, VICE CHAIRMAN OF THE BOARD, AND MESSRS, SHI WANPENG AND ZHANG YOUCAI, DIRECTORS OF SINOPEC CORP., AUTHORISED MR. CHEN QINGTAI, DIRECTOR OF SINOPEC CORP. RESPECTIVELY, TO VOTE ON THEIR BEHALF IN RESPECT OF THE RESOLUTIONS PUT FORWARD IN THE 19TH MEETING OF THE SECOND SESSION OF THE BOARD. MR. CHEN TONGHAI, CHAIRMAN OF THE BOARD, MR. WANG TIANPU, PRESIDENT, MR. ZHANG JIAREN, DIRECTOR, SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER AND MR. LIU YUN, HEAD OF THE ACCOUNTING DEPARTMENT WARRANT THE AUTHENTICITY AND COMPLETENESS OF THE FINANCIAL STATEMENTS CONTAINED IN THIS INTERIM REPORT.

THE FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2005 OF SINOPEC CORP. AND ITS SUBSIDIARIES ("THE COMPANY") PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING RULES AND REGULATIONS, AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") HAVE BEEN AUDITED BY KPMG HUAZHEN AND KPMG, RESPECTIVELY, AND BOTH FIRMS HAVE ISSUED STANDARD UNQUALIFIED OPINIONS ON THE FINANCIAL STATEMENTS CONTAINED IN THIS INTERIM REPORT.

### COMPANY PROFILE

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

### REPRESENTATIVE ON SECURITIES MATTERS

Mr. Huang Wensheng

### REGISTERED ADDRESS, PLACE OF BUSINESS AND CORRESPONDENCE ADDRESS

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Chaoyang District  
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PLACES  
AVAILA  
China:

USA:

UK:

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petrochemical products. Sinopec Corp.'s basic information is as follows:

media@sinopec.com.cn

<p>LEGAL NAME **[Chinese characters omitted]</p> <p>CHINESE ABBREVIATION **[Chinese characters omitted]</p> <p>ENGLISH NAME China Petroleum &amp; Chemical Corporation</p> <p>ENGLISH ABBREVIATION Sinopec Corp.</p> <p>LEGAL REPRESENTATIVE Mr. Chen Tonghai</p> <p>AUTHORISED REPRESENTATIVES Mr. Wang Jiming, Mr. Chen Ge</p> <p>SECRETARY TO THE BOARD OF DIRECTORS Mr. Chen Ge</p>	<p>PLACE OF BUSINESS IN HONG KONG 12th Floor, Office Tower, Convention Plaza 1 Harbour Road, Wanchai, Hong Kong</p> <p>NEWSPAPERS FOR INFORMATION DISCLOSURE Mainland China: China Securities News Shanghai Securities News Securities Times</p> <p>Hong Kong: Hong Kong Economic Times South China Morning Post (English)</p> <p>INTERNET WEBSITE PUBLISHING INTERIM REPORT DESIGNATED BY THE CHINA SECURITIES REGULATORY COMMISSION <a href="http://www.sse.com.cn">http://www.sse.com.cn</a></p>	<p>PLACES NAMES A</p> <p>A Shar</p> <p>H Shar</p> <p>ADSs:</p>
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### PRINCIPAL FINANCIAL DATA AND INDICATORS

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

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

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

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

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

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

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

(3) Significant changes of items in the financial statements

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

Item	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	Increase/ (Decrease)		Analysis of Change
			Amount RMB millions	Percentage (%)	
Accounts receivable	15,247	9,756	5,491	56	Mainly due to increase in principal operations
Construction materials	984	430	554	129	Since more construction materials expected to complete in this period, purchases increased
Accounts payable	34,152	23,792	10,360	44	Mainly due to increase in accounts payable which resulted from principal operations

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Taxes payable	3,552	6,741	(3,189)	(47)	Please refer to financial statements prepared in accordance with Accounting Rules of the People's Republic of China
Accrued expenses	2,395	652	1,743	267	Mainly due to accrued interest on unpaid product
Current portion of long term liabilities	7,245	14,298	(7,053)	(49)	Please refer to financial statements prepared in accordance with Accounting Rules of the People's Republic of China
Deferred tax liabilities	3	198	(195)	(98)	Please refer to financial statements prepared in accordance with Accounting Rules of the People's Republic of China

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

Item	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	Increase/ (Decrease) Amount Percentage RMB (%)		Analysis of Change
Income from principal operations	359,248	265,709	93,539	35.2	Please refer to financial statements prepared in accordance with Accounting Rules of the People's Republic of China
Cost of sales	293,181	206,098	87,083	42.3	Please refer to financial statements prepared in accordance with Accounting Rules of the People's Republic of China
Financial expenses	2,852	2,094	758	36.2	Please refer to financial statements prepared in accordance with Accounting Rules of the People's Republic of China
Exploration expenses	3,355	2,475	880	35.6	Please refer to financial statements prepared in accordance with Accounting Rules of the People's Republic of China
Investment (loss)/income	(742)	516	(1,258)	(243.8)	Please refer to financial statements prepared in accordance with Accounting Rules of the People's Republic of China
Non-operating expenses	1,109	4,952	(3,843)	(77.6)	Please refer to financial statements prepared in accordance with Accounting Rules of the People's Republic of China
Unrecognised investment losses	(113)	507	(620)	(122.3)	Mainly due to unrecognised investment losses in carrying value

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(4) Details of provisions for assets in the consolidated financial statements

Item	Lines	At the beginning of the period	Increase in the period	Wri back the pe
Allowance for doubtful accounts	1	7,167	294	
Of which: Allowance for doubtful accounts for trade accounts receivable		3,671	76	
Allowance for doubtful accounts for other receivables		3,496	218	
Provision for diminution in value of short-term investments	2	--	--	
Provision for diminution in value of inventories	3	906	131	
Provision for impairment losses on long-term investments	4	353	40	
Of which: Long-term equity investments		353	40	
Provision for impairment losses on fixed assets	5	5,816	397	
Of which: Land and buildings		331	--	
Oil and gas properties		783	--	
Oil depots, storage tanks and service stations		1,249	5	
Plant, machinery, equipment and others		3,453	392	
Provision for impairment losses on intangible assets	6	--	--	
Provision for impairment losses on construction in progress	7	--	--	
Provision for impairment losses on entrusted loans	8	--	--	
Total		14,242	862	

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

Six-month periods end

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Item	2005 RMB millions	RMB
Operating profit	33,682	
Profit for the period attributable to equity holders of the parent	19,653	
Return on capital employed (%)*	6.17	
Earnings per share (RMB/share)	0.227	
Net cash flow from operating activities	21,082	

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

Item	At 30 June 2005 RMB millions	At 31 RMB
Current assets	139,104	
Current liabilities	154,084	
Total assets	509,380	
Total equity attributable to equity holders of the parent	205,757	
Net assets per share (RMB/share)	2.373	
Adjusted net assets per share (RMB/share)	2.310	

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

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

Item	RMB
Net profit under the PRC Accounting Rules and Regulations	
Adjustments:	
Equity investment differences	



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Pre-operating expenditures	
-----	
Depreciation of oil and gas properties	
-----	
Capitalisation of general borrowing costs, net of depreciation effect	
-----	
Unrecognised losses of subsidiaries	
-----	
Acquisition of Sinopec National Star	
-----	
Acquisition of Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants	
-----	
Reduced amortisation on revaluation of land use rights	
-----	
Reduced depreciation on government grants	
-----	
Impairment losses on revalued assets	
-----	
Disposal of oil and gas properties, net of depreciation effect	
-----	
Effects of the above adjustments on taxation	
-----	
Minority interests	
-----	
Profit for the period under IFRS	
=====	

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

	At 30 June 2005 RMB millions
Shareholders' funds under the PRC Accounting Rules and Regulations	197,571
-----	
Adjustments:	
-----	
Equity investment differences	1,169
-----	
Pre-operating expenditures	(15)
-----	
Depreciation of oil and gas properties	12,012
-----	
Capitalisation of general borrowing costs	1,821
-----	
Acquisition of Sinopec National Star	(2,637)
-----	
Revaluation of land use rights	(968)
Government grants	(591)
-----	

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Disposal of oil and gas properties	3,161
-----	-----
Impairment losses on long-lived assets	(113)
-----	-----
Effects of the above adjustments on taxation	(5,653)
-----	-----
Minority interests	29,019
-----	-----
Total equity under IFRS	234,776
=====	=====

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### CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS

1 CHANGES IN THE SHARE CAPITAL OF SINOPEC CORP.

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

2 SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS

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

(1) Top ten shareholders as at

Name of shareholders	Increase/ decrease during the reporting period	Number of shares held at the end of the reporting period	Percentage at the end Among total share- holdings	Among the type of shares held	Nature Share- holders
China Petrochemical Corporation ("Sinopec Group Company")	0	58,885,561	67.92	87.73	State-o
-----	-----	-----	-----	-----	-----
HKSCC (Nominees) Limited	(2,848)	16,675,942	19.23	99.38	H share
-----	-----	-----	-----	-----	-----
China Cinda Asset Management Corp.	0	3,720,650	4.29	5.54	State-o
-----	-----	-----	-----	-----	-----
China Development Bank	0	2,632,570	3.04	3.92	State-o
-----	-----	-----	-----	-----	-----
China Orient Asset Management Corp.	0	1,296,410	1.50	1.93	State-o
GuoTai JunAn Corp.*	0	586,760	0.68	0.87	State-o person
-----	-----	-----	-----	-----	-----
	3,442	3,442	0.00	0.12	A shares
-----	-----	-----	-----	-----	-----
China 50ETF	38,378	73,714	0.09	2.63	A shares
-----	-----	-----	-----	-----	-----
E FUND 50 Index Fund	(8,656)	64,453	0.07	2.30	A shares
-----	-----	-----	-----	-----	-----

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Qingdao Port Authority	0	60,000	0.07	2.14	A shares
<hr/>					
CITIC Classic Allocation Fund	(2,367)	56,338	0.06	2.01	A shares
<hr/>					
Explanation for the relationships among the above shareholders or actions in concert:	The Company is not aware of any connection or actions of shareholders and is not aware of any pledges, lock-ups or actions of holders of H Shares.				
<hr/>					

\* The additional 3.442 million shares in this reporting period are tradable A shares purchased in the stock market, while the remainders are non-tradable shares. The pledged and locked-up shares are as follows:

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(2) Top ten shareholders with tradable shares as at 30 June 2005

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

Number of share interests held

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Name of shareholders	Nature	or regarded as held
J.P. Morgan Chase & Co.	Beneficial owner	317,923,000 (L)
	Investment manager	290,220,905 (L)
	Custodian corporation/ approved lending agent,	560,683,942 (L) (P)
	Physically settled derivatives	
Credit Suisse Group	Corporate	1,076,046,844 (L)
	Corporate	826,314,296 (S)
	Lending pool	29,195,950 (P)
J.P. Morgan Chase & Co.	Beneficial owner	46,454,000 (L)
	Investment manager	634,707,194 (L)
	Others	347,184,277 (L) (P)
Alliance Capital Management L.P.	Corporate	1,006,311,601 (L)

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

- 3 CHANGES IN THE CONTROLLING SHAREHOLDERS AND THE EFFECTIVE CONTROLLERS  
 There was no change in the controlling shareholders or the effective controllers during the reporting period.

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### BUSINESS REVIEW AND PROSPECTS

#### BUSINESS REVIEW

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

According to the PRC Accounting Rules and Regulations, in the first half of 2005, the Company's income from principal operations was RMB 359.2 billion, up by 35.2% over that of the first half of 2004. The Company's net profit was RMB 18 billion, up by 20.0% over that of the first half of 2004. Based on the number of shares outstanding at the end of the reporting period, earnings per

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share was RMB 0.208. According to the International Financial Reporting Standards, turnover and other operating revenues amounted to RMB 368.5 billion, up by 31.9% over that of the first half of 2004. Profit attributable to equity holders of the Company was RMB 19.7 billion, up by 17.4% over that of the first half of 2004. Based on the number of shares outstanding at the end of the reporting period, earnings per share was RMB 0.227.

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

### 1 PRODUCTION AND OPERATION

#### (1) Exploration and Production Segment

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

In the first half of 2005, in exploration, benefiting from theoretical and technological innovations, the Company strengthened progressive exploration and emphasized preliminary exploration in new blocks. Remarkable exploration results were achieved in hidden oil and gas reserves in the mature blocks in eastern China and important progress was achieved in the exploration in southwestern China. In the first half of 2005, the newly added proved geological crude oil reserves amounted to approximately 95.72 million tonnes, whilst the newly added proved natural gas geological reserves were approximately 47.5 billion cubic meters. Since some exploration wells were not completed, newly added proved oil and gas reserves evaluated by the Company in accordance with SEC criteria declined compared with those of the same period of last year. In development, a number of key projects for production capacity building were started. In production, by seizing the opportunity of high oil prices, the Company carefully organized oil and gas production, stabilized production in mature oilfields and increased production in new blocks. As a result, oil and gas production increased steadily.

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#### Summary of Operations of Exploration, Development and Production

	Six-month period ended 30 June 2005
Crude oil production (million barrels)	136.69
Natural gas production (billion cubic feet)	104.8
Newly added proved crude oil reserves (million barrels)	85.69
Newly added proved natural gas reserves (billion cubic feet)	518.1
Proved crude oil reserves at the end of the reporting period (million barrels)	3,216.2
Proved natural gas reserves at the end of the reporting period (billion cubic feet)	3,446.3

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

### (2) Refining Segment

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

#### Summary of Operations of Refining

	Six-month period ended 30 June 2005
Crude processing volume (million tonnes)	68.08
Of which: Sour crude processing volume (million tonnes)	16.87
Gasoline, diesel and kerosene (including jet fuel) output (million tonnes)	41.02
Of which: Gasoline (million tonnes)	11.32
Diesel (million tonnes)	26.31
Kerosene including jet fuel (million tonnes)	3.39
Light Chemical feedstock (million tonnes)	10.16
Light yield (%)	74.24
Refining yield (%)	93.11

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

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### (3) Marketing and Distribution Segment

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

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

#### Summary of Operations of Marketing and Distribution

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

### (4) Chemicals Segment

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

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

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

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

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

Note:

1. The operation data of the first half of 2004 and the first half of 2005 include that of the chemical assets acquired from Sinopec Group Company and its subsidiaries (excluding the Company) ("Sinopec Group") at the end of 2004.
2. 100% production of the two joint venture ethylene projects of BASF-YPC and Shanghai Secco was included.

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

	Six-month periods ended 30 June		Changes (%)
	2005	2004	
Ethylene	2,434	1,863	30.65
Synthetic resin	3,528	2,806	25.73
Of which: Performance compound resin	1,689	1,478	14.28
Synthetic fiber monomers and polymers	3,152	2,443	29.02
Synthetic fiber	756	641	17.94



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Of which: Differential fiber	384	289	32.87
-----			
Synthetic rubber	308	297	3.70
-----			
Urea	998	1,322	(24.51)
-----			

Note:

1. The operation data of the first half of 2004 exclude that of the chemical assets acquired from Sinopec Group at the end of 2004, and the operation data of the first half of 2005 include the chemical assets acquired from Sinopec Group in 2004.
2. 100% production of the two joint venture ethylene projects of BASF-YPC and Shanghai Secco was included.

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2 COST REDUCTION

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

3 CAPITAL EXPENDITURE

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

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

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### BUSINESS PROSPECTS

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

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

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

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

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

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including 30.40 million tonnes of retail volume and 10.60 million tonnes of direct sales volume.

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

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

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

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

#### 1 CONSOLIDATED RESULTS OF OPERATIONS

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

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

	Six-month ended Ju 2005	RMB mill
Turnover and other operating revenues	368,454	
Of which: Turnover	359,248	

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Other operating revenues	9,206
Operating expenses	(334,772)
Of which: Purchased crude oil, products, and operating supplies and expenses	(283,036)
Selling, general and administrative expenses	(15,510)
Depreciation, depletion and amortisation	(15,155)
Exploration expenses, including dry holes	(3,355)
Personnel expenses	(8,536)
Employee reduction expenses	(100)
Taxes other than income tax	(8,204)
Other operating expenses, net	(876)
Operating profit	33,682
Net finance costs	(2,566)
Investment income and share of profits less losses from associates	598
Profit before taxation	31,714
Taxation	(9,945)
Profit for the period	21,769
Attributable to: Equity holders of the parent	19,653
Minority interests	2,116

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(1) Turnover and other operating revenues

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

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

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

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

	Sales Volumes (thousand tonnes)			Changes (%)	Av Six-mont ended 2005
	Six-month period ended June 30				
	2005	2004			
Crude oil	2,569	3,019	(14.9)	2,367	
Natural gas (million cubic meters, RMB/thousand cubic metres)	1,962	1,767	11.0	658	
Gasoline	14,609	13,266	10.1	4,151	
Diesel	32,571	29,096	11.9	3,514	
Kerosene including jet fuel	3,086	2,633	17.2	3,414	
Basic chemical feedstock	3,836	3,242	18.3	4,948	
Synthetic fiber monomer and polymer	1,412	1,364	3.5	9,026	
Synthetic resin	2,898	2,667	8.7	9,144	
Synthetic fiber	784	878	(10.7)	11,499	
Synthetic rubber	303	299	1.3	12,394	
Chemical fertilizer	1,004	1,287	(22.0)	1,463	

The Company's external sales revenue of chemical products was RMB 74.7 billion, accounting for 20.3% of its turnover and other operating revenues,

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representing an increase of 29.5% compared with that in the first half of 2004. The increase was mainly due to the fact that the Company captured the favorable opportunity of the high chemical product prices and increased sales volume.

### (2) Operating expenses

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

#### Purchased crude oil, products and operating supplies and expenses

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

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

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

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

#### Selling, general and administrative expenses

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

#### Depreciation, depletion and amortisation

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

#### Exploration expenses

In the first half of 2005, the Company's exploration expenses were RMB 3.4 billion, representing an increase of 35.6% compared with the first half of

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2004. The increase was mainly due to the fact that the Company increased exploration activities in major new blocks in the western and southern parts of China.

### Personnel expenses

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

### Employee reduction expenses

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

### Taxes other than income tax

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

### Other operating expenses

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

### (3) Operating profit

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

### (4) Net finance costs

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

### (5) Profit before taxation

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

### (6) Taxation

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

### (7) Profit attributable to minority interests

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

### (8) Profit attributable to equity holders of the parent

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

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### 2 DISCUSSION ON RESULTS OF SEGMENT OPERATIONS

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

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

	Operating revenues		As a percentage of consolidated operating revenues before elimination of inter-segment sales	
	Six-month periods ended June 30		Six-month periods ended June 30	
	2005	2004	2005	2004
	RMB millions		%	
<b>Exploration and Production Segment</b>				
External sales*	12,278	10,920	2.0	2.4
Inter-segment sales	35,745	26,316	5.9	5.7
Operating revenues	48,023	37,236	7.9	8.1
<b>Refining Segment</b>				
External sales*	38,934	30,915	6.4	6.7
Inter-segment sales	172,035	130,319	28.4	28.5
Operating revenues	210,969	161,234	34.8	35.2
<b>Marketing and Distribution Segment</b>				
External sales*	207,296	156,901	34.1	34.2
Inter-segment sales	1,320	1,334	0.2	0.3
Operating revenues	208,616	158,235	34.3	34.5
<b>Chemicals Segment</b>				



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External sales*	77,681	60,434	12.8	13.2
Inter-segment sales	8,335	4,794	1.4	1.0
Operating revenues	86,016	65,228	14.2	14.2
Corporate and others segment				
External sales*	32,265	20,275	5.3	4.4
Inter-segment sales	21,228	16,552	3.5	3.6
Operating revenues	53,493	36,827	8.8	8.0
Operating revenues before elimination of inter-segment sales	607,117	458,760	100.0	100.0
Elimination of inter-segment sales	(238,663)	(179,315)		
Consolidated operating revenues	368,454	279,445		

\* Including other operating revenues

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

	Six-month periods ended June 30		Changes %
	2005	2004	
	RMB millions		
Exploration and Production Segment			
Operating revenue	48,023	37,236	29.0
Operating expenses	30,228	26,716	13.1
Operating profit	17,795	10,520	69.2
Refining Segment			
Operating revenue	210,969	161,234	30.8
Operating expenses	212,265	156,947	35.2
Operating profit	(1,296)	4,287	(130.2)
Marketing and Distribution Segment			
Operating revenue	208,616	158,235	31.8

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Operating expenses	201,973	149,666	34.9
-----			
Operating profit	6,643	8,569	(22.5)
=====			
Chemicals Segment			
-----			
Operating revenue	86,016	65,228	31.9
-----			
Operating expenses	75,201	59,223	27.0
-----			
Operating profit	10,815	6,005	80.1
=====			
Corporate and others segment			
-----			
Operating revenue	53,493	36,827	45.3
-----			
Operating expenses	53,768	37,646	42.8
-----			
Operating profit	(275)	(819)	(66.4)
=====			

### (1) Exploration and Production Segment

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

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

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

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

- o The rise in fuel and power costs as a result of the increase in oil and gas production and fuel prices, resulting in an increase in the operating expenses by approximately RMB 1.4 billion compared with the first half of 2004;
- o Exploration expenses, including dry holes, were up by RMB 0.9 billion compared with the first half of 2004, which was mainly due to the fact that the Company increased exploration activities at major new blocks in the western and southern parts of China;
- o Increase in enhanced oil recovery activities and other operating expenses including cost of sales of materials were up by RMB 0.6 billion compared with the first half of 2004;
- o The Company endeavored to increase oil and gas production during the period of high oil prices, increased workload and repaired suspended

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wells, as a result, the downhole operation expense was up by RMB 0.3 billion compared with the first half of 2004;

- o Due to the increase in crude oil prices and the sales revenues of crude oil increased accordingly, as a result, the natural resources compensation fee, city construction tax and education surcharge were increased by RMB 0.2 billion.

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

In the first half of 2005, operating profit for the Exploration and Production Segment was RMB 17.8 billion, up by 69.2% over the first half of 2004.

### (2) Refining Segment

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

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

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

	Sales Volumes (thousand tonnes)			Av Six-mont ended 2005
	Six-month periods ended June 30 2005	2004	Changes (%)	
Gasoline	10,323	10,167	1.5	3,451
Diesel	25,792	24,210	6.5	3,218
Chemical feedstock	12,781	11,580	10.4	3,456
Other refined petroleum products	16,263	15,520	4.8	2,846

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

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operating revenues, down by 0.6 percentage points compared with the first half of 2004.

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

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

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

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

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

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

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

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

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in the first half of 2004.

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### (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 refined product sales.

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

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

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

	Sales Volumes (thousand tonnes)			Aver
	Six-month periods ended June 30		Changes (%)	Six-mont ended
	2005	2004		2005
Gasoline	14,660	13,356	9.8	4,150
Of which: Retail	10,040	8,783	14.3	4,293
Direct sales	1,429	1,454	(1.7)	3,904
Wholesale	3,191	3,119	2.3	3,810
Diesel	32,866	29,428	11.7	3,510
Of which: Retail	16,935	13,999	21.0	3,635
Direct sales	8,057	7,541	6.8	3,501

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Wholesale	7,874	7,888	(0.2)	3,249
Kerosene including jet fuel	3,058	2,597	17.8	3,412
Fuel oil	6,459	4,973	29.9	2,099

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

In the first half of 2005, the segment's cash operating cost per tonne of petroleum products (defined as the operating expenses less the purchasing costs, taxes other than income tax, depreciation and amortisation, and divided by the sales volume) was RMB 149.93 per tonne, down by 2.2% compared with that in the first half of 2004. This decrease was primarily attributable to diluted expenses caused by increased total sales volume and measures of cost savings.

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

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(4) Chemicals Segment

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

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

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

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

Sales Volumes (thousand tonnes)		Average
Six-month periods ended June 30	Changes	Six-month ended Jun

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	2005	2004	(%)	2005
Basic organic chemicals	4,454	3,507	27.0	4,885
Synthetic fiber monomer and polymer	1,420	1,371	3.6	9,018
Synthetic resin	2,899	2,667	8.7	9,144
Synthetic fiber	784	878	(10.7)	11,499
Synthetic rubber	303	299	1.3	12,393
Chemical fertilizer	1,005	1,314	(23.5)	1,463

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

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

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

(5) Corporate and Others

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

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

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

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

## 3 ASSETS, LIABILITIES, EQUITY, AND CASH FLOW

## (1) Assets, liabilities and equity

Units: RMB millions

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

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

- o Current assets were RMB 139.104 billion, up by RMB 18.833 billion compared with that at the end of 2004. The change was mainly due to the increase in inventories by RMB 15.104 billion during the first half of 2005, of which, crude oil and other feedstock increased by RMB 12.532 billion, the work in progress and finished products increased by RMB 1.701 billion. In the first half of 2005, with significant increase in the income from principal operations, accounts receivable and bills receivable increased by RMB 6.035 billion, prepaid expenses and other current assets increased by RMB 652 million. The Company also further reinforced the centralised fund management and as a result cash and cash equivalents and time deposits decreased by RMB 2.958 billion.
- o The Company's non-current assets were RMB 370.276 billion, up by RMB 15.953 billion compared with that at the end of 2004. The change was primarily attributable to the additions of property, plant and equipment and construction in progress of RMB 15.368 billion according to the annual investment plan.

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



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- o Current liabilities were RMB 154.084 billion, up by RMB 7.807 billion compared with that at the end of 2004. Such increases was mainly due to the increase in accounts payable and bills payable by RMB 6.456 billion.
- o Non-current liabilities were RMB 120.520 billion, up by RMB 16.289 billion compared with that at the end of 2004. This was mainly due to the increase in long-term loans as a result of the implementation of the investment projects.

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

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### (2) Cash flow

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

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

Units: RMB millions

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

Net cash inflow from operating activities was RMB 21.082 billion

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

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

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

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

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

(3) Contingent liabilities

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

4 CAPITAL EXPENDITURE

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

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

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

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

	Six-month period ended June 2005	
	RMB millions	RMB million
Income from principal operations		
Exploration and Production Segment	44,396	33
Refining Segment	209,118	158
Marketing and Distribution Segment	208,083	157
Chemicals Segment	83,066	55
Others	53,248	35
Elimination of inter-segment sales	(238,663)	(175)
Consolidated income from principal operations	359,248	265
Cost of sales, sales taxes and surcharges		

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Exploration and Production Segment	17,920	16
Refining Segment	208,147	151
Marketing and Distribution Segment	190,761	138
Chemicals Segment	68,283	45
Others	52,619	34
Elimination of the cost of inter-segment sales	(236,345)	(173)
Consolidated cost of sales, sales taxes and surcharges	301,385	213
Profit from principal operations		
Exploration and Production Segment	23,738	15
Refining Segment	1,391	6
Marketing and Distribution Segment	17,322	18
Chemicals Segment	14,783	10
Others	629	
Consolidated profit from principal operations	57,863	51
Consolidated net profit	18,044	15

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

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

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

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

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### Analysis of changes

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

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

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

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

The significant differences between the Company's financial statements prepared under IFRS and US GAAP are set out in Section D of the financial statements of the Company on page 108 to page 109 of this report.

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### SIGNIFICANT EVENTS

#### 1 CORPORATE GOVERNANCE

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

During the same period, the company further improved quality of disclosure of information and strengthened investor relations.

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During the first half of 2005, Sinopec Corp. considered the "Code on Corporate Governance Practice" issued by The Stock Exchange of Hong Kong Limited ("the Hong Kong Stock Exchange") and compiled relevant training materials for the directors, supervisors and other members of the senior management.

The "Rules of Securities Transactions by Corporate Employees" was prepared by the Company taking into account the circumstances of the Company. Save as the above, the Company is not aware of any breach of the "Code on Corporate Governance Practice".

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

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

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

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

#### (2) Interim dividend distribution plan

for the six-month period ended 30 June 2005

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

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

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

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

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

## 4 CONNECTED TRANSACTIONS

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

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

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

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

Categorised by business segments	Income from principal operations (RMB millions)	Cost of sales (RMB millions)	Gross profit ratio* (%)	Increase/decrease of income from principal operations compared to the same period of preceding year (%)	Incr p
Exploration and production	44,396	17,215	53.47	31.77	
Refining	209,118	201,315	0.67	31.61	
Chemicals	83,066	67,905	17.80	49.02	
Marketing and distribution	208,083	190,487	8.33	31.80	
Others	53,248	52,604	1.18	51.67	
Elimination of inter-segment sales	(238,663)	(236,345)	--	--	
Total	359,248	293,181	16.11	35.20	
Of which: connected transactions	31,795	28,777	9.07	44.52	
Pricing policy for connected transactions	(1)	Government-prescribed prices and government-guided prices are if such prices are available;			
	(2)	Where there is no government-prescribed price or government-guided items, the market price (inclusive of bidding price) will apply;			
	(3)	Where none of the above is applicable, the price will be decided by the market.			

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incurred plus sales taxes and reasonable profit. Reasonable production cost of products by the same type of enterprises with using the same kind of raw materials. Reasonable profit means 6% of the cost incurred based on the current interest rate level.

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

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

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### 5 ACQUISITIONS, DISPOSALS AND REORGANISATIONS OF ASSETS

#### (1) Acquisitions or purchases of assets

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

#### (2) Sales or disposals of assets

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

### 6 DELISTING OF BEIJING YANHUA

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

### 7 SIGNIFICANT TRUSTEESHIP, CONTRACT AND LEASE

During this reporting period, Sinopec Corp. did not have any significant

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trusteeship, sub-contract or lease of any other company's assets, nor placed its assets to or under any other company's trusteeship, sub-contract or lease which were required to be disclosed.

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

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- 9 SIGNIFICANT GUARANTEES (1)  
Guarantees provided by Sinopec Corp. (excluding the guarantees provided for its controlling subsidiaries)

Obligors	Date of occurrence (date of execution of agreement)	Amount RMB millions	Type	Termination
Shanghai Secco Petrochemical Co., Ltd.	9 Feb. 2002	2,930	Joint and several liability	9 Feb. 2002
Shanghai Secco Petrochemical Co., Ltd.	9 Feb. 2002	4,062	Joint and several liability	9 Feb. 2002
BASF-YPC Co., Ltd.	7 Mar. 2003	4,680	Joint and several liability	7 Mar. 2003
Yueyang Sinopec Shell Coal Gasification Co., Ltd.	10 Dec. 2003	377	Joint and several liability	10 Dec. 2003
Fujian Zhangzhao Expressway service Company Limited	21 Jan 2003	10	Joint and several liability	21 Jan 2003
External guarantees of Sinopec Shanghai Petrochemical Co.,Ltd. (2)	N/A	44		
External guarantees of Sinopec Zhenhai Refining and Chemical Co.,Ltd. (2)	N/A	14		
Total amount of guarantee provided during the reporting period	None			
Total amount of guarantee outstanding at the end of the reporting period				

### GUARANTEES PROVIDED BY SINOPEC CORP. FOR ITS CONTROLLING SUBSIDIARIES

Total amount of guarantee provided for its controlling subsidiaries during the reporting period



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-----  
Total amount of guarantee for its controlling subsidiaries  
outstanding at the end of the reporting period  
-----

TOTAL AMOUNT OF GUARANTEE PROVIDED BY SINOPEC CORP. (including those provided for its controlling

-----  
Total amount of guarantee (3)  
-----

Total amount of guarantee as a percentage  
of the Sinopec Corp. net assets  
-----

GUARANTEES NOT IN COMPLIANCE WITH THE REQUIREMENTS OF ZHENG JIAN FA [2003] NO. 56 (4)

-----  
Amount of guarantee provided for the holding shareholder or the  
other connected parties in which less than 50% (excluding 50%)  
shares are owned by Sinopec Corp. (5)  
-----

Amount of debt guarantee provided for the companies with  
liabilities to assets ratio of over 70% (5)  
-----

Whether the total guaranteed amount is over 50% of the net assets (5)  
-----

Total amount of guarantee not in compliance with the  
requirements of Zheng Jian Fa [2003] No. 56 (5)  
-----

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

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

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

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

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

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

Material Items of Guarantees under Performance

At the fourteenth meeting of the First Session of the Board of Directors of

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

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

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

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

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

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

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

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

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

We present our independent opinions as follows:

Sinopec Corp. has carried out self-inspection on the accumulative and current external guarantees incurred in the first half of 2005 and has taken steps to eliminate them. The result shows that there was no new external guarantees incurred in the first half year of 2005 and the amount of accumulative

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guarantees decreased approximately by RMB 65 million compared with that at the end of 2004. The amount of guarantees provided by the Company not in compliance with Zheng Jian Fa [2003] No. 56 decreased by RMB 38 million compared with that at the end of 2004.

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

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### 10 PROVISION OF FUND TO AND FUND PROVIDED BY CONNECTED PARTIES

Connected party	Relationship	Provision of funds to connected party		Net occurrence	Balance	Ne
Sinopec Group	Controlling shareholder and its controlled legal persons		(2,103)		4,032	
Other connected parties	Associates		248		556	
<b>Total</b>			<b>(1,855)</b>		<b>4,588</b>	

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

Nature of the use of funds	Name of connected parties	Relationship	Account caption	Opening balance of the period	Increase during the period
Borrowings	--	--	--	--	--
Entrusted loans	BASF-YPC Styrene Co., Ltd.	Other connected parties	Long-term investment	60	--
Entrusted investment	--	--	--	--	--
Issuing commercial bills without genuine business transaction	--	--	--	--	--
Repay debt on behalf of other entities	--	--	--	--	--

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Accounts receivable and other receivables aged over one year as at 30 June 2005	Sinopec Group Company	Controlling shareholder	Other receivables	2,502	
	Fellow subsidiaries controlled by Sinopec Group Company/other connected companies	Other connected parties	Other receivables/accounts receivable	1,696	1
Total				4,258	1

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

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

- (a) Carrying out the reorganisation of its three wholly-owned subsidiaries, namely, Sinopec Shengli Oilfield Company Limited, Sinopec Sales Company Limited and Sinopec International Company Limited, in accordance with the PRC Company Law within a specified period of time;
- (b) Changing the logo currently used at the petrol stations within a specified period of time;
- (c) Setting up separate office buildings between Sinopec Group Company and Sinopec Corp. within a specified period of time; and
- (d) Complying with the relevant applicable provisions and rules of the Hong Kong Stock Exchange regarding the waiver of connected transactions.

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

- (a) Complying with the agreements concerning connected transactions;
- (b) Solving the issues arising from the land use rights certificates and property ownership rights certificates within a specified period of time;
- (c) Implementing the Reorganisation Agreement (defined in the Prospectus for the Issuance of H Shares);
- (d) Granting licenses for intellectual property rights;
- (e) Avoiding competition within the industry; and

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

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

### 13 USE OF PROCEEDS FROM ISSUANCE OF A SHARE

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

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

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### 14 QINGDAO REFINING PROJECT

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

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

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

To facilitate oil products storage and transportation for Qingdao Refining Project, Sinopec Corp. and Hong Kong Huarun entered into a share transfer agreement on 17 November 2004, pursuant to which Sinopec Corp.

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acquired 30% interest in Qingdao Qirun from Hong Kong Huarun. During the reporting period, Sinopec Corp. and Hong Kong Huarun entered into another share transfer agreement on 21 January 2005, pursuant to which Sinopec Corp. acquired the remaining 10.5% interest in Qingdao Qirun from Hong Kong Huarun. The consideration of such share transfer amounted to RMB 124 million.

### 16 BASF-YPC INTEGRATED PROJECT FORMALLY PUT INTO OPERATION

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

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

In addition, BASF-YPC has a syngas unit, a self-supporting power plant and related utilities and ancillary facilities.

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

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

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

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

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

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

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In addition, the said project involves the construction of auxiliary utilities and a 300,000 tonnes per year crude oil berth.

### 19 AUDITORS

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

### 20 ISSUANCE AND LISTING OF CORPORATE BONDS

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

### 21 ISSUANCE OF SHORT-TERM FINANCIAL PAPER

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

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### 22 APPLICATION OF THE MODEL CODE

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

### 23 REPURCHASE, SALE AND REDEMPTION OF SHARES

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

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

(1) Interests of Directors, Supervisors and Other Members of the Senior

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

As of 30 June 2005, none of the directors, supervisors or senior management or any of their respective associates had any interests and short positions in any shares, debentures or related shares of Sinopec Corp. or its associated corporations (as defined in Part XV of the Securities and Futures Ordinance) which were required to be notified to Sinopec Corp. and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the Securities and Futures Ordinance or which were required pursuant to section 352 of the Securities and Futures Ordinance to be entered in the register referred to therein, or which were required to be notified to Sinopec Corp. and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions Entered by Directors of Listed Companies as specified in the Listing Rules of The Stock Exchange of Hong Kong Limited (including those interests and short positions that are deemed to be such, or are regarded to be owned in accordance with the relative provisions under the Securities and Futures Ordinance).

- (2) The engagement or dismissal of Directors, Supervisors and Other Members of the Senior Management At the sixteenth meeting of the Second Session of the Board of Directors of Sinopec Corp., the Board approved the applications of Mr. Wang Jiming to resign as the President of Sinopec Corp. and Mr. Mou Shuling to resign as the Senior Vice President of Sinopec Corp. The Board of Directors also approved the appointment of Mr. Wang Tianpu as President of Sinopec Corp. and Mr. Zhang Jianhua and Mr. Wang Zhigang as Senior Vice President of Sinopec Corp., respectively.

### 25 OTHER SIGNIFICANT EVENTS

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

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### REPORT OF THE PRC AUDITORS

[KPMG Huazhen LOGO GRAPHIC OMITTED]

To the Shareholders of China Petroleum & Chemical Corporation:

We have audited the accompanying Company's consolidated balance sheet and balance sheet at 30 June 2005, and the consolidated income statement and profit appropriation statement, income statement and profit appropriation statement, consolidated cash flow statement and cash flow statement for the six-month period ended 30 June 2005. The preparation of these financial statements is the responsibility of the Company's management. Our responsibility is to express an audit opinion on these financial statements based on our audit.

We conducted our audit in accordance with China's Independent Auditing



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

In our opinion, the above-mentioned financial statements comply with the requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the Company's consolidated financial position and financial position at 30 June 2005, and the consolidated results of operations, results of operations, consolidated cash flows and cash flows for the six-month period ended 30 June 2005.

KPMG Huazhen

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

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

Wu Wei  
Zhang Jingjing  
26 August 2005

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

	Note	
<b>Assets</b>		
<hr/>		
Current assets		
Cash at bank and in hand	4	
Bills receivable	5	
Trade accounts receivable	6	
Other receivables	7	
Advance payments	8	
Inventories	9	
<hr/>		
Total current assets		

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Long-term equity investments (Including equity investment differences of RMB 572 million (2004: RMB 383 million))	10
Fixed assets	
Fixed assets, at cost	
Less: Accumulated depreciation	
Net book value of fixed assets before impairment losses	11
Less: Provision for impairment losses on fixed assets	11
Net book value of fixed assets	
Construction materials	12
Construction in progress	13
Total fixed assets	
Intangible assets and other assets	
Intangible assets	14
Long-term deferred expenses	15
Total intangible assets and other assets	
Deferred tax assets	16
Total assets	
Liabilities and shareholders' funds	
Current liabilities	
Short-term loans	17
Bills payable	18
Trade accounts payable	19
Receipts in advance	20
Wages payable	
Staff welfare payable	
Taxes payable	21
Other payables	22
Other creditors	23
Accrued expenses	24
Current portion of long-term liabilities	25
Total current liabilities	

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Long-term liabilities	
Long-term loans	26
Debentures payable	27
Other long-term payables	28
Total long-term liabilities	
Deferred tax liabilities	16
Total liabilities	
Minority interests	
Shareholders' funds	
Share capital	29
Capital reserve	30
Surplus reserves (Including statutory public welfare fund of RMB 11,362 million (2004: RMB 9,558 million))	31
Unrecognised investment losses	
Undistributed profits (Including cash dividend declared after the balance sheet date of RMB 3,468 million (2004: Proposed cash dividend of RMB 6,936 million))	39
Total shareholders' funds	
Total liabilities and shareholders' funds	

Approved by the Board of Directors on 26 August 2005.

Chen Tonghai  
Chairman  
(Authorised representative)

Wang Tianpu  
President

Zhang Jiaren  
Director, Senior Vice President  
and Chief Financial Officer

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

Assets	
Current assets	
Cash at bank and in hand	4
Bills receivable	5
Trade accounts receivable	6
Other receivables	7
Advance payments	8
Inventories	9
Total current assets	
Long-term equity investments (Including equity investment differences of RMB 582 million (2004: RMB 400 million))	10
Fixed assets	
Fixed assets, at cost	
Less: Accumulated depreciation	
Net book value of fixed assets before impairment losses	11
Less: Provision for impairment losses on fixed assets	
Net book value of fixed assets	11
Construction materials	
Construction in progress	12
Total fixed assets	
Intangible assets and other assets	
Intangible assets	13
Long-term deferred expenses	14
Total intangible assets and other assets	
Deferred tax assets	
Total assets	
Liabilities and shareholders' funds	
Current liabilities	

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Short-term loans	17
Bills payable	18
Trade accounts payable	19
Receipts in advance	20
Wages payable	
Staff welfare payable	
Taxes payable	21
Other payables	22
Other creditors	23
Accrued expenses	24
Current portion of long-term liabilities	25
<b>Total current liabilities</b>	
Long-term liabilities	
Long-term loans	26
Debentures payable	27
Other long-term payables	28
<b>Total long-term liabilities</b>	
Deferred tax liabilities	16
<b>Total liabilities</b>	
Shareholders' funds	
Share capital	29
Capital reserve	30
Surplus reserves (Including statutory public welfare fund of RMB 11,362 million (2004: RMB 9,558 million))	31
Undistributed profits (Including cash dividend declared after the balance sheet date of RMB 3,468 million (2004: Proposed cash dividend of RMB 6,936 million))	39
<b>Total shareholders' funds</b>	
<b>Total liabilities and shareholders' funds</b>	

Approved by the Board of Directors on 26 August 2005.

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Chen Tonghai  
Chairman  
(Authorised representative)

Wang Tianpu  
President

Zhang Jiaren  
Director, Senior Vice President  
and Chief Financial Officer

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

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### CONSOLIDATED INCOME STATEMENT AND PROFIT APPROPRIATION STATEMENT for the six-month period ended 30 June 2005

	Note	RMB
Income from principal operations	32	
<hr style="border-top: 1px dashed black;"/>		
Less: Cost of sales		
Sales taxes and surcharges	33	
<hr style="border-top: 1px dashed black;"/>		
Profit from principal operations		
<hr style="border-top: 3px double black;"/>		
Add: Profit from other operations		
<hr style="border-top: 1px dashed black;"/>		
Less: Selling expenses		
<hr style="border-top: 1px dashed black;"/>		
Administrative expenses		
<hr style="border-top: 1px dashed black;"/>		
Financial expenses	34	
<hr style="border-top: 1px dashed black;"/>		
Exploration expenses, including dry holes	35	
<hr style="border-top: 1px dashed black;"/>		
Operating profit		
<hr style="border-top: 3px double black;"/>		
Add: Investment (loss) / income	36	
<hr style="border-top: 1px dashed black;"/>		
Non-operating income		
<hr style="border-top: 1px dashed black;"/>		
Less: Non-operating expenses	37	
<hr style="border-top: 1px dashed black;"/>		
Profit before taxation		
<hr style="border-top: 3px double black;"/>		
Less: Taxation	38	
<hr style="border-top: 1px dashed black;"/>		
Minority interests		
<hr style="border-top: 1px dashed black;"/>		
Add: Unrecognised investment losses		
<hr style="border-top: 1px dashed black;"/>		
Net profit		
<hr style="border-top: 3px double black;"/>		
Add: Undistributed profits at the beginning of the period		
<hr style="border-top: 1px dashed black;"/>		
Distributable profits		
<hr style="border-top: 3px double black;"/>		
Less: Transfer to statutory surplus reserve	31	

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Transfer to statutory public welfare fund	31
Distributable profits to shareholders	
Less: Distribution of ordinary shares' dividends	39
Undistributed profits at the end of the period (Including dividend declared after the balance sheet date of RMB 3,468 million (2004: RMB 3,468 million))	39

Approved by the Board of Directors on 26 August 2005.

Chen Tonghai  
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Wang Tianpu  
President

Zhang Jiaren  
Director, Senior Vice President  
and Chief Financial Officer

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

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### INCOME STATEMENT AND PROFIT APPROPRIATION STATEMENT for the six-month period ended 30 June 2005

	Note	RMB
Income from principal operations	32	
Less: Cost of sales		
Sales taxes and surcharges	33	
Profit from principal operations		
Add: Profit from other operations		
Less: Selling expenses		
Administrative expenses		
Financial expenses	34	
Exploration expenses, including dry holes	35	
Operating profit		
Add: Investment income	36	
Non-operating income		
Less: Non-operating expenses	37	

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Profit before taxation	
Less: Taxation	38
Net profit	
Add: Undistributed profits at the beginning of the period	
Distributable profits	
Less: Transfer to statutory surplus reserve	31
Transfer to statutory public welfare fund	31
Distributable profits to shareholders	
Less: Distribution of ordinary shares' dividends	39
Undistributed profits at the end of the period (Including dividend declared after the balance sheet date of RMB 3,468 million (2004: RMB 3,468 million))	39

Approved by the Board of Directors on 26 August 2005.

Chen Tonghai  
Chairman  
(Authorised representative)

Wang Tianpu  
President

Zhang Jiaren  
Director, Senior Vice President  
and Chief Financial Officer

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

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CONSOLIDATED CASH FLOW STATEMENT  
for the six-month period ended 30 June 2005

	Note	RMB
Cash flows from operating activities		
Cash received from sale of goods and rendering of services		
Rentals received		
Other cash received relating to operating activities		
Sub-total of cash inflows		
Cash paid for goods and services		
Cash paid for operating leases		



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Cash paid to and on behalf of employees	
Value added tax paid	
Income tax paid	
Taxes paid other than value added tax and income tax	
Other cash paid relating to operating activities	
Sub-total of cash outflows	
=====	
Net cash flows from operating activities	(a)
=====	
Cash flows from investing activities	
=====	
Cash received from sale of investments	
Dividends received	
Net cash received from sale of fixed assets and intangible assets	
Maturity of time deposits with financial institutions	
Other cash received relating to investing activities	
Sub-total of cash inflows	
=====	
Cash paid for acquisition of fixed assets and intangible assets	
Cash paid for acquisition of fixed assets and intangible assets of jointly controlled entities	
Cash paid for purchases of investments	
Increase in time deposits with financial institutions	
Cash paid for acquisition of operating assets and the associated liabilities from China Petrochemical Corporation	
Cash paid for acquisition of H shares of a subsidiary	
Sub-total of cash outflows	
=====	
Net cash flows from investing activities	
=====	
Cash flows from financing activities	
=====	
Proceeds from contribution from minority shareholders	
Proceeds from issuance of corporate bonds, net of issuing expenses	
Proceeds from borrowings	
Proceeds from borrowings of jointly controlled entities	
Sub-total of cash inflows	

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Repayments of borrowings	
Cash paid for dividends, distribution of profit or interest	
Dividends paid to minority shareholders by subsidiaries	
Sub-total of cash outflows	
Net cash flows from financing activities	
Effects of foreign exchange rate	
Net decrease in cash and cash equivalents	(c)

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

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RMB

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

Net profit	
Add: (Reversal of) / provision for allowance for doubtful accounts	
Provision for diminution in value of inventories	
Depreciation of fixed assets	
Amortisation of intangible assets	
Impairment losses on fixed assets	
Impairment losses on long-term investments	
Net loss on disposal of fixed assets and intangible assets	
Financial expenses	
Dry hole costs	
Investment loss / (income)	
Deferred tax liabilities (less: assets)	

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Increase in inventories	
Increase in operating receivables	
Increase in operating payables	
Minority interests	
Net cash flows from operating activities	
=====	
(b) Financing activities not requiring the use of cash	
Current portion of convertible bonds	
-----	
(c) Net decrease in cash and cash equivalents	
Cash and cash equivalents at the end of the period	
Less: Cash and cash equivalents at the beginning of the period	
Net decrease in cash and cash equivalents	
=====	

Approved by the Board of Directors on 26 August 2005.

Chen Tonghai  
Chairman  
(Authorised representative)

Wang Tianpu  
President

Zhang Jiaren  
Director, Senior Vice President  
and Chief Financial Officer

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

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CASH FLOW STATEMENT  
for the six-month period ended 30 June 2005

	Note	RMB
Cash flows from operating activities		
-----		
Cash received from sale of goods and rendering of services		
Rentals received		
Other cash received relating to operating activities		
Sub-total of cash inflows		
=====		

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Cash paid for goods and services

Cash paid for operating leases

Cash paid to and on behalf of employees

Value added tax paid

Income tax paid

Taxes paid other than value added tax and income tax

Other cash paid relating to operating activities

Sub-total of cash outflows

Net cash flows from operating activities (a)

Cash flows from investing activities

Cash received from sale of investments

Dividends received

Net cash received from sale of fixed assets and intangible assets

Maturity of time deposits with financial institutions

Other cash received relating to investing activities

Sub-total of cash inflows

Cash paid for acquisition of fixed assets and intangible assets

Cash paid for purchases of investments

Increase in time deposits with financial institutions

Cash paid for acquisition of operating assets and the associated liabilities  
from China Petrochemical Corporation

Cash paid for acquisition of H shares of a subsidiary

Sub-total of cash outflows

Net cash flows from investing activities

Cash flows from financing activities

Proceeds from issuance of corporate bonds, net of issuing expenses

Proceeds from borrowings

Sub-total of cash inflows

Repayments of borrowings

Cash paid for dividends, distribution of profit or interest

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Sub-total of cash outflows

Net cash flows from financing activities

Net (decrease) / increase in cash and cash equivalents

(b)

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

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RMB

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

Net profit

Add: Provision for allowance for doubtful accounts

Provision for diminution in value of inventories

Depreciation of fixed assets

Amortisation of intangible assets

Impairment losses on fixed assets

Impairment losses on long-term investments

Net loss on disposal of fixed assets and intangible assets

Financial expenses

Dry hole costs

Investment income

Deferred tax liabilities (less: assets)

Increase in inventories

Decrease / (increase) in operating receivables

(Decrease) / increase in operating payables

Net cash flows from operating activities

(b) Net (decrease) / increase in cash and cash equivalents

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=====  
Cash and cash equivalents at the end of the period  
-----

Less: Cash and cash equivalents at the beginning of the period  
-----

Net (decrease) / increase in cash and cash equivalents  
=====

Approved by the Board of Directors on 26 August 2005.

Chen Tonghai  
Chairman  
(Authorised representative)

Wang Tianpu  
President

Zhang Jiaren  
Director, Senior Vice President  
and Chief Financial Officer

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

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NOTES ON THE FINANCIAL STATEMENTS  
for the six-month period ended 30 June 2005

### 1 STATUS OF THE COMPANY

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

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

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

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

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

Pursuant to the resolution passed at the Extraordinary General Meeting held

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on 24 August 2001, the Company acquired the entire equity interest of Sinopec National Star Petroleum Company ("Sinopec National Star") from Sinopec Group Company for a consideration of RMB 6.45 billion.

Pursuant to the resolution passed at the Board of Directors' meeting held on 28 October 2004, the Company acquired the principal assets and liabilities related to the 380 Kiloton ethylene production and distribution equipment from Sinopec Group Maoming Petrochemical Company ("Sinopec Maoming"), for a consideration of RMB 3.3 billion (hereinafter referred to as the "Acquisition of Ethylene Assets").

Pursuant to the resolution passed at the Board of Directors' meeting held on 29 December 2004, the Company acquired all operating assets and liabilities of two wholly owned subsidiaries of Sinopec Group Company, being Tahe Oilfield Petrochemical Factory ("Tahe Petrochemical") and Xi'an Petrochemical Main Factory ("Xi'an Petrochemical") from Sinopec Group Company, for considerations of RMB 0.14 billion and RMB 0.22 billion, respectively (hereinafter referred to as the "Acquisition of Refining Assets").

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

## 2 SIGNIFICANT ACCOUNTING POLICIES

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

### (a) Accounting year

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

### (b) Basis of consolidation

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

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

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

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

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### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of preparation

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

(d) Reporting currency and translation of foreign currencies

The Group's reporting currency is the Renminbi.

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

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

(e) Cash equivalents

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

(f) Allowance for doubtful accounts

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

(g) Inventories

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



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Inventories are measured at their actual cost upon acquisition. The cost of inventories is calculated using the weighted average method. In addition to the purchase cost of raw materials, work in progress and finished goods include direct labour and appropriate proportion of production overheads.

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

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

Inventories are recorded by perpetual method.

(h) Long-term equity investments

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

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

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

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

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

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

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

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### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Fixed assets and construction in progress

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

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

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

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

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

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

(j) Oil and gas properties

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

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passed, a determination of the discovery of proved reserves cannot be made, the exploratory well costs are charged to expense. All other exploration costs, including geological and geophysical costs, are expensed as incurred.

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

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

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

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

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

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (o) Income tax  
Income tax is recognised using the tax effect accounting method.

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Income tax for the period comprises provision for current tax and movement of deferred tax assets and liabilities.

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

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

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

(p) Borrowing costs

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

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

(q) Repairs and maintenance expenses

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

(r) Environmental expenditures

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

(s) Research and development costs

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

(t) Operating leases

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

(u) Dividends

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

(v) Retirement benefits

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

(w) Provision for impairment

The carrying amounts of assets (including long-term equity investments, fixed assets, construction in progress, intangible assets

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

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

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

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

(x) Related parties

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

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2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Provisions and contingent liabilities

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

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

3 TAXATION

Major taxes applicable to the Group and the Company comprise income tax,

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consumption tax, resources tax and value added tax.

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

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

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

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

The branches, subsidiaries and jointly controlled entities granted with tax concession are set out below:

Name of branches, subsidiaries and jointly controlled entities	Preferential tax rate	Reasons for granting
Sinopec National Star Xinan Branch	15%	Tax preferential po
Sinopec National Star Xibei Branch	15%	Tax preferential po
Sinopec Southern Exploration Branch	15%	Tax preferential po
Sinopec Shanghai Petrochemical Company Limited	15%	The first batch of successfully got li
Sinopec Yizheng Chemical Fibre Company Limited	15%	The first batch of successfully got li
Sinopec Yangzi Petrochemical Company Limited	15%	High technology ent
Sinopec Zhongyuan Petroleum Company Limited	15%	High technology ent
Petro-CyberWorks Information Technology Company Limited	15%	High technology ent
Shanghai Secco Petrochemical Company Limited	2-year exemption and 3-year 50% reduction	Foreign investment
BASF-YPC Company Limited	2-year exemption and 3-year 50% reduction	Foreign investment

#### 4 CASH AT BANK AND IN HAND

The Group

	AT 30 JUNE 2005			Original currency millions
	ORIGINAL CURRENCY MILLIONS	EXCHANGE RATES	RMB MILLIONS	
Cash in hand				

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Renminbi				61
-----				
Cash at bank				
-----				
Renminbi				12,759
US Dollars	63	8.2765	527	96
Hong Kong Dollars	124	1.0649	133	47
Japanese Yen	253	0.0751	19	220
Euro	3	9.9610	26	1
				13,525
-----				
Deposits at related parties				
-----				
Renminbi				1,796
US Dollars	--	8.2765	1	2
-----				
TOTAL CASH AT BANK AND IN HAND				15,322
=====				

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4 CASH AT BANK AND IN HAND (Continued)

The Company

	ORIGINAL CURRENCY MILLIONS	AT 30 JUNE 2005 EXCHANGE RATES	RMB MILLIONS	Original currency millions	At 30
Cash in hand					
-----					
Renminbi				14	
-----					
Cash at bank					
-----					
Renminbi				4,366	
US Dollars	2	8.2765	16	1	
				4,396	
-----					
Deposits at related parties					
-----					
Renminbi				295	
US Dollars	--	8.2765	1	2	
-----					
TOTAL CASH AT BANK AND IN HAND				4,692	
=====					

Deposits at related parties represent deposits placed at Sinopec Finance Company Limited. Interest

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market rate.

- 5 **BILLS RECEIVABLE**  
 Bills receivable represents mainly the bills of acceptance issued by banks for sales of goods and products.

- 6 **TRADE ACCOUNTS RECEIVABLE**

	The Group		
	AT 30 JUNE 2005 RMB millions	At 31 December 2004 RMB millions	A RMB
Subsidiaries	--	--	
Sinopec Group Company and fellow subsidiaries	2,705	2,349	
Associates	563	89	
Jointly controlled entities	404	--	
Others	15,127	10,989	
	18,799	13,427	
Less: Allowance for doubtful accounts	3,552	3,671	
<b>TOTAL</b>	<b>15,247</b>	<b>9,756</b>	

Allowance for doubtful accounts are analysed as follows:

	The Group		
	AT 30 JUNE 2005 RMB millions	At 31 December 2004 RMB millions	A RMB
Balance at 1 January	3,671	3,185	
Provision for the period/year	76	931	
Written back for the period/year	(194)	(85)	
Written off for the period/year	(1)	(360)	
<b>BALANCE AT 30 JUNE/31 DECEMBER</b>	<b>3,552</b>	<b>3,671</b>	

Ageing analysis on trade accounts receivable are as follows:

The Group



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	AMOUNT RMB millions	AT 30 JUNE 2005 ALLOWANCE RMB %	ALLOWANCE RMB millions	Amount RMB %	Amount RMB millions	At
Within one year	14,964	79.6	201	1.3	9,546	
Between one and two years	278	1.5	52	18.7	308	
Between two and three years	259	1.4	124	47.9	527	
Over three years	3,298	17.5	3,175	96.3	3,046	
TOTAL	18,799	100.0	3,552		13,427	1

	AMOUNT RMB millions	AT 30 JUNE 2005 ALLOWANCE RMB %	ALLOWANCE RMB millions	The Company Amount RMB %	Amount RMB millions	At
Within one year	8,706	75.5	139	1.6	8,103	
Between one and two years	186	1.6	38	20.4	193	
Between two and three years	135	1.2	86	63.7	334	
Over three years	2,502	21.7	2,476	99.0	2,452	
TOTAL	11,529	100.0	2,739		11,082	1

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6 TRADE ACCOUNTS RECEIVABLE (Continued)

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

Name of entity

RMB m

Trafigura Pte Limited

Baling Petrochemical Yueyang Petrochemical Company

Qingdao Petrochemical Plant

Maoming Petrochemical Shihua Company Limited

Sinopec Railway Oil Marketing Company Limited

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

Name of entity

RMB m

Baling Petrochemical Yueyang Petrochemical Company

-----  
Qingdao Petrochemical Plant

-----  
Petrolimex Vietnam

-----  
Phibro GmbH

-----  
Maoming Petrochemical Shihua Company Limited

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

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

During the six-month period ended 30 June 2005, the Group and the Company had no individually significant write off or recover of doubtful debts which had been fully or substantially provided for in prior years.

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

### 7 OTHER RECEIVABLES

	The Group AT 30 JUNE 2005 RMB millions	At 31 December 2004 RMB millions	
Subsidiaries	--	--	A
----- Sinopec Group Company and fellow subsidiaries	4,032	6,135	RMB
----- Associates	556	308	
----- Others	10,544	9,515	
-----	15,132	15,958	
----- Less: Allowance for doubtful accounts	3,450	3,496	
----- TOTAL	11,682	12,462	
=====			

Allowance for doubtful accounts are analysed as follows:

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	The Group		
	AT 30 JUNE 2005 RMB millions	At 31 December 2004 RMB millions	At RMB
Balance at 1 January	3,496	2,348	
Provision for the period/year	218	1,245	
Written back for the period/year	(256)	(41)	
Written off for the period/year	(8)	(56)	
Balance at 30 June/31 December	3,450	3,496	

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7 OTHER RECEIVABLES (Continued)

Ageing analysis of other receivables are as follows:

	AMOUNT		AT 30 JUNE 2005		The Group		At
	RMB	%	ALLOWANCE	%	Amount	RMB	
	millions		RMB		%	millions	
			millions				
Within one year	8,776	58.0	23	0.3	8,577		
Between one and two years	888	5.9	129	14.5	485		
Between two and three years	200	1.3	100	50.0	3,549		
Over three years	5,268	34.8	3,198	60.7	3,347		
TOTAL	15,132	100.0	3,450		15,958		1

	AMOUNT		AT 30 JUNE 2005		The Company		At
	RMB	%	ALLOWANCE	%	Amount	RMB	
	millions		RMB		%	millions	
			millions				
Within one year	13,959	71.8	14	0.1	16,168		
Between one and two years	701	3.6	613	87.4	923		
Between two and three years	129	0.7	39	30.2	2,620		
Over three years	4,656	23.9	2,642	56.7	3,337		
TOTAL	19,445	100.0	3,308		23,048		1

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

Name of entity	Particulars	RMB m
China Petrochemical Corporation	Current Account	
Jinhuang Real Estate Company Limited	Current Account	
Shenzhen Material Group Company	Current Account	
Sinopec Shengli Oil Field Dynamic Company Limited	Current Account	
China Ruilian Industrial Group Corporation	Current Account	

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

Name of entity	Particulars	RMB m
China Petrochemical Corporation	Current Account	
Jinhuang Real Estate Company Limited	Current Account	
China Ruilian Industrial Group Corporation	Current Account	
Anhui Jinyu Highway Development Company Limited	Current Account	
Anhui He Chao Wu Highway Company Limited	Current Account	

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

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

During the six-month period ended 30 June 2005, the Group and the Company had no individually significant write off or recover of doubtful debts which had been fully or substantially provided for in prior years.

At 30 June 2005, other than the other receivables due from Sinopec Group Company, the Group and the Company had no individually significant other receivables that aged over three years.

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All advance payments are aged within one year.

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

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### 9 INVENTORIES

	The Group AT 30 JUNE 2005 RMB millions	At 31 December 2004 RMB millions	
Raw materials	45,112	32,581	A
-----			
Work in progress	11,598	8,341	
-----			
Finished goods	19,248	20,804	
-----			
Spare parts and consumables	3,445	3,098	
-----			
	79,403	64,824	
-----			
Less: Provision for diminution in value of inventories	936	906	
-----			
	78,467	63,918	
=====			

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

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

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

	The Group AT 30 JUNE 2005 RMB millions	At 31 December 2004 RMB millions	
Balance at 1 January	906	519	A
-----			
Provision for the period/year	131	621	
-----			
Written back for the period/year	(61)	(188)	
-----			
Written off	(40)	(46)	
-----			
BALANCE AT 30 JUNE/31 DECEMBER	936	906	
=====			

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The cost of inventories recognised as costs and expenses by the Group and the Company amounted to RMB 298,803 million (2004: RMB 211,880 million) and RMB 218,070 million (2004: RMB 158,638 million) for the six-month period ended 30 June 2005.

### 10 LONG-TERM EQUITY INVESTMENTS

#### The Group

	Listed stock investment RMB millions	Unlisted stock and other equity investment RMB millions	Equity investment differences RMB millions	RM
Balance at 1 January 2005	790	12,589	383	
Addition for the period	--	505	1,358	
Share of profits less losses from investments accounted for under the equity method	35	330	--	
Long-term equity investments accounted for as jointly controlled entities	--	(3,516)	--	
Dividends receivable/received	(48)	(217)	--	
Disposal for the period	--	(121)	--	
Amortisation for the period	--	--	(1,169)	
Movement of provision for impairment losses	--	--	--	
<b>BALANCE AT 30 JUNE 2005</b>	<b>777</b>	<b>9,570</b>	<b>572</b>	

#### The Company

	Listed stock investment RMB millions	Unlisted stock and other equity investment RMB millions	Equity investment differences RMB millions	RM
Balance at 1 January 2005	49,731	74,235	400	
Addition for the period	--	3,897	1,352	
Reclassification	(6,856)	6,856	--	
Share of profits less losses from investments accounted for under the equity method	5,417	9,021	--	
Dividends receivable/received	(2,487)	(13,399)	--	

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Disposal for the period	--	(102)	--
Amortisation for the period	--	--	(1,170)
Movement of provision for impairment losses	--	--	--
BALANCE AT 30 JUNE 2005	45,805	80,508	582

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10 LONG-TERM EQUITY INVESTMENTS (Continued)

Provision for impairment losses are analysed as follows:

	The Group		
	AT 30 JUNE 2005 RMB millions	At 31 December 2004 RMB millions	A RMB
Balance at 1 January	353	271	
Provision for the period/year	40	96	
Written back for the period/year	(5)	(8)	
Written off	(18)	(6)	
BALANCE AT 30 JUNE/31 DECEMBER	370	353	

At 30 June 2005 and 31 December 2004, the Group and the Company had no individually significant long-term equity investments which had been provided for.

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

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

Name of investee enterprise	Type of equity interest	No. of shares millions	Percentage of equity interest held by the Group	Initial investment cost RMB	Balance at 1 January 2005 RMB	Shares of profits accounted for under the equity method RMB
-----------------------------	-------------------------	------------------------	---	-----------------------------	-------------------------------	---

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				millions	millions	millions
Sinopec Shengli Oil Field Dynamic Co Ltd	Legal person shares	96	26.33%	223	461	24
Sinopec Shandong Taishan Petroleum Co Ltd	Legal person shares	186	38.68%	124	329	11
					790	35

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

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

Name of investee enterprise	Initial investment cost RMB millions	Investment period	Percentage of equity interest held by the Group	Balance at 1 January 2005 RMB millions	Addition for the year RMB millions	Share price (1) accounted for the equity investment million
Sinopec Finance Company Limited	1,205	--	40%	1,311	--	
Shanghai Petroleum National Gas Corporation	300	--	30%	912	--	
Shanghai Chemical Industry Park Development Company Limited	608	30 years	38%	651	--	
China Shipping & Sinopec Suppliers Company Limited	438	--	50%	468	--	
Sinopec Changjiang Fuel Company Limited	190	20 years	50%	251	--	
Hunan Highway Industrial Development Company Limited	215	--	49%	218	--	
Beijing International Trust and Investment Company Limited	200	--	8%	--	200	



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Zhejiang Express Petroleum Development Company Limited	174	30 years	50%	--	174
China Gas Holdings Ltd	136	--	11%	136	--
Sinopec Railway Oil Marketing Company Limited	74	20 years	50%	110	24
Shanghai Jinpu Packaging Material Company Limited	102	30 years	50%	93	--

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

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

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### 11 FIXED ASSETS

The Group -- by segment

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemical RMB million
Cost/valuation:				
At 1 January 2005	170,457	117,063	64,775	163,077
Addition for the period	8	85	77	9
Transferred from construction in progress	3,386	3,120	5,753	15,399
Proportionate share of a new jointly controlled entity	--	--	--	1,311
Disposals	(97)	(84)	(220)	(10)
At 30 June 2005	173,754	120,184	70,385	179,777
Accumulated depreciation:				
At 1 January 2005	86,550	56,614	11,657	87,281
Depreciation charge for the period	5,451	3,271	1,357	4,899
Written back on disposal	(87)	(58)	(95)	(5)

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At 30 June 2005	91,914	59,827	12,919	92,12
-----				
Net book value:				
-----				
At 30 June 2005	81,840	60,357	57,466	87,65
At 31 December 2004	83,907	60,449	53,118	75,79
=====				

The Company -- by segment

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemical RM million
Cost/valuation:				
-----				
At 1 January 2005	61,025	87,893	61,413	57,71
Addition for the period	8	66	54	
Transferred from construction in progress	2,352	1,426	3,733	14
Disposals	(97)	(9)	(196)	(1
At 30 June 2005	63,288	89,376	65,004	57,85
Accumulated depreciation:				
-----				
At 1 January 2005	26,483	42,803	11,117	32,11
Depreciation charge for the period	2,081	2,557	1,281	1,53
Written back on disposal	(87)	(7)	(92)	(
At 30 June 2005	28,477	45,353	12,306	33,63
-----				
Net book value:				
-----				
At 30 June 2005	34,811	44,023	52,698	24,21
At 31 December 2004	34,542	45,090	50,296	25,60
=====				

The Group -- by asset class

Land and buildings	Oil and gas properties	Oil depots, storage tanks machin and service stations
-----------------------	---------------------------	--

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	RMB millions	RMB millions	RMB millions	RMB millions
Cost/valuation:				
At 1 January 2005	47,107	151,945	59,963	
Addition for the period	43	1	63	
Transferred from construction in progress	1,265	3,130	5,054	
Proportionate share of a new jointly controlled entity	469	--	--	
Disposals	(117)	(59)	(156)	
At 30 June 2005	48,767	155,017	64,924	
Accumulated depreciation:				
At 1 January 2005	19,988	77,666	10,493	
Depreciation charge for the period	808	5,120	1,193	
Written back on disposal	(42)	(50)	(60)	
At 30 June 2005	20,754	82,736	11,626	
Net book value:				
At 30 June 2005	28,013	72,281	53,298	
At 31 December 2004	27,119	74,279	49,470	

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11 FIXED ASSETS (Continued)

The Company -- by asset class

	Land and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant machinery, equipment and other RMB millions
Cost/valuation:				
At 1 January 2005	25,187	53,307	56,824	135,8
Addition for the period	7	1	43	1
Transferred from construction in progress	503	2,098	3,066	2,0
Disposals	(54)	(59)	(136)	(

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At 30 June 2005	25,643	55,347	59,797	138,0
-----				
Accumulated depreciation:				
At 1 January 2005	9,672	24,299	10,116	69,4
Depreciation charge for the period	478	1,933	1,170	3,9
Written back on disposal	(23)	(50)	(58)	(
At 30 June 2005	10,127	26,182	11,228	73,3
-----				
Net book value:				
At 30 June 2005	15,516	29,165	48,569	64,6
At 31 December 2004	15,515	29,008	46,708	66,3
=====				

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

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

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

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

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

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

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

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The Group -- by segment

	Exploration and production RMB millions	Refining RMB millions	Marketing and Distribution RMB millions	Chemicals RMB millions
At 1 January 2005	783	64	1,769	3,200
Addition for the period	--	--	5	392
At 30 June 2005	783	64	1,774	3,592

The Company -- by segment

	Exploration and production RMB millions	Refining RMB millions	Marketing and Distribution RMB millions	Chemicals RMB millions
At 1 January 2005	720	13	1,737	1,568
Addition for the period	--	--	5	--
At 30 June 2005	720	13	1,742	1,568

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### 11 FIXED ASSETS (Continued)

The Group -- by asset class

	Land and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	mach equ and RMB mi
At 1 January 2005	331	783	1,249	
Addition for the period	--	--	5	
At 30 June 2005	331	783	1,254	

The Company -- by asset class

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	Land and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	mach equ and RMB mi
At 1 January 2005	184	720	1,249	
Addition for the period	--	--	5	
At 30 June 2005	184	720	1,254	

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

Provision for impairment losses recognised on fixed assets of the marketing and distribution segment of RMB 5 million (2004: RMB 623 million) for the six-month period ended 30 June 2005 primarily relate to certain service stations that were closed during the period. In measuring the amounts of impairment charges, the carrying amounts of these assets were compared to the present value of the expected future cash flows of the assets, as well as information about sales and purchases of similar properties in the same geographic area.

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

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

12 CONSTRUCTION MATERIALS

At 30 June 2005 and 31 December 2004, the Group's and the Company's construction materials mainly represent the actual cost of materials such as steel and copper to be used for construction projects.

13 CONSTRUCTION IN PROGRESS

The Group

Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions
---	-----------------------------	---	------------------------------

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At 1 January 2005	9,262	8,215	13,451	13,535
Addition for the period	11,352	3,493	6,151	2,120
Addition by jointly controlled entities	396	--	--	1,500
Proportionate share of a new jointly controlled entity	--	--	--	5,461
Dry hole costs written off	(1,325)	--	--	--
Transferred to fixed assets	(3,386)	(3,120)	(5,753)	(15,390)
At 30 June 2005	16,299	8,588	13,849	7,226

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

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

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13 CONSTRUCTION IN PROGRESS (Continued)

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

Project name	Budgeted amount RMB millions	At 1 January 2005 RMB millions	Addition for the period RMB millions	Transfer to fixed assets RMB millions	At 30 June 2005 RMB millions
THE GROUP					
South-west Fuel Oil Pipeline Project	3,526	2,448	393	(1,239)	1,602
Yizheng-Changling Crude Oil Pipeline Project	4,820 22	893	480	(1)	1,372
800,000 tonnes Ethylene Improvement/Expansion Project	7,494	509	486	--	995
Fertilizer Improvement Project	1,063	890	103	--	993
Chaoyang Square Project	2,800	906	30	--	936

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Coal in replacement of Oil Technology Improvement Project	1,256	603	165	--	768	6
---	-------	-----	-----	----	-----	---

THE COMPANY

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	mi
At 1 January 2005	6,607	6,759	9,941	3,978	
Addition for the period	7,383	2,292	4,372	1,375	
Dry hole costs written off	(990)	--	--	--	
Transferred to fixed assets	(2,352)	(1,426)	(3,733)	(142)	
At 30 June 2005	10,648	7,625	10,580	5,211	

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

14 INTANGIBLE ASSETS

The Group

	Computer software license RMB millions	Technical know-how RMB millions	Exploration and production right RMB millions	RM
Cost:				
At 1 January 2005	852	2,286	3,163	
Addition for the period	11	633	--	
Disposals	(2)	--	--	
At 30 June 2005	861	2,919	3,163	
Accumulated Amortisation:				
At 1 January 2005	185	841	468	
Amortisation charge for the period	66	138	58	



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Written back on disposal	(2)	--	--
At 30 June 2005	249	979	526
Net book value:			
At 30 June 2005	612	1,940	2,637
At 31 December 2004	667	1,445	2,695

Except for the exploration and production right, the above intangible assets were acquired from third parties. The Company acquired Sinopec National Star together with the exploration and production right from Sinopec Group Company. The exploration and production right was valued with reference to the proved reserves of the associated oil fields. The amortisation period of the exploration and production right was 27 years. The amortisation periods of other intangible assets range from 4 to 10 years. At 30 June 2005, the remaining amortisation period of the exploration and production right was 22.5 years.

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14 INTANGIBLE ASSETS (Continued)

The Company

	Computer software license RMB millions	Technical know-how RMB millions	Exploration and production right RMB millions	RM
Cost:				
At 1 January 2005	671	1,316	3,163	
Addition for the period	6	--	--	
Disposals	(1)	--	--	
At 30 June 2005	676	1,316	3,163	
Accumulated Amortisation:				
At 1 January 2005	120	673	468	
Amortisation charge for the period	55	65	58	
Written back on disposal	(1)	--	--	
At 30 June 2005	174	738	526	

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Net book value:

At 30 June 2005	502	578	2,637
At 31 December 2004	551	643	2,695

Except for the exploration and production right, the above intangible assets were acquired from third parties. The Company acquired Sinopec National Star together with the exploration and production right from Sinopec Group Company. The exploration and production right was valued with reference to the proved reserves of the associated oil fields. The amortisation period of the exploration and production right was 27 years. The amortisation periods of other intangible assets range from 4 to 10 years. At 30 June 2005, the remaining amortisation period of the exploration and production right was 22.5 years.

15 LONG-TERM DEFERRED EXPENSES

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

16 DEFERRED TAX ASSETS AND LIABILITIES

The Group

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

The Company

	Deferred tax assets		Deferred tax liabilities	
	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Current				
Provisions, primarily for receivables and inventories	932	2,245	--	--

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-----				
Non-current				
-----				
Fixed assets	1,431	1,457	(1)	(1)
-----				
Others	13	6	--	--
-----				
Deferred tax assets/ (liabilities)	2,376	3,708	(1)	(1)
=====				

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17 SHORT-TERM LOANS

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

	The Group		A
	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	
Short-term bank loans	32,129	20,009	
-----			
Loans from Sinopec Group Company and fellow subsidiaries	2,290	6,714	
-----			
Total	34,419	26,723	
=====			

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

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

18 BILLS PAYABLE

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

19 TRADE ACCOUNTS PAYABLE

The ageing analysis of trade accounts payable are as follows:

	The Group		At 31
	At 30 June 2005 RMB millions	%	
Within 3 months	21,601	63.3	12,868
-----			
Between 3 and 6 months	10,113	29.6	9,110

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Over 6 months	2,438	7.1	1,814
Total	34,152	100.0	23,792

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

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

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

20 RECEIPTS IN ADVANCE

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

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

21 TAXES PAYABLE

	The Group		The Comp At 30 June 2005 RMB millions
	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	
Value added tax	(1,060)	(1,119)	(1,249)
Consumption tax	976	1,443	728
Income tax	2,882	5,391	33
Business tax	38	99	22
Other taxes	716	927	197
Total	3,552	6,741	(269)

The provision for PRC current income tax is based on a statutory rate of 33% of the assessable income of the Group and the Company as determined in accordance with the relevant income tax rules and regulations of the PRC

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during the six-month periods ended 30 June 2005 and 2004, except for certain branches and subsidiaries of the Company, which are taxed at a preferential rate of 15%, and certain jointly controlled entities of the Company, which are entitled to a tax holiday of a tax-free period for the first two years and a 50% reduction in income tax for the following three years.

### 22 OTHER PAYABLES

At 30 June 2005 and 31 December 2004, the Group's and the Company's other payables primarily represent payables for resources compensation fee and education surcharge.

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### 23 OTHER CREDITORS

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

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

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

### 24 ACCRUED EXPENSES

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

### 25 CURRENT PORTION OF LONG-TERM LIABILITIES

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

	The Group		
	At 30 June 2005	At 31 December 2004	A
	RMB millions	RMB millions	RMB
<hr/>			
Long-term bank loans			
-- Renminbi loans	5,436	8,500	
-- Japanese Yen loans	594	805	
-- US Dollar loans	1,162	2,841	
-- Euro loans	6	28	
-- Hong Kong Dollar loans	3	3	
	<hr/>	<hr/>	
	7,201	12,177	
<hr/>			
Long-term other loans			
-- Renminbi loans	14	88	

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-- US Dollar loans	30	33
	44	121
Long-term loans from Sinopec Group Company and fellow subsidiaries		
-- Renminbi loans	--	2,000
Total current portion of long-term liabilities	7,245	14,298

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

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26 LONG-TERM LOANS

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

Interest rate and final maturity	The Group		
	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	
THIRD PARTIES DEBTS			
LONG-TERM BANK LOANS			
Renminbi loans	Interest rates ranging from interest free to 5.8% per annum at 30 June 2005 with maturities through 2013	57,013	52,227
Japanese Yen loans	Interest rates ranging from 2.6% to 5.8% per annum at 30 June 2005 with maturities through 2024	4,029	4,562
US Dollar loans	Interest rates ranging from interest free to 7.4% per annum at 30 June 2005 with maturities through 2031	6,140	7,729
Euro loans	Fixed rate at 6.7% per annum at 30 June 2005 with maturities through 2010	147	165
Hong Kong Dollar loans	Floating rate at Hong Kong Prime Rate plus 0.3% per annum at 30 June 2005 with maturities through 2006	3	5
Less: Current portion		7,102	12,177
Long-term bank loans		60,230	52,511

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Other long-term loans

Renminbi loans	Interest rates ranging from interest free to 5.0% per annum at 30 June 2005 with maturities through 2008	156	359
US Dollar loans	Interest rates ranging from interest free to 4.0% per annum at 30 June 2005 with maturities through 2015	80	110
Less: Current portion		44	121
OTHER LONG-TERM LOANS		192	348

LONG-TERM BANK LOANS OF JOINTLY CONTROLLED ENTITIES

Renminbi loans	Floating rate at 90% of PBOC's base lending rate per annum at 30 June 2005 with maturities through 2021	5,570	2,415
US Dollar loans	Floating rate at London Interbank Offer Rate plus 0.4% to 0.7% per annum at 30 June 2005 with maturities through 2021	4,342	2,048
Less: Current portion		99	--
LONG-TERM BANK LOANS OF JOINTLY CONTROLLED ENTITIES		9,813	4,463

LONG-TERM LOANS FROM SINOPEC GROUP COMPANY AND FELLOW SUBSIDIARIES

Renminbi loans	Interest free with maturity in 2020	35,561	35,561
Renminbi loans	Interest rates ranging from 4.8% to 5.2% per annum at 30 June 2005 with maturities through 2009	4,303	3,204
Less: Current portion		--	2,000
LONG-TERM LOANS FROM SINOPEC GROUP COMPANY AND FELLOW SUBSIDIARIES		39,864	36,765
		110,099	94,087

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

	The Group		A
	At 30 June 2005	At 31 December 2004	
	RMB millions	RMB millions	RMB
Between one and two years	22,046	15,886	
Between two and five years	40,764	36,041	
After five years	47,289	42,160	

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Total long-term loans	110,099	94,087
-----------------------	---------	--------

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

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

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27 DEBENTURES PAYABLE

Interest rate and final maturity

Corporate bonds	Fixed rate at 4.61% per annum, redeemable in February 2014
-----------------	--

The Company issued ten years corporate bonds of RMB 3.5 billion to PRC citizens as well as PRC legal and non-legal persons on 24 February 2004, guaranteed by Sinopec Group Company, with a fixed interest rate at 4.61% per annum and annual interest payment schedule. Interest payable for the current period was included in accrued expenses.

28 OTHER LONG-TERM PAYABLES

Other long-term payables primarily represent provisions for future dismantlement of oil and gas properties, the costs arising from environmental restoration and specific research and development projects.

29 SHARE CAPITAL

The Group and the  
At 30 June At  
2005  
RMB millions R

Registered, issued and fully paid:

67,121,951,000 domestic state-owned A shares of RMB 1.00 each	67,122
16,780,488,000 H shares of RMB 1.00 each	16,780
2,800,000,000 A shares of RMB 1.00 each	2,800



The Company was established on 25 February 2000 with a registered capital of 68.8 billion state-owned domestic shares with a par value of RMB 1.00 each, which were all held by Sinopec Group Company (see Note 1).

Pursuant to the resolutions passed in the Extraordinary General Meeting of the Company held on 25 July 2000 and the approval from relevant authorities, the Company issued 15,102,439,000 H shares with a par value of RMB 1.00 each in its initial global offering in October 2000. The shares include 12,521,864,000 H shares and 25,805,750 American Depositary Shares ("ADSs", each representing 100 H shares) at prices of HK\$ 1.59 and US\$ 20.645 respectively. As part of the offering, 1,678,049,000 shares were offered in placing to Hong Kong and overseas investors.

In July 2001, the Company issued 2,800,000,000 domestic listed A shares with a par value of RMB 1.00 each at RMB 4.22.

All the domestic ordinary shares and H shares rank pari passu in all material aspects.

KPMG Huazhen had verified the above paid-in capital. The capital verification reports, KPMG-C (2000) CV No. 0007, KPMG-C (2001) CV No. 0002 and KPMG-C (2001) CV No. 0006 were issued on 22 February 2000, 27 February 2001 and 23 July 2001 respectively.

### 30 CAPITAL RESERVE

The movements in capital reserve are as follows:

	The Group		
	At 30 June 2005	At 31 December 2004	At 30 June 2005
	RMB millions	RMB millions	RMB millions
Balance at 1 January	37,121	36,852	37,121
Government grants (i)	--	269	--
Reserve for equity investment (ii)	--	--	--
Balance at 30 June/31 December	37,121	37,121	37,121

(i) During the year ended 31 December 2004, the Group received subsidy on investments amounted to RMB 269 million, pursuant to Fa Gai Tou Zi [2004] No. 1248 "Notice on the Enterprise Technology Reform and Industry Upgrade regarding the Fir8t Batch State Debt's Project Fund Plan in 2004" issued by the National Development and Reform Commission and the MOF. This fund is used for technology improvement projects.

(ii) During the year ended 31 December 2004, the Company invested in certain newly set up subsidiaries using non-monetary assets at revalued amount as the Group's capital investment in these subsidiaries. The difference between the revalued amount of these

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non-monetary assets and their original book value (that is the Group's shared shareholders' funds in these subsidiaries over the initial investment cost) was recorded in capital reserve. Such difference has been eliminated in the Group's consolidated financial statements.

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### 31 SURPLUS RESERVES

Movements in surplus reserves are as follows:

	Statutory surplus reserve RMB millions	The Group and the Company Statutory public welfare fund RMB millions	Discretionary surplus reserve RMB millions
At 1 January 2004	6,330	6,330	7,000
-----			
Appropriation of net profit	3,228	3,228	--
-----			
At 31 December 2004	9,558	9,558	7,000
=====			
At 1 January 2005	9,558	9,558	7,000
-----			
Appropriation of net profit	1,804	1,804	--
-----			
At 30 June 2005	11,362	11,362	7,000
=====			

The Articles of Association of the Company and the following profit appropriation plans had been approved at the Extraordinary General Meeting held on 25 July 2000:

- (a) 10% of the net profit is transferred to the statutory surplus reserve;
- (b) 5% to 10% of the net profit is transferred to the statutory public welfare fund; and
- (c) after the transfers to the statutory surplus reserve and the statutory public welfare fund, a transfer to discretionary surplus reserve can be made upon the passing of a resolution at the shareholders' meeting.

### 32 INCOME FROM PRINCIPAL OPERATIONS

The income from principal operations represents revenue from sales of crude oil, natural gas, petroleum and chemical products net of value added tax. The Group's segmental information is set out in Note 45.

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

### 33 SALES TAXES AND SURCHARGES

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

34 FINANCIAL EXPENSES

	The Group Six-month periods ended 30 June		The Six-month periods ended 30 June 2004
	2005	2004	2005
	RMB millions	RMB millions	RMB millions
Interest expenses incurred	3,399	2,379	2,111
Less: Capitalised interest expenses	(268)	(102)	(111)
Net interest expenses	3,131	2,277	2,000
Interest income	(168)	(169)	(111)
Foreign exchange losses	40	29	111
Foreign exchange gains	(151)	(43)	(111)
Total	2,852	2,094	1,888

35 EXPLORATION EXPENSES

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

36 INVESTMENT (LOSS)/INCOME

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	The Group		RMB
	Six-month periods		
	ended 30 June		
	2005	2004	
	RMB millions	RMB millions	
Investment income accounted for under the cost method	62	30	
Amortisation of equity investment differences	(1,169)	(90)	
Investment income accounted for under the equity method	365	576	
Total	(742)	516	

37 NON-OPERATING EXPENSES

	The Group		RMB
	Six-month periods		
	ended 30 June		
	2005	2004	
	RMB millions	RMB millions	
Loss on disposal of fixed assets	109	1,405	
Impairment losses on fixed assets	397	2,763	
Fines, penalties and compensations	111	33	
Donations	128	49	
Employee reduction expenses (Note)	100	412	
Others	264	290	
Total	1,109	4,952	

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

38 INCOME TAX

	The Group		RMB
	Six-month periods		
	ended 30 June		
	2005	2004	
	RMB millions	RMB millions	

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Provision for PRC income tax	9,438	8,477
-----		
Deferred taxation	(747)	(1,414)
-----		
Underprovision for income tax in prior year	477	91
-----		
Total	9,168	7,154
=====		

### 39 DIVIDENDS

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

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

(b) Dividends of ordinary shares declared during the period

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

Pursuant to the shareholders' approval at the Annual General Meeting on 18 May 2004, a final dividend of RMB 0.06 per share totalling RMB 5,202 million in respect of the year ended 31 December 2003 was declared and paid on 28 June 2004.

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### 40 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

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

The name of the company	:	China Petrochemical Corporation
Registered address	:	No. 6A, Huixin East Street, Chaoyang District, Beijing
Principal activities	:	Processing crude oil into refined products and petrochemical products, petrochemical products which include: petrochemical products made from crude oil and natural gas; production, sale and import and export of synthetic fibre and synthetic fibre monomer.
Relationship with the Group	:	Ultimate holding company
Types of legal entity	:	State-owned
Authorised representative	:	Chen Tonghai
Registered capital	:	RMB 104,912 million

There is no movement in the above registered capital for the six-month period ended 30 June 2005.

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

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

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

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

Associates of the Company:

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

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

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

The amounts set out in the table above in respect of the six-month

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periods ended 30 June 2005 and 2004 represent the relevant costs to the Group and income from related parties as determined by the corresponding contracts with the related parties.

At 30 June 2005 and 31 December 2004, there were no guarantees given to banks by the Group in respect of banking facilities to Sinopec Group Company and fellow subsidiaries.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions.

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

#### Notes:

- (i) Sales of goods represent the sale of crude oil, intermediate petrochemical products, petroleum products and ancillary materials.
- (ii) Purchases represent the purchase of materials and utility supplies directly related to the Group's operations such as the procurement of raw and ancillary materials and related services, supply of water, electricity and gas.
- (iii) Transportation and storage represent the cost for the use of railway, road and marine transportation services, pipelines, loading, unloading and storage facilities.
- (iv) Exploration and development services comprise direct costs incurred in the exploration and development activities such as geophysical, drilling, well testing and well measurement services.
- (v) Production related services represent ancillary services rendered in relation to the Group's operations such as equipment repair and general maintenance, insurance premium, technical research, communications, fire fighting, security, product quality testing and analysis, information technology, design and engineering, construction which includes the construction of oilfield ground facilities, refineries and chemical plants, manufacture of replacement parts and machinery, installation, project management and environmental protection.
- (vi) Ancillary and social services represent expenditures for social welfare and support services such as educational facilities, media communication services, sanitation, accommodation, canteens, property maintenance and management services.
- (vii) Operating lease charges represent the rental paid to Sinopec Group Company for operating leases in respect of land, buildings and service stations.
- (viii) Agency commission income represents commission earned for acting as an agent in respect of sales of products and purchase of materials for certain entities owned by Sinopec Group Company.
- (ix) Intellectual property license fee represents reimbursement paid to Sinopec Group Company for fees required to maintain the

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validity of licenses for trademarks, patents, technology and computer software.

- (x) Interest received represents interest received from deposits placed with Sinopec Finance Company Limited, a finance company controlled by Sinopec Group Company. The applicable interest rate is determined in accordance with the prevailing saving deposit rate.
- (xi) Interest paid represents interest charges on the loans obtained from Sinopec Group Company and Sinopec Finance Company Limited.
- (xii) Deposits were withdrawn from/placed with Sinopec Finance Company Limited during the period.
- (xiii) The Group obtained/repaid loans from/to Sinopec Group Company and Sinopec Finance Company Limited. The average loan balance for the six-month period ended 30 June 2005, which is calculated based on monthly average balances, was RMB 43,882 million (2004: RMB 42,696 million).

In connection with the Reorganisation, the Company and Sinopec Group Company entered into a number of agreements under which 1) Sinopec Group Company will provide goods and products and a range of ancillary, social and supporting services to the Group and 2) the Group will sell certain goods to Sinopec Group Company. These agreements impacted the operating results of the Group for the six-month period ended 30 June 2005. The terms of these agreements are summarised as follows:

- (a) The Company entered into a non-exclusive Agreement for Mutual Provision of Products and Ancillary Services ("Mutual Provision Agreement") with Sinopec Group Company under which Sinopec Group Company has agreed to provide the Group with certain ancillary production services, construction services, information advisory services, supply services and other services and products. While each of Sinopec Group Company and the Company is permitted to terminate the Mutual Provision Agreement upon at least six months' notice, Sinopec Group Company had agreed not to terminate the agreement if the Group is unable to obtain comparable services from a third party. The pricing policy for these services and products provided by Sinopec Group Company to the Group is as follows:
  - o the government-prescribed price;
  - o where there is no government-prescribed price, the government-guidance price;
  - o where there is neither a government-prescribed price nor a government-guidance price, the market price; or
  - o where none of the above is applicable, the price to be agreed between the parties, which shall be based on a reasonable cost incurred in providing such services plus a profit margin not exceeding 6%.
- (b) The Company has entered into a non-exclusive Agreement for Provision of Cultural and Educational, Health Care and Community Services with Sinopec Group Company effective from 1 January 2000 in which Sinopec Group Company has agreed to provide the Group with certain cultural, educational, health care and community services on the same pricing terms and termination conditions as agreed to in the above Mutual Provision Agreement.
- (c) The Company has entered into a number of lease agreements with



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Sinopec Group Company to lease certain land and buildings at a rental of approximately RMB 2,557 million and RMB 568 million, respectively, per annum. The Company and Sinopec Group Company can renegotiate the rental amount every three years for land and every year for buildings, such amount not to exceed the market price as determined by an independent third party. The Group has the option to terminate these leases upon six months notice to Sinopec Group Company.

- (d) The Company has entered into agreements with Sinopec Group Company effective from 1 January 2000 under which the Group has been granted the right to use certain trademarks, patents, technology and computer software developed by Sinopec Group Company. The Group will reimburse Sinopec Group Company for fees required to maintain the validity of these licenses.
- (e) The Company has entered into agency agreements effective from 1 January 2000 with certain entities owned by Sinopec Group Company under which the Group acts as a sole agent in respect of the sale of all the products of these entities. In exchange for the Group's sales agency services, Sinopec Group Company has agreed to pay the Group a commission of between 0.2% and 1.0% of actual sales receipts depending on the products and to reimburse the Group for reasonable costs incurred in the capacity as its sales agent.
- (f) The Company has entered into a service station franchise agreement with Sinopec Group Company under which its service stations and retail stores would exclusively sell the refined products supplied by the Group.

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

#### (d) Balances with related parties

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

	The ultimate holding company		A
	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	
Cash and cash equivalents	--	--	
Trade accounts receivable	--	--	
Advance payments	--	--	
Other receivables	2,002	2,502	
Trade accounts payable	--	--	
Receipts in advance	--	--	
Other creditors	5,936	4,851	
Short-term loans	--	--	



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			products and petrole
Sinopec Yizheng Chemical Fibre Company Limited (ii)	4,000	42.00	Production and sale of polyester fibres
Sinopec Zhenhai Refining and Chemical Company Limited	2,524	71.32	Manufacturing of intermediate products and petrole
Sinopec Zhongyuan Petroleum Company Limited	875	70.85	Exploration and production of natural gas
Zhongyuan Petrochemical Company Limited	2,400	93.51	Manufacturing of chemical products
Sinopec Shell (Jiangsu) Petroleum Marketing Company Limited	455	60.00	Marketing and distribution of petroleum products
BP Sinopec (Zhejiang) Petroleum Company Limited	647	60.00	Marketing and distribution of petroleum products
Sinopec Qingdao Refining and Chemical Company Limited	800	85.00	Manufacturing of intermediate products and petrole

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

(ii) The Company consolidated the results of these entities because the Company controlled the board of these entities and had the power to govern their financial and operating policies.

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42 PRINCIPAL JOINTLY CONTROLLED ENTITIES

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

Name of jointly controlled entities	Registered capital/ paid-up capital	Percentage of equity interest held by the Group %	Principal a
Shanghai Secco Petrochemical Company Limited	Registered capital USD 901,440,964	50.00	Manufacturing of petrochemical products
BASF-YPC Company Limited	Registered capital RMB 8,793,000,000	40.00	Manufacturing of petrochemical products
Yueyang Sinopec and Shell Coal Gasification Company Limited	Registered capital USD 45,588,700	50.00	Manufacturing of industrial gas
Block A Oil Field in the Western Area Chendao in Bohai Bay	--	43.00	Exploration and production of oil and natural gas

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### 43 COMMITMENTS

#### Operating lease commitments

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

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

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

#### Capital commitments

At 30 June 2005, capital commitments are as follows:

	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
<b>THE GROUP</b>		
Authorised and contracted for	40,475	43,001
Authorised but not contracted for	40,809	60,173
	81,284	103,174
<b>JOINTLY CONTROLLED ENTITIES</b>		
Authorised and contracted for	2,399	3,157
Authorised but not contracted for	8	2,088
	2,407	5,245
<b>THE COMPANY</b>		

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Authorised and contracted for	33,965	28,143
Authorised but not contracted for	23,803	37,619
	57,768	65,762

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

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### 43 COMMITMENTS (Continued)

#### Exploration and production licenses

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

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

Estimated future annual payments are as follows:

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

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### 44 CONTINGENT LIABILITIES

- (a) The Company has been advised by its PRC lawyers that, except for liabilities constituting or arising out of or relating to the business assumed by the Company in the Reorganisation, no other liabilities were assumed by the Company, and the Company is not jointly and severally liable for other debts and obligations incurred by Sinopec Group Company prior to the Reorganisation.
- (b) At 30 June 2005, guarantees given by the Group and the Company to banks in respect of banking facilities granted to the parties below are as follows:

	The Group		
	At 30 June 2005	At 31 December 2004	A
	RMB millions	RMB millions	RMB
Subsidiaries	--	--	
-----			
Associates and jointly controlled entities	109	4,828	
-----			
Total	109	4,828	
=====			

The Company monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognises any such losses under guarantees when those losses are estimable. At 30 June 2005 and 31 December 2004, it is not probable that the Company will be required to make payments under the guarantees. Thus no liability has been accrued relating to the Company's obligation under those guarantee arrangements.

#### Environmental contingencies

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

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pollutant discharge fee of approximately RMB 107 million for the six-month period ended 30 June 2005 (2004: RMB 113 million).

### Legal contingencies

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

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### 45 SEGMENTAL INFORMATION

The Group has five operating segments as follows:

- (i) Exploration and production -- which explores and develops oil fields, produces crude oil and natural gas and sells such products to the refining segment of the Group and external customers.
- (ii) Refining -- which processes and purifies crude oil, which is sourced from the exploration and production segment of the Group and external suppliers, and manufactures and sells petroleum products to the chemicals and marketing and distribution segments of the Group and external customers.
- (iii) Marketing and distribution -- which owns and operates oil depots and service stations in the PRC, and distributes and sells refined petroleum products (mainly gasoline and diesel) in the PRC through wholesale and retail sales networks.
- (iv) Chemicals -- which manufactures and sells petrochemical products, derivative petrochemical products and other chemical products to external customers.
- (v) Others -- which largely comprise the trading activities of the import and export companies of the Group and research and development undertaken by other subsidiaries.

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

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

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

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	Six-month period ended 30 June 2005	RMB millions	RM
Income from principal operations			
Exploration and production			
External sales	8,651		
Inter-segment sales	35,745		
	44,396		
Refining			
External sales	37,083		
Inter-segment sales	172,035		
	209,118		
Marketing and distribution			
External sales	206,763		
Inter-segment sales	1,320		
	208,083		
Chemicals			
External sales	74,731		
Inter-segment sales	8,335		
	83,066		
Others			
External sales	32,020		
Inter-segment sales	21,228		
	53,248		
Elimination of inter-segment sales	(238,663)		
<b>INCOME FROM PRINCIPAL OPERATIONS</b>	<b>359,248</b>		
<b>COST OF SALES, SALES TAXES AND SURCHARGES</b>			
Exploration and production	17,920		
Refining	208,147		



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Marketing and distribution	190,761
Chemicals	68,283
Others	52,619
Elimination of inter-segment cost of sales	(236,345)
<b>COST OF SALES, SALES TAXES AND SURCHARGES</b>	<b>301,385</b>
<b>PROFIT FROM PRINCIPAL OPERATIONS</b>	
Exploration and production	23,738
Refining	1,391
Marketing and distribution	17,322
Chemicals	14,783
Others	629
<b>PROFIT FROM PRINCIPAL OPERATIONS</b>	<b>57,863</b>

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46 POST BALANCE SHEET EVENTS

With the authorisation from the PRC government, the People's Bank of China announced that the PRC government reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies on 21 July 2005. The exchange rate of US dollars against RMB was adjusted to RMB 8.11 per US dollar with effect from the time of 19:00 hours on 21 July 2005. The Group does not expect this reform had a material impact on the Group's financial position as at 30 June 2005.

47 ITEMS UNDER NON-OPERATING PROFITS/LOSSES

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

Items under non-operating profits/losses for the period:

Loss on disposal of fixed assets

Employee reduction expenses

Donations

Loss on disposal of long-term equity investments

RMB

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Other non-operating income and expenses, excluding impairment losses on long-lived assets

Written back of provisions for impairment losses in previous years

Tax effect

Total

### 48 OTHER SIGNIFICANT EVENTS

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

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### REPORT OF THE INTERNATIONAL AUDITORS

[KPMG LOGO GRAPHIC OMITTED]

TO THE SHAREHOLDERS OF

CHINA PETROLEUM & Chemical Corporation

(Established in The People's Republic of China with limited liability)

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

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

### BASIS OF OPINION

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

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

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provides a reasonable basis for our opinion.

### OPINION

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

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

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(B) INTERIM FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")  
CONSOLIDATED INCOME STATEMENT  
for the six-month period ended 30 June 2005  
(Amounts in millions, except per share data)

	Note
Turnover and other operating revenues	
-----	
Turnover	3
-----	
Other operating revenues	4
-----	
-----	
Operating expenses	
-----	
Purchased crude oil, products and operating supplies and expenses	
-----	
Selling, general and administrative expenses	5
-----	
Depreciation, depletion and amortisation	
-----	
Exploration expenses, including dry holes	
-----	
Personnel expenses	6
-----	
Employee reduction expenses	7
-----	
Taxes other than income tax	8
-----	
Other operating expenses, net	9
-----	

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Total operating expenses	
-----	
-----	
Operating profit	
-----	
Finance costs	
Interest expense	10
Interest income	
Foreign exchange losses	
Foreign exchange gains	
Net finance costs	
-----	
Investment income	
-----	
Share of profits less losses from associates	
-----	
Profit before taxation	
-----	
Taxation	11
-----	
Profit for the period	
-----	
Attributable to:	
-----	
Equity holders of the parent	
Minority interests	
-----	
Profit for the period	
-----	
Basic earnings per share	12
-----	
Dividends attributable to the period:	
-----	
Interim dividend declared after the balance sheet date	13
-----	

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CONSOLIDATED BALANCE SHEET  
at 30 June 2005  
(Amounts in millions)

	Note
-----	
Non-current assets	
-----	
Property, plant and equipment	14
Construction in progress	15

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Investments	16
Interests in associates	17
Deferred tax assets	23
Lease prepayments	
Long-term prepayments and other assets	19
<b>Total non-current assets</b>	
<b>Current assets</b>	
Cash and cash equivalents	
Time deposits with financial institutions	
Trade accounts receivable	20
Bills receivable	20
Inventories	21
Prepaid expenses and other current assets	22
<b>Total current assets</b>	
<b>Current liabilities</b>	
Short-term debts	24
Loans from Sinopec Group Company and fellow subsidiaries	24
Trade accounts payable	25
Bills payable	25
Accrued expenses and other payables	26
Income tax payable	
<b>Total current liabilities</b>	
<b>Net current liabilities</b>	
=====	
<b>Total assets less current liabilities</b>	
<b>Non-current liabilities</b>	
Long-term debts	24
Loans from Sinopec Group Company and fellow subsidiaries	24
Deferred tax liabilities	23
Other liabilities	

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Total non-current liabilities

.....  
=====

-----  
-----  
Equity

-----  
Share capital 27

-----  
Reserves

-----  
Total equity attributable to equity holders of the parent

-----  
Minority interests

-----  
Total equity

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

CHEN TONGHAI  
Chairman

WANG TIANPU  
President

ZHANG JIAREN  
Director, Senior  
Chief Financial Officer

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

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CONSOLIDATED CASH FLOW STATEMENT  
for the six-month period ended 30 June 2005  
(Amounts in millions)

Note

Cash flows from operating activities (a)

-----  
Cash flow from investing activities

-----  
Capital expenditure

-----  
Capital expenditure by jointly controlled entities

-----  
Purchase of investments and investments in associates

-----  
Proceeds from disposal of investments and investments in associates

-----  
Proceeds from disposal of property, plant and equipment

-----  
Acquisition of Beijing Yanhua from minority interests

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Increase in time deposits with financial institutions
-----
Maturity of time deposits with financial institutions
-----
Net cash used in investing activities
-----
Cash flow from financing activities
-----
Proceeds from bank and other loans
-----
Proceeds from bank and other loans of jointly controlled entities
-----
Proceeds from issuance of corporate bonds, net of issuing expenses
-----
Repayments of bank and other loans
-----
Distributions to minority interests
-----
Contributions from minority interests
-----
Dividend paid
-----
Cash and cash equivalent paid to Sinopec Group Company in connection with the Acquisitions of Ethylene Assets and Refining Assets
-----
Cash and cash equivalent paid to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets
-----
Net cash from financing activities
.....
-----
-----
Net decrease in cash and cash equivalents
-----
Effect of foreign exchange rate
-----
Cash and cash equivalents at beginning of period
-----
Cash and cash equivalents at end of period
-----

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

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT  
for the six-month period ended 30 June 2005  
(Amounts in millions)

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

Six-month  
ended  
2005  
RMB

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Profit before taxation	31,714
-----	
Adjustments for:	
-----	
Depreciation, depletion and amortisation	15,155
-----	
Dry hole costs	1,325
-----	
Share of profits less losses from associates	(536)
-----	
Investment income	(62)
-----	
Interest income	(168)
-----	
Interest expense	2,845
-----	
Unrealised foreign exchange gains	(150)
-----	
Loss on disposal of property, plant and equipment, net	20
-----	
Impairment losses on long-lived assets	397
-----	
Increase in trade accounts receivable	(5,488)
-----	
Increase in bills receivable	(544)
-----	
Increase in inventories	(14,957)
-----	
(Increase)/decrease in prepaid expenses and other current assets	(522)
-----	
(Increase)/decrease in lease prepayments	(295)
-----	
Increase in long-term prepayments and other assets	(1,451)
-----	
Increase in trade accounts payable	9,984
-----	
(Decrease)/increase in bills payable	(3,904)
-----	
Increase/(decrease) in accrued expenses and other payables	3,050
-----	
Decrease in other liabilities	(117)
-----	
CASH GENERATED FROM OPERATIONS	36,296
-----	
Interest received	168
-----	
Interest paid	(3,320)
-----	
Investment and dividend income received	362
-----	
Income tax paid	(12,424)
-----	
CASH FLOWS FROM OPERATING ACTIVITIES	21,082
=====	

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



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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
for the six-month period ended 30 June 2005  
(Amounts in millions, except per share data)

	Share capital RMB	Capital reserve RMB	Share premium RMB	Reva
Balance at 1 January 2004, as previously reported	86,702	(18,960)	18,072	
Adjusted for acquisition of the Acquired Group	--	--	--	
Balance at 1 January 2004, as adjusted	86,702	(18,960)	18,072	
Final dividend for 2003 (Note 13)	--	--	--	
Profit for the period	--	--	--	
Appropriation (Note (a) and (b))	--	--	--	
Revaluation surplus realised	--	--	--	
Impairment losses on revalued assets	--	--	--	
Realisation of deferred tax on land use rights	--	--	--	
Transfer from retained earnings to other reserves	--	--	--	
Net assets contributed from Sinopec Group Company	--	--	--	
Distributions to minority interests, net	--	--	--	
<b>BALANCE AT 30 JUNE 2004</b>	<b>86,702</b>	<b>(18,960)</b>	<b>18,072</b>	
Balance at 1 January 2005	86,702	(19,217)	18,072	
Final dividend for 2004 (Note 13)	--	--	--	
Profit for the period	--	--	--	
Appropriation (Note (a) and (b))	--	--	--	
Revaluation surplus realised	--	--	--	
Realisation of deferred tax on land use rights	--	--	--	
Acquisition of minority interests in Beijing Yanhua (Note 32(i))	--	--	--	
Distributions to minority interests, net	--	--	--	
<b>BALANCE AT 30 JUNE 2005</b>	<b>86,702</b>	<b>(19,217)</b>	<b>18,072</b>	

[table continued]

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	Discretionary surplus reserve RMB	Other reserves RMB	Retained earnings RMB	attrib to hold the
Balance at 1 January 2004, as previously reported	7,000	252	31,832	
Adjusted for acquisition of the Acquired Group	--	3,616	--	
Balance at 1 January 2004, as adjusted	7,000	3,868	31,832	
Final dividend for 2003 (Note 13)	--	--	(5,202)	
Profit for the period	--	--	16,746	
Appropriation (Note (a) and (b))	--	--	(3,008)	
Revaluation surplus realised	--	--	627	
Impairment losses on revalued assets	--	--	--	
Realisation of deferred tax on land use rights	--	(2)	2	
Transfer from retained earnings to other reserves	--	595	(595)	
Net assets contributed from Sinopec Group Company	--	198	--	
Distributions to minority interests, net	--	--	--	
<b>BALANCE AT 30 JUNE 2004</b>	<b>7,000</b>	<b>4,659</b>	<b>40,402</b>	
Balance at 1 January 2005	7,000	247	53,122	
Final dividend for 2004 (Note 13)	--	--	(6,936)	
Profit for the period	--	--	19,653	
Appropriation (Note (a) and (b))	--	--	(3,608)	
Revaluation surplus realised	--	--	60	
Realisation of deferred tax on land use rights	--	(2)	2	
Acquisition of minority interests in Beijing Yanhua (Note 32(i))	--	--	--	
Distributions to minority interests, net	--	--	--	
<b>BALANCE AT 30 JUNE 2005</b>	<b>7,000</b>	<b>245</b>	<b>62,293</b>	

Notes:

- (a) According to the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined in accordance with the PRC Accounting Rules and Regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

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Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital. During the six-month period ended 30 June 2005, the Company transferred RMB 1,804 million (2004: RMB 1,504 million), being 10% of the current period's net profit determined in accordance with the PRC Accounting Rules and Regulations, to this reserve.

- (b) According to the Company's Articles of Association, the Company is required to transfer 5% to 10% of its net profit, as determined in accordance with the PRC Accounting Rules and Regulations, to the statutory public welfare fund. This fund can only be utilised on capital items for the collective benefits of the Company's employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders.

Pursuant to the Company's Articles of Associations and a resolution passed at the Directors' meeting on 26 August 2005, the directors authorised to transfer RMB 1,804 million (2004: RMB 1,504 million) for the six-month period ended 30 June 2005, being 10% of the current period's net profit determined in accordance with the PRC Accounting Rules and Regulations, to this fund.

- (c) The usage of the discretionary surplus reserve is similar to that of statutory surplus reserve.
- (d) According to the Company's Articles of Association, the amount of retained profits available for distribution to equity holders of the parent is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IFRS. At 30 June 2005, the amount of retained profits available for distribution was RMB 11,881 million, being the amount determined in accordance with IFRS. Interim dividend of RMB 3,468 million (2004: RMB 3,468 million) declared after the balance sheet date has not been recognised as a liability at the balance sheet date.
- (e) The capital reserve represents (i) the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from Sinopec Group Company in connection with the Reorganisation and (ii) the difference between the considerations paid over the amount of the net assets acquired from Sinopec National Star, Sinopec Maoming, Xi'an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical, Guangzhou Petrochemical and Catalyst Plants.
- (f) The application of the share premium account is governed by Sections 178 and 179 of the PRC Company Law.

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NOTES ON THE INTERIM FINANCIAL STATEMENTS  
for the six-month period ended 30 June 2005

### 1 PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION

Principal activities

China Petroleum & Chemical Corporation (the "Company") is an energy and

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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 (OOSinopec Group Company'), the ultimate holding company of the Group and a ministry-level enterprise under the direct supervision of the State Council of the PRC. Prior to the incorporation of the Company, the oil and gas and chemical operations of the Group were carried on by oil administration bureaux, petrochemical and refining production enterprises and sales and marketing companies of Sinopec Group Company.

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

### Basis of presentation

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

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

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

Pursuant to the resolutions passed at the Extraordinary General Meeting held on 21 December 2004, the Group acquired the equity interest of Sinopec Group Tianjin Petrochemical Company ("Tianjin Petrochemical"), Sinopec Group Luoyang Petrochemical General Plant ("Luoyang Petrochemical"),

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Zhongyuan Petrochemical Company Limited ("Zhongyuan Petrochemical"), Sinopec Group Guangzhou Petrochemical General Plant ("Guangzhou Petrochemical") and certain catalyst plants ("Catalyst Plants") from Sinopec Group Company for a total consideration of RMB 3,128 million which was paid in 2005 (hereinafter referred to as the "Acquisition of Petrochemical and Catalyst Assets").

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

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

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

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transactions between the Group and the Acquired Group have been eliminated.

The accompanying interim financial statements have been prepared in accordance with IFRS promulgated by the International Accounting Standards Board ("IASB"). IFRS includes International Accounting Standards ("IAS") and related interpretations. These interim financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

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

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

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

### 2 PRINCIPAL ACCOUNTING POLICIES

#### (a) Basis of consolidation

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

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

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

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(b) Translation of foreign currencies

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

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

(c) Cash and cash equivalents

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

(d) Trade accounts receivable

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

(e) Inventories

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

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

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## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Property, plant and equipment

An item of property, plant and equipment is initially recorded at cost, less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use and the initial estimate, where relevant, of the costs of dismantling and removing the item and restoring the site on which it is located. Subsequent to the revaluation (Note 14), which was based on depreciated replacement costs, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluations are performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. The Group recognises in the carrying amount of an item of property, plant and equipment the expenditure of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other expenditure is recognised as an expense in the income statement in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of property,

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

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

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

The residual value, if not insignificant, is reassessed annually.

(g) Oil and gas properties

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

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

(h) Lease prepayments

Lease prepayments represent land use rights paid to the PRC's land bureau. Land use rights are carried at cost and amortised on a straight-line basis over the respective periods of the rights.

(i) Construction in progress

Construction in progress represents buildings, oil and gas properties, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses. The cost of an item comprises direct costs of construction and the initial estimate, where relevant, of the costs of dismantling and removing the



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item and restoring the site on which it is located as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the periods of construction.

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

No depreciation is provided in respect of construction in progress.

### (j) Investments

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

### (k) Interests in associates

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

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

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## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (l) Jointly controlled entities

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

Investments in jointly controlled entities are accounted for on a proportionate consolidation basis. Under this method, the Group combines its proportionate share of the jointly controlled entity's turnover and expenses with each major turnover and expense caption of the Group's income statement and combines its proportionate share of the jointly controlled entity's assets and liabilities with each major asset and liability caption of the Group's balance sheet, from the date that joint control commences until the date that joint control ceases.

### (m) Provisions

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

### (n) Revenue recognition

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

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be measured reliably.

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

- (o) Borrowing costs  
Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being attributable to the construction of an asset which necessarily takes a period of time to get ready for its intended use.
- (p) Repairs and maintenance expenditure  
Repairs and maintenance expenditure, including cost of major overhaul, is expensed as incurred.
- (q) Environmental expenditures  
Environmental expenditures that relate to current ongoing operations or to conditions caused by past operations are expensed as incurred.

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

- (r) Research and development costs  
Research and development costs are recognised as expenses in the period in which they are incurred.
- (s) Operating leases  
Operating lease payments are charged to the income statement on a straight-line basis over the period of the respective leases.
- (t) Retirement benefits  
The contributions payable under the Group's retirement plans are recognised as expenses in the income statement as incurred and according to the contribution determined by the plans. Further information is set out in Note 30.
- (u) Impairment loss  
The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value. The amount of the reduction is recognised as an expense in the income statement unless the asset is carried at revalued amount for which an impairment loss is recognised directly against any related revaluation reserve to the extent that the impairment loss does not exceed the amount held in the revaluation reserve for that same asset.

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

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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.

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### 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (v) Income tax

Income tax comprises current and deferred tax. Current tax is calculated on taxable income by applying the applicable tax rates. Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is calculated on the basis of the enacted tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

The tax value of losses expected to be available for utilisation against future taxable income is set off against the deferred tax liability within the same legal tax unit and jurisdiction to the extent appropriate, and is not available for set-off against the taxable profit of another legal tax unit. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### (w) Dividends

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

#### (x) Segmental reporting

A business segment is a distinguishable component of the Group that is engaged in providing products or services and is subject to risks and rewards that are different from those of other segments.

### 3 TURNOVER

Turnover represents revenue from the sales of crude oil, natural gas, petroleum and chemical products, net of value-added tax.

### 4 OTHER OPERATING REVENUES

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

### 5 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

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

6 PERSONNEL EXPENSES

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

7 EMPLOYEE REDUCTION EXPENSES

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

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8 TAXES OTHER THAN INCOME TAX

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

Consumption tax is levied on producers of gasoline and diesel based on a tariff rate applied to the volume of sales. City construction tax is levied on an entity based on its total amount of value-added tax, consumption tax and business tax.

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### 9 OTHER OPERATING EXPENSES, NET

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

**Note:**

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

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

Impairment losses recognised on long-lived assets of the marketing and distribution segment of RMB 5 million (2004: RMB 623 million) for the six-month period ended 30 June 2005 primarily relate to certain service stations that were closed during the period. In measuring the amounts of impairment charges, the carrying amounts of these assets were compared to the present value of the expected future cash flows of the assets, as well as information about sales and purchases of similar properties in the same geographic area.

### 10 INTEREST EXPENSE

Six-month periods

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

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11 TAXATION

Taxation in the consolidated income statement represents:

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

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

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

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equipment purchases	(155)	(99)
-----		
	9,945	8,017
=====		

Substantially all income before income tax and related tax expense is from PRC sources.

Note:

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

12 BASIC EARNINGS PER SHARE

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

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

13 DIVIDENDS

Dividends attributable to the period represent:

Interim dividends declared after the balance sheet date of RMB 0.04 per share (2004: RMB 0.04 per share)

Pursuant to the Company's Articles of Association and a resolution passed at the Directors' meeting on 26 August 2005, the directors authorised to declare the interim dividends for the year ending 31 December 2005 of RMB 0.04 (2004: RMB 0.04) per share totalling RMB 3,468 million (2004: RMB 3,468 million). Interim dividend of RMB 3,468 million (2004: RMB 3,468 million) declared after the balance sheet date has not been recognised as a liability at the balance sheet date.

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

Six-m  
end  
2005  
RMB millions

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Final dividends in respect of the previous financial year, approved and paid during the period of RMB 0.08 per share (2004: RMB 0.06 per share)

6,936

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

Pursuant to the shareholders' approval at the Annual General Meeting on 18 May 2004, a final dividend of RMB 0.06 per share totalling RMB 5,202 million in respect of the year ended 31 December 2003 was declared and paid on 28 June 2004.

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### 14 PROPERTY, PLANT AND EQUIPMENT

By segment:

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemical RMB million
COST/VALUATION:				
Balance at 1 January 2004	177,962	105,237	54,482	160,288
Additions	442	203	803	16,936
Transferred from construction in progress	3,706	4,010	3,443	75,000
Disposals	(641)	(1,669)	(1,282)	(1,970)
<b>BALANCE AT 30 JUNE 2004</b>	<b>181,469</b>	<b>107,781</b>	<b>57,446</b>	<b>159,233</b>
Balance at 1 January 2005	192,076	116,910	65,345	163,220
Additions	8	85	77	9,000
Transferred from construction in progress	3,386	3,173	5,918	15,420
Proportionate share of a new jointly controlled entity	--	--	--	1,000
Disposals	(97)	(84)	(220)	(10,000)
<b>BALANCE AT 30 JUNE 2005</b>	<b>195,373</b>	<b>120,084</b>	<b>71,120</b>	<b>179,663</b>
ACCUMULATED DEPRECIATION:				
Balance at 1 January 2004	84,604	50,901	10,014	84,288
Depreciation charge for the period	5,357	3,687	1,276	4,610
Impairment losses for the period	--	--	623	2,140



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Written back on disposals	(502)	(1,362)	(728)	(1,200)
BALANCE AT 30 JUNE 2004	89,459	53,226	11,185	89,830
Balance at 1 January 2005	94,028	56,580	13,465	92,048
Depreciation charge for the period	5,233	3,296	1,372	4,870
Impairment losses for the period	--	--	5	39
Written back on disposals	(87)	(58)	(95)	(50)
BALANCE AT 30 JUNE 2005	99,174	59,818	14,747	97,250
NET BOOK VALUE:				
At 1 January 2004	93,358	54,336	44,468	76,000
AT 30 JUNE 2004	92,010	54,555	46,261	69,390
At 1 January 2005	98,048	60,330	51,880	71,180
AT 30 JUNE 2005	96,199	60,266	56,373	82,410

By asset class:

	Buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	R
COST/VALUATION:				
Balance at 1 January 2004	44,728	158,634	46,337	
Additions	103	1	623	
Transferred from construction in progress	174	3,667	5,390	
Disposals	(899)	(239)	(985)	
BALANCE AT 30 JUNE 2004	44,106	162,063	51,365	
Balance at 1 January 2005	44,854	173,564	60,533	
Additions	43	1	63	
Transferred from construction in progress	1,222	3,130	5,219	
Proportionate share of a new jointly controlled entity	182	--	--	
Disposals	(117)	(59)	(156)	
BALANCE AT 30 JUNE 2005	46,184	176,636	65,659	

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=====			
ACCUMULATED DEPRECIATION:			
-----			
Balance at 1 January 2004	18,975	77,582	8,785
-----			
Depreciation charge for the period	862	4,575	1,061
-----			
Impairment losses for the period	325	--	623
-----			
Written back on disposals	(434)	(205)	(491)
-----			
BALANCE AT 30 JUNE 2004	19,728	81,952	9,978
=====			
Balance at 1 January 2005	20,308	85,143	11,781
-----			
Depreciation charge for the period	761	4,902	1,209
-----			
Impairment losses for the period	--	--	5
-----			
Written back on disposals	(42)	(50)	(60)
-----			
BALANCE AT 30 JUNE 2005	21,027	89,995	12,935
=====			
NET BOOK VALUE:			
-----			
At 1 January 2004	25,753	81,052	37,552
-----			
AT 30 JUNE 2004	24,378	80,111	41,387
=====			
At 1 January 2005	24,546	88,421	48,752
-----			
AT 30 JUNE 2005	25,157	86,641	52,724
=====			

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14 PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's proportionate share of the jointly controlled entities' net book value of property, plant and equipment at 30 June 2005 in the exploration and production and the chemicals segments were RMB 392 million (2004: RMB 412 million) and RMB 15,584 million (2004: RMB 17 million), respectively.

As required by the relevant PRC regulations with respect to the Reorganisation, the property, plant and equipment of the Group at 30 September 1999 were valued for each asset class by China United Assets Appraisal Corporation, Beijing Zhong Zheng Appraisal Company, CIECC Assets Appraisal Corporation and Zhong Fa International Properties Valuation Corporation, independent valuers registered in the PRC, on a depreciated replacement cost basis. The value of property, plant and equipment was determined at RMB 159,788 million. The surplus on revaluation of RMB 32,320 million, net of amounts allocated to minority interests, was incorporated in the financial statements of the Group at 31 December 1999.

In connection with the Acquisition of Sinopec National Star, the property, plant and equipment of Sinopec National Star were revalued at 31 December 2000, by a firm of independent valuers and approved by the Ministry of Finance. The value of property, plant and equipment of Sinopec National Star pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB 4,373 million, resulting in a surplus on

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revaluation of RMB 1,136 million, net of amounts allocated to minority interest.

In connection with the Acquisition of Ethylene Assets, the property, plant and equipment of Sinopec Maoming were revalued at 30 June 2003, by a firm of independent valuers in accordance with the relevant rules and regulations. The value of property, plant and equipment of Sinopec Maoming pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB 5,100 million, which approximated the net historical carrying value of the assets.

In connection with the Acquisition of Refining Assets, the property, plant and equipment of the Refining Assets were revalued at 31 October 2003, by a firm of independent valuers in accordance with the relevant rules and regulations. The value of property, plant and equipment of the Refining Assets pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB 461 million, which approximated the net historical carrying value of the assets.

In connection with the Acquisition of Petrochemical and Catalyst Assets, the property, plant and equipment of the Petrochemical and Catalyst Assets were revalued at 30 June 2004, by a firm of independent valuers in accordance with the relevant rules and regulations. The value of property, plant and equipment of the Petrochemical and Catalyst Assets pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB 11,895 million, which approximated the net historical carrying value of the assets.

In accordance with IAS 16, subsequent to these revaluations, which was based on depreciated replacement costs, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluation is performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Based on a revaluation performed as of 31 December 2004, which was based on depreciated replacement costs, the carrying value of property, plant and equipment did not differ materially from their fair value.

### 15 CONSTRUCTION IN PROGRESS

	Exploration and production RMB millions	Refining distribution RMB millions	Marketing and RMB millions	Chemical RMB million
Balance at 1 January 2004	5,535	8,470	7,941	6,95
Additions	10,394	3,914	7,808	3,02
Additions by jointly controlled entities	702	--	--	2,66
Dry hole costs written off	(764)	--	--	-
Transferred to property, plant and equipment	(3,706)	(4,010)	(3,443)	(75
<b>BALANCE AT 30 JUNE 2004</b>	<b>12,161</b>	<b>8,374</b>	<b>12,306</b>	<b>11,90</b>

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Balance at 1 January 2005	9,262	8,459	13,781	13,17
Additions	11,352	3,366	6,307	2,14
Additions by jointly controlled entities	396	--	--	1,50
Proportionate share of a new jointly controlled entity	--	--	--	5,46
Dry hole costs written off	(1,325)	--	--	--
Transferred to property, plant and equipment	(3,386)	(3,173)	(5,918)	(15,42
BALANCE AT 30 JUNE 2005	16,299	8,652	14,170	6,85

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

16 INVESTMENTS

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

Unlisted investments represent the Group's interests in PRC domiciled enterprises which are mainly engaged in non-oil and gas activities and operations. The Group has no significant investments in marketable securities.

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17 INTERESTS IN ASSOCIATES

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

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

Percentage of e

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Name of company	Form of business structure	Particulars of issued and paid up capital	Percentage of equity held by the Company %	Percentage held by the Company subsidiaries
Shengli Oil Field Dynamic Company Limited ("Dynamic")*	Incorporated	364,027,608 ordinary shares of RMB 1.00 each	26.33	
Sinopec Shandong Taishan Petroleum Company Limited ("Taishan")*	Incorporated	480,793,320 ordinary shares of RMB 1.00 each	38.68	
Sinopec Finance Company Limited	Incorporated	Registered capital RMB 2,500,000,000	32.00	
Shanghai Petroleum National Gas Corporation	Incorporated	Registered capital RMB 900,000,000	30.00	
Shanghai Chemical Industry Park Development Company Limited	Incorporated	Registered capital RMB 2,372,439,000	--	
China Shipping & Sinopec Suppliers Company Limited	Incorporated	Registered capital RMB 876,660,000	--	

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

18 INTERESTS IN JOINTLY CONTROLLED ENTITIES

The Group's principal interests in jointly controlled entities are as follows:

Name of company	Form of business structure	Particulars of issued and paid up capital	Percentage of equity held by the Company %	Percentage held by the Company subsidiaries
Shanghai Secco Petrochemical Company Limited	Incorporated	Registered capital USD 901,440,964	30.00	20.00
BASF-YPC Company Limited	Incorporated	Registered capital RMB 8,793,000,000	30.00	10.00
Yueyang Sinopec and Shell Coal Gasification Company Limited	Incorporated	Registered capital USD 45,588,700	50.00	

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-----  
 Block A Oil Field in the Western Unincorporated -- -- 43  
 Area Chengda in Bohai Bay  
 -----

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

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

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

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19 LONG-TERM PREPAYMENTS AND OTHER ASSETS

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

20 TRADE ACCOUNTS AND BILLS RECEIVABLES

	At 30 June 2005	At 31 December 2004
	RMB millions	RMB millions
Amounts due from third parties	15,127	10,989
Amounts due from Sinopec Group Company and fellow subsidiaries	2,705	2,349

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Amounts due from associates	563	89
-----		
Amounts due from jointly controlled entities	404	--
-----		
	18,799	13,427
-----		
Less: Allowance for doubtful accounts	(3,552)	(3,671)
-----		
	15,247	9,756
-----		
Bills receivable	8,356	7,812
-----		
	23,603	17,568
=====		

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

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

Sales are generally on a cash term. Credit is generally only available for major customers with well-established trading records. Amounts due from Sinopec Group Company and fellow subsidiaries are repayable under the same terms.

### 21 INVENTORIES

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

At 30 June 2005, the carrying amount of the Group's inventories carried at

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fair value less costs to sell amounted to RMB 2,229 million (2004: RMB 1,624 million).

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

### 22 PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

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### 23 DEFERRED TAX ASSETS AND LIABILITIES

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

	Assets		Liabilities	
	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	At 30 June 2005 RMB millions	At 31 December 2004 RMB million
Current				
Provisions, primarily for receivables and inventories	2,923	2,528	--	--
Non-current				
Property, plant and equipment	1,580	1,566	(1,569)	(1,700)
Accelerated depreciation	--	--	(4,078)	(3,930)
Tax value of losses carried forward, net of valuation allowances	200	66	--	--



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Lease prepayments	362	366	--	--
Others	26	32	(382)	--
DEFERRED TAX ASSETS/(LIABILITIES)	5,091	4,558	(6,029)	(5,630)

A valuation allowance on deferred tax assets is recorded if it is more likely than not that some portion or all of the deferred tax assets will not be realised through the recovery of taxes previously paid and/or future taxable income. The allowance is subject to ongoing adjustments based on changes in circumstances that affect the Group's assessment of the realisability of the deferred tax assets. The Group has reviewed its deferred tax assets at the balance sheet date. Based on this review, valuation allowances of RMB 15 million (2004: RMB 360 million) were provided for the six-month period ended 30 June 2005. The Group determined the valuation allowance based on management's assessment of the probability that taxable profit will be available over the period which the deferred tax assets can be realised or utilised. In assessing the probability, both positive and negative evidence was considered, including whether it is more likely than not that the operations will have future taxable profits over the periods which the deferred tax assets are deductible or utilised and whether the tax losses result from identifiable causes which are unlikely to recur. Based on this assessment, a valuation allowance was provided to reduce the deferred tax asset to the amount that is more likely than not to be realised.

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

Short-term debts represent:

	At 30 June 2005 RMB millions	At 31 Decem 2004 RMB milli
Third parties' debts		
Short-term bank loans	32,129	20,000
Current portion of long-term bank loans	7,201	12,000
Current portion of long-term other loans	44	
	7,245	12,000
	39,374	32,000
Loans from Sinopec Group Company and fellow subsidiaries		
Short-term loans	2,290	6,000
Current portion of long-term loans	--	2,000
	2,290	8,000

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

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

Long-term debts comprise:

Interest rate and final maturity

THIRD PARTIES' DEBTS

LONG-TERM BANK LOANS

Renminbi denominated Interest rates ranging from interest free to 5.8% per annum at 30 June 2005 with maturities through 2013

Japanese Yen denominated Interest rates ranging from 2.6% to 5.8% per annum at 30 June 2005 with maturities through 2024

US Dollar denominated Interest rates ranging from interest free to 7.4% per annum at 30 June 2005 with maturities through 2031

Euro denominated Fixed interest rate at 6.7% per annum at 30 June 2005 with maturities through 2010

Hong Kong Dollar denominated Floating rate at Hong Kong Prime Rate plus 0.3% per annum at 30 June 2005 with maturities through 2006

LONG-TERM OTHER LOANS

Renminbi denominated Interest rates ranging from interest free to 5.0% per annum at 30 June 2005 with maturities through 2008

US Dollar denominated Interest rates ranging from interest free to 4.0% per annum at 30 June 2005 with maturities through 2015

CORPORATE BONDS

Renminbi denominated Fixed interest rate at 4.61% per annum at 30 June 2005 with maturity in February 2014 (a)

LONG-TERM BANK LOANS OF JOINTLY CONTROLLED ENTITIES

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Renminbi denominated	Floating rate at 90% of PBOC's base lending rate per annum at 30 June 2005 with maturities through 2021
-----	
US Dollar denominated	Floating rate at London Interbank Offer Rate plus 0.4% to 0.7% annum at 30 June 2005 with maturities through 2021
-----	

-----  
Total third parties' long-term debts

-----  
Less: Current portion

-----  
LONG-TERM LOANS FROM SINOPEC GROUP COMPANY AND FELLOW SUBSIDIARIES

Renminbi denominated	Interest free with maturity in 2020
-----	
Renminbi denominated	Interest rates ranging from 4.8% to 5.2% per annum at 30 June 2005 with maturities through 2009
-----	

-----  
Less: Current portion

-----  
=====

(a) The Company issued ten years corporate bonds of RMB 3.5 billion to PRC citizens as well as PRC legal and non-legal persons on 24 February 2004 with a fixed interest rate at 4.61% per annum.

Third parties' loans of RMB 35 million of the Group at 30 June 2005 (2004: RMB 40 million) were secured by certain of the Group's property, plant and equipment. The net book value of property, plant and equipment of the Group pledged as security amounted to RMB 100 million at 30 June 2005 (2004: RMB 123 million).

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

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

25 TRADE ACCOUNTS AND BILLS PAYABLES

Amounts due to third parties  
-----

Amounts due to Sinopec Group Company and fellow subsidiaries  
-----

Amounts due to associates  
-----

-----  
Bills payable  
-----

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

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

Due within 1 month or on demand  
-----

Due after 1 month but within 6 months  
-----

Due after 6 months  
-----

=====

26 ACCRUED EXPENSES AND OTHER PAYABLES

Amounts due to Sinopec Group Company and fellow subsidiaries  
-----

Accrued expenditures  
-----

Taxes other than income tax  
-----

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-----  
Receipts in advance  
-----

Advances from third parties  
-----

Others  
-----  
=====

### 27 SHARE CAPITAL

-----  
Registered, issued and fully paid  
-----

67,121,951,000 domestic state-owned A shares of RMB 1.00 each  
-----

16,780,488,000 overseas listed H shares of RMB 1.00 each  
-----

2,800,000,000 domestic listed A shares of RMB 1.00 each  
-----  
=====

The Company was established on 25 February 2000 with a registered capital of 68.8 billion domestic state-owned shares with a par value of RMB 1.00 each. Such shares were issued to Sinopec Group Company in consideration for the assets and liabilities of the Predecessor Operations transferred to the Company (Note 1).

Pursuant to the resolutions passed at an Extraordinary General Meeting held on 25 July 2000 and approvals from relevant government authorities, the Company is authorised to increase its share capital to a maximum of 88.3 billion shares with a par value of RMB 1.00 each and offer not more than 19.5 billion shares with a par value of RMB 1.00 each to investors outside the PRC. Sinopec Group Company is authorised to offer not more than 3.5 billion shares of its shareholdings in the Company to investors outside the PRC. The shares sold by Sinopec Group Company to investors outside the PRC would be converted into H shares.

In October 2000, the Company issued 15,102,439,000 H shares with a par value of RMB 1.00 each, representing 12,521,864,000 H shares and 25,805,750 American Depositary Shares ("ADSs", each representing 100 H shares), at prices of HK\$ 1.59 per H share and US\$ 20.645 per ADS, respectively, by way of a global initial public offering to Hong Kong and overseas investors. As part of the global initial public offering, 1,678,049,000 domestic state-owned ordinary shares of RMB 1.00 each owned by Sinopec Group Company were converted into H shares and sold to Hong Kong and overseas investors.

In July 2001, the Company issued 2.8 billion domestic listed A shares with a par value of RMB 1.00 each at RMB 4.22 by way of a public offering to natural persons and institutional investors in the PRC.

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All A shares and H shares rank pari passu in all material aspects.

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### 28 COMMITMENTS AND CONTINGENT LIABILITIES

#### Operating lease commitments

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

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

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

#### Capital commitments

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

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

These capital commitments relate to oil and gas exploration and development, refining and petrochemical production capacity expansion

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projects, the construction of service stations and oil depots, and capital contributions to the Group's investments and interests in associates.

### Exploration and production licenses

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

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

Estimated future annual payments are as follows:

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

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## 28 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

### Contingent liabilities

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

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

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

The Group monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognise any such losses under guarantees when those losses are estimable. At 30 June 2005 and 31 December 2004, it is not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Group's obligation under these guarantee arrangements.

### Environmental contingencies

To date, the Group has not incurred any significant expenditures for environmental remediation, is currently not involved in any environmental remediation, and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved, and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include i) the exact nature and extent of the contamination at various sites including, but not limited to refineries, oil fields, service stations, terminals and land development areas, whether operating, closed or sold, ii) the extent of required cleanup efforts, iii) varying costs of alternative remediation strategies, iv) changes in environmental remediation requirements, and v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. The Group paid normal routine pollutant discharge fees of approximately RMB 107 million for the six-month period ended 30 June 2005 (2004: RMB 113 million).

### Legal contingencies

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

## 29 RELATED PARTY TRANSACTIONS

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

- (a) Transactions with Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities The Group is part of a larger group of companies under Sinopec Group Company, which is owned by the PRC government, and has significant transactions and relationships with Sinopec Group Company and fellow subsidiaries.



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Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

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

	Note	
Sales of goods	(i)	
-----		
Purchases	(ii)	
-----		
Transportation and storage	(iii)	
-----		
Exploration and development services	(iv)	
-----		
Production related services	(v)	
-----		
Ancillary and social services	(vi)	
-----		
Operating lease charges	(vii)	
-----		
Agency commission income	(viii)	
-----		
Intellectual property license fee paid	(ix)	
-----		
Interest received	(x)	
-----		
Interest paid	(xi)	
-----		
Net deposits withdrawn from related parties	(xii)	
-----		
Net loans (repaid to) / obtained from related parties	(xiii)	
-----		

RMB

### 29 RELATED PARTY TRANSACTIONS (Continued)

- (a) Transactions with Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities (Continued) The amounts set out in the table above in respect of the six-month periods ended 30 June 2005 and 2004 represent the relevant costs to the Group as determined by the corresponding contracts with the related parties.

At 30 June 2005 and 31 December 2004, there were no guarantees given to banks by the Group in respect of banking facilities to Sinopec Group Company and fellow subsidiaries. Guarantees given to banks by the Group in respect of banking facilities to associates are disclosed in Note 28.

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The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions.

### Notes:

- (i) Sales of goods represent the sale of crude oil, intermediate petrochemical products, petroleum products and ancillary materials.
- (ii) Purchases represent the purchase of materials and utility supplies directly related to the Group's operations such as the procurement of raw and ancillary materials and related services, supply of water, electricity and gas.
- (iii) Transportation and storage represent the cost for the use of railway, road and marine transportation services, pipelines, loading, unloading and storage facilities.
- (iv) Exploration and development services comprise direct costs incurred in the exploration and development such as geophysical, drilling, well testing and well measurement services.
- (v) Production related services represent ancillary services rendered in relation to the Group's operations such as equipment repair and general maintenance, insurance premium, technical research, communications, fire fighting, security, product quality testing and analysis, information technology, design and engineering, construction which includes the construction of oilfield ground facilities, refineries and chemical plants, manufacture of replacement parts and machinery, installation, project management and environmental protection.
- (vi) Ancillary and social services represent expenditures for social welfare and support services such as educational facilities, media communication services, sanitation, accommodation, canteens, property maintenance and management services.
- (vii) Operating lease charges represent the rental paid to Sinopec Group Company for operating leases in respect of land, buildings and service stations.
- (viii) Agency commission income represents commission earned for acting as an agent in respect of sales of products of and purchase of materials for certain entities owned by Sinopec Group Company.
- (ix) Intellectual property license fee represents reimbursement paid to Sinopec Group Company for fees required to maintain the validity of certain licenses, trademarks, patents, technology and computer software.
- (x) Interest received represents interest received from deposits placed with Sinopec Finance Company Limited, a finance company controlled by Sinopec Group Company. The applicable interest rate is determined in accordance with the prevailing saving deposit rate. The balance of deposits at 30 June 2005 was RMB 1,797 million (2004: RMB 4,671 million).
- (xi) Interest paid represents interest charges on the loans and advances obtained from Sinopec Group Company and Sinopec Finance Company Limited.

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(xii) Deposits were placed with / withdrawn from Sinopec Finance Company Limited.

(xiii) The Group obtained / repaid loans from / to Sinopec Group Company and Sinopec Finance Company Limited.

In connection with the Reorganisation, the Company and Sinopec Group Company entered into a number of agreements under which 1) Sinopec Group Company will provide goods and products and a range of ancillary, social and supporting services to the Group and 2) the Group will sell certain goods to Sinopec Group Company. The terms of these agreements are summarised as follows:

(a) The Company has entered into a non-exclusive Agreement for Mutual Provision of Products and Ancillary Services ("Mutual Provision Agreement") with Sinopec Group Company effective from 1 January 2000 in which Sinopec Group Company has agreed to provide the Group with certain ancillary production services, construction services, information advisory services, supply services and other services and products. While each of Sinopec Group Company and the Company is permitted to terminate the Mutual Provision Agreement upon at least six months notice, Sinopec Group Company has agreed not to terminate the agreement if the Group is unable to obtain comparable services from a third party. The pricing policy for these services and products provided by Sinopec Group Company to the Group is as follows:

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

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

(c) The Company has entered into a series of lease agreements with Sinopec Group Company to lease certain land and buildings at a rental of approximately RMB 2,557 million and RMB 568 million, respectively, per annum. The Company and Sinopec Group Company can renegotiate the rental amount every three years for land and every year for buildings, such amount not to exceed the market price as determined by an independent third party. The Group has the option to terminate these leases upon six months notice to Sinopec Group Company.

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

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

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

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

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

Trade accounts receivable

---

Prepaid expenses and other current assets

---

Total amounts due from Sinopec Group Company and fellow subsidiaries,

---

associates and jointly controlled entities

---

Trade accounts payable

---

Accrued expenses and other payables

---

Short-term loans from Sinopec Group Company and fellow subsidiaries

---

Long-term loans from Sinopec Group Company and fellow subsidiaries

---

Total amounts due to Sinopec Group Company and fellow subsidiaries and associates

---

Amounts due from / to Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities, other than short-term loans and long-term loans, bear no interest, are unsecured and are repayable in accordance with normal commercial terms. The terms and conditions associated with short-term loans and long-term loans payable to Sinopec Group Company and fellow subsidiaries are set out in Note 24.

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

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

Short-term employee benefits

-----  
Retirement scheme contributions

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

- (c) Contributions to defined contribution retirement plans  
The Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The details of the Group's employee benefits plan are disclosed in Note 30. As at 30 June 2005, there was no material outstanding contribution to post-employment benefit plans.

- (d) Transactions with other state-controlled entities in the PRC  
The Group operates in an economic regime currently predominated by state-controlled entities. Apart from transactions with Sinopec Group Company and fellow subsidiaries, the Group conducts a majority of its business activities with entities directly or indirectly owned or controlled by the PRC government and numerous government authorities and agencies (collectively referred to as "state-controlled entities") in the ordinary course of business. These transactions include sales and purchase of goods and ancillary materials, rendering and receiving services, lease of assets, purchase of property, plant and equipment and obtaining finance and are carried out at terms similar to those that would be entered into with non-state-controlled entities. Although the majority of the Group's activities are with the PRC government authorities and affiliates and other state-controlled enterprises, the Group believes that it has provided meaningful disclosure of related party transactions in Note 29 (a).

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### 30 EMPLOYEE BENEFITS PLAN

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The Group is required to make contributions to the retirement plans at rates ranging from 17.0% to 30.0% of the salaries, bonuses and certain allowances of its staff. A member of

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the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the six-month period ended 30 June 2005 were RMB 930 million (2004: RMB 992 million).

The Company implemented a plan of share appreciation rights for members of its management, including the key management personnel, in order to provide further incentives to these employees. Under this plan, share appreciation rights were granted in units with each unit representing one H share. No shares will be issued under the share appreciation rights plan.

Under the plan, all share appreciation rights have an exercise period of five years. A recipient of share appreciation rights may not exercise the rights in the first 3 years after the date of grant. As at each of the third, fourth and fifth anniversary of the date of grant, the total number of share appreciation rights exercisable may not in aggregate exceed 30%, 70% and 100%, respectively, of the total share appreciation rights granted to such person.

During 2003, the Company granted 258.6 million share appreciation right units to eligible employees accordingly.

The exercise price of share appreciation rights initially granted is the initial public offering price of the Company's H shares. Upon exercise of the share appreciation rights, a recipient will receive, subject to any applicable withholding tax, a cash payment in RMB, translated from the Hong Kong dollar amount equal to the product of the number of share appreciation rights exercised and the difference between the exercise price and average market price of the Company's H shares for the exercise period based on the applicable exchange rate between RMB and Hong Kong dollar at the date of the exercise.

The Company recognises compensation expense of the share appreciation rights over the applicable vesting period. For the six-month period ended 30 June 2005, compensation expense recognised was RMB 4 million (2004: RMB 144 million).

### 31 SEGMENTAL REPORTING

The Group has five operating segments as follows:

- (i) Exploration and production, which explores and develops oil fields, produces crude oil and natural gas and sells such products to the refining segment of the Group and external customers.
- (ii) Refining, which processes and purifies crude oil, which is sourced from the exploration and production segment of the Group and external suppliers, and manufactures and sells petroleum products to the chemicals and marketing and distribution segments of the Group and external customers.
- (iii) Marketing and distribution, which owns and operates oil depots and service stations in the PRC, and distributes and sells refined petroleum products (mainly gasoline and diesel) in the PRC through wholesale and retail sales networks.
- (iv) Chemicals, which manufactures and sells petrochemical products, derivative petrochemical products and other chemical products mainly to external customers.
- (v) Corporate and others, which largely comprise the trading activities

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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.

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31 SEGMENTAL REPORTING (Continued)

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

RMB

Turnover

---

Exploration and production

External sales

---

Inter-segment sales

---

Refining

---

External sales

---

Inter-segment sales

---

Marketing and distribution

---

External sales

---

Inter-segment sales

---

Chemicals

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-----  
External sales  
-----

Inter-segment sales  
-----

-----  
Corporate and others  
-----

External sales  
-----

Inter-segment sales  
-----

-----  
Elimination of inter-segment sales  
-----

-----  
Turnover  
-----

Other operating revenues  
-----

Exploration and production  
-----

Refining  
-----

Marketing and distribution  
-----

Chemicals  
-----

Corporate and others  
-----

Other operating revenues  
-----

Turnover and other operating revenues  
=====

RMB

-----  
Result  
-----

Operating profit  
-----

By segment  
-----

-- Exploration and production  
-----

-- Refining  
-----

-- Marketing and distribution  
-----

-- Chemicals  
-----



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-- Corporate and others  
-----  
Total operating profit  
-----  
Share of profits less losses from associates  
-----  
-- Exploration and production  
-----  
-- Refining  
-----  
-- Marketing and distribution  
-----  
-- Chemicals  
-----  
-- Corporate and others  
-----  
Aggregate share of profits less losses from associates  
-----  
Finance costs  
-----  
Interest expense  
-----  
Interest income  
-----  
Foreign exchange losses  
-----  
Foreign exchange gains  
-----  
Net finance costs  
-----  
Investment income  
-----  
-----  
Profit from ordinary activities before taxation  
-----  
Taxation  
-----  
Profit for the period  
=====

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31 SEGMENTAL REPORTING (Continued)

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities. Assets which benefit more than one segment or are considered to be corporate assets are not allocated. OUnallocated assets'' consists primarily of cash and cash equivalents, time deposits with financial institutions, investments and deferred tax assets. OUnallocated liabilities'' consists primarily of short-term and long-term debts, loans from Sinopec Group Company and fellow subsidiaries, income tax payable, deferred tax liabilities and other liabilities.

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

Assets

Segment assets

- Exploration and production
- Refining
- Marketing and distribution
- Chemicals
- Corporate and others

Total segment assets

Interests in associates

- Exploration and production
- Refining
- Marketing and distribution
- Chemicals
- Corporate and others

Aggregate interests in associates

Unallocated assets

Total assets

Liabilities

Segment liabilities

- Exploration and production
- Refining
- Marketing and distribution
- Chemicals
- Corporate and others

Total segment liabilities

Unallocated liabilities

Total liabilities

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=====  
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.

RMB

Capital expenditure

-----  
Exploration and production

-----  
Refining

-----  
Marketing and distribution

-----  
Chemicals

-----  
Corporate and others

=====  
Capital expenditure of jointly controlled entities

-----  
Exploration and production

-----  
Chemicals

-----  
Depreciation, depletion and amortisation

-----  
Exploration and production

-----  
Refining

-----  
Marketing and distribution

-----  
Chemicals

-----  
Corporate and others

=====  
Impairment losses on long-lived assets recognised in income statement

-----  
Marketing and distribution

-----  
Chemicals

=====  
Impairment losses on revalued long-lived assets recognised  
in equity attributable to equity holders of the parent

-----  
Chemicals

## 32 PRINCIPAL SUBSIDIARIES

At 30 June 2005, the following list contains the particulars of subsidiaries which principally affected the results or assets of the Group.

Name of company	Particulars of issued capital (millions)	Type of legal entity	Percentage of equity held by the		Pr
			Company	Subsidiary	
			%	%	
China Petrochemical International Company Limited	RMB 1,400	Limited company	100.00	--	T p
Sinopec Beijing Yanhua Petrochemical Company Limited ("Beijing Yanhua") (i)	RMB 3,374	Limited company	100.00	--	M p
Sinopec Sales Company Limited refined	RMB 1,700	Limited company	100.00	--	M p
Sinopec Shengli Oilfield Company Limited	RMB 29,000	Limited company	100.00	--	E c
Sinopec Fujian Petrochemical Company intermediate Limited (ii)	RMB 2,253	Limited company	50.00	--	M p p
Sinopec Qilu Petrochemical Company Limited	RMB 1,950	Limited company	82.05	--	M p p
Sinopec Shanghai Petrochemical Company Limited	RMB 7,200	Limited company	55.56	--	M r p p
Sinopec Shijiazhuang Refining-Chemical Company Limited	RMB 1,154	Limited company	79.73	--	M p p
Sinopec Kantons Holdings Limited	HK\$ 104	Limited company	--	72.40	T p
Sinopec Wuhan Petroleum Group Company Limited (ii)	RMB 147	Limited company	46.25	--	M r
Sinopec Wuhan Phoenix Company Limited (ii)	RMB 519	Limited company	40.72	--	M p
Sinopec Yangzi Petrochemical Company Limited	RMB 2,330	Limited company	84.98	--	M p p
Sinopec Yizheng Chemical Fibre Company Limited (ii)	RMB 4,000	Limited company	42.00	--	P o

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fibres

Sinopec Zhenhai Refining and Chemical Company Limited	RMB 2,524	Limited company	71.32	--	M p p
Sinopec Zhongyuan Petroleum Company Limited	RMB 875	Limited company	70.85	--	E c
Sinopec Zhongyuan Petrochemical Company Limited	RMB 2,400	Limited company	93.51	--	M p
Sinopec Shell (Jiangsu) Petroleum refined Marketing Company Limited	RMB 455	Limited company	60.00	--	M p
BP Sinopec (Zhejiang) Petroleum refined Company Limited	RMB 647	Limited company	60.00	--	M p
Sinopec Qingdao Refining and Chemical Company Limited	RMB 800	Limited company	85.00	--	M p p

Except for Sinopec Kantons Holdings Limited, which is incorporated in Bermuda, all of the above principal subsidiaries are incorporated in the PRC.

- (i) During the period, the Group acquired the entire 1,012,000,000 H shares, representing approximately 29.99% of the issued share capital of Beijing Yanhua from minority interests at HK\$ 3.80 per share. The total consideration paid by the Group was approximately RMB 4,088 million which was settled in cash. The excess of the cost of purchase over the fair value of the underlying assets, liabilities and contingent liabilities acquired was recorded as goodwill, which is included in long-term prepayments and other assets.
- (ii) The Group consolidated the results of the entity because the Group controlled the board of this entity and had the power to govern its financial and operating policies.

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### 33 FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, time deposits with financial institutions, investments, trade accounts receivable, bills receivable, amounts due from Sinopec Group Company and fellow subsidiaries, advances to third parties, amounts due from associates, and other receivables. Financial liabilities of the Group include bank and other loans, loans from Sinopec Group Company and fellow subsidiaries, trade accounts payable, bills payable, amounts due to Sinopec Group Company and fellow subsidiaries, receipts in advance, and advances from third parties. The Group has no derivative instruments that are designated and qualified as hedging instruments at 30 June 2005 and 31 December 2004.

#### Credit risk

The carrying amounts of cash and cash equivalents, time deposits with financial institutions, trade accounts and bills receivables, and other current assets, except for prepayments and deposits, represent the Group's maximum exposure to credit risk in relation to financial assets.

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The majority of the Group's trade accounts receivable relate to sales of petroleum and chemical products to related parties and third parties operating in the petroleum and chemical industries. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade accounts receivable. The Group maintains an allowance for doubtful accounts and actual losses have been within management's expectations. No single customer accounted for greater than 10% of total revenues.

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

### Currency risk

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

### Interest rate risk

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

The disclosures of the fair value estimates, methods and assumptions, set forth below for the Group's financial instruments, are made to comply with the requirements of IAS 32 and IAS 39 and should be read in conjunction with the Group's consolidated financial statements and related notes. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgement is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Group has not developed an internal valuation model necessary to make the estimate of the fair value of loans from Sinopec Group Company and fellow subsidiaries as it is not considered practicable to estimate their fair value because the cost of obtaining discount and borrowing rates for comparable borrowings would be excessive based on the Reorganisation of the Group, its existing capital structure, and the terms of the borrowings.

The following table presents the carrying amount and fair value of the Group's long-term indebtedness other than loans from Sinopec Group Company and fellow subsidiaries at 30 June 2005 and 31 December 2004:

Carrying amount

Fair value

The fair value of long-term indebtedness is estimated by discounting future cash flows thereon using current market interest rates offered to the Group for debts with substantially the same characteristics and maturities.

Investments in unlisted equity securities have no quoted market prices in the PRC. Accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

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

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#### 34 ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the interim financial statements. The principal accounting policies are set forth in Note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the interim financial statements.

##### Oil and gas properties and reserves

The accounting for the exploration and production's oil and gas activities is subject to accounting rules that are unique to the oil and gas business. There are two methods to account for oil and gas business activities, the successful efforts method and the full cost method. The Group has elected to use the successful efforts method. The successful efforts method reflects the volatility that is inherent in exploring for mineral resources in that costs of unsuccessful exploratory efforts are charged to expense as they are incurred. These costs primarily include dry hole costs, seismic costs and other exploratory costs. Under the full cost method, these costs are capitalised and written-off or depreciated over time.

Engineering estimates of the Group's oil and gas reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated oil and gas reserves can be designated as "proved". Proved and proved developed reserves estimates are updated at least annually and take into account recent production and technical information about each field.

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In addition, as prices and cost levels change from year to year, the estimate of proved and proved developed reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expense and impairment expense. Depreciation rates are determined based on estimated proved developed reserve quantities (the denominator) and capitalised costs of producing properties (the numerator). Producing properties' capitalised costs are amortised based on the units of oil or gas produced.

### Impairments

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, this asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36 "Impairment of Assets". The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

### Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

### Provision for doubtful debts

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

## 35 RECENTLY ISSUED ACCOUNTING STANDARDS

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

In December 2004, the IASB issued IFRS 6, "Exploration for and Evaluation of Mineral Resources". The statement addresses the accounting for the costs incurred in exploration for and evaluation of mineral resources. Under IFRS 6, for each type of exploration and evaluation ("E&E") expenditure, an entity is permitted to adopt a policy either of immediate expense or of capitalisation as an E&E asset. An entity is also allowed to continue its existing policy, subject to certain limitations. Those limitations include



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requiring that an entity should segregate E&E assets into tangible and intangible items based on the nature of the assets, and an entity should apply IAS 36, "Impairment of assets" in measuring the impairment of E&E assets when there are indications that the carrying amount of an E&E asset may exceed its recoverable amount. IFRS 6 is effective for fiscal years beginning on or after 1 January 2006. Currently, the Group does not expect the application of this statement will have a material impact on its consolidated financial statements.

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### 36 CHANGES IN PRINCIPAL ACCOUNTING POLICIES

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

#### (a) IAS 16

IAS 16, "Property, Plant and Equipment", replaces IAS 16 (revised 1998) and related Interpretations. IAS 16 requires an entity to determine cost, useful life and depreciation charge separately for each significant part of an item of property, plant and equipment, and derecognize the carrying amount of a part of an item of property, plant and equipment if that part has been replaced. IAS 16 also requires an entity to include the costs of dismantlement, removal or restoration, the obligation for which an entity incurs as a consequence of installing the item in the cost of that item of property, plant and equipment. The adoption of IAS 16 did not have a material impact on the Group's interim financial statements.

#### (b) IAS 21

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

#### (c) IAS 27

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the period were also separately presented in the consolidated statement of income as deduction before arriving at the profit attributable to shareholders.

IAS 27, "Consolidated and Separate Financial Statements", replaces IAS 27 (revised 2000) and related Interpretations. IAS 27 requires minority interests at the balance sheet date to be presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the Group for the period to be presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the parent. The presentations of minority interests in the consolidated balance sheet, consolidated income statement and consolidated statement of changes in equity for the comparative period have been restated accordingly. Except for the changes in presentation,

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the adoption of IAS 27 did not have a material impact on the Group's interim financial statements.

### 37 POST BALANCE SHEET EVENT

With the authorisation from the PRC government, the People's Bank of China announced that the PRC government reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies on 21 July 2005. The exchange rate of US dollars against RMB was adjusted to RMB 8.11 per US dollar with effect from the time of 19:00 hours on 21 July 2005. The Group does not expect this reform had a material impact on the Group's financial position as at 30 June 2005.

### 38 ULTIMATE HOLDING COMPANY

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

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

Other than the differences in the classifications of certain financial statements captions and the accounting for the items described below, there are no material differences between the Group's financial statements prepared under the PRC Accounting Rules and Regulations and IFRS. The reconciliation presented below is included as supplemental information, is not required as part of the basic financial statements and does not include differences related to classification, display or disclosures. Such information has not been subject to independent audit or review. The major differences are:

#### (i) Equity investment differences

Under the PRC Accounting Rules and Regulations, equity investment difference, being the excess of the initial investment cost over the investor's share of equity of the investee enterprise, is amortised on a straight-line basis. The amortisation period is determined according to the investment period as stipulated in the relevant agreement, or less than ten years if the investment period is not specified in the agreement.

Under IFRS, goodwill, being the excess of the cost of the business combination over the investor's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities, is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstance indicate that it might be impaired.

#### (ii) Pre-operating expenditures

Under the PRC Accounting Rules and Regulations, expenditures incurred during the start-up period are aggregated in long-term deferred expenses and charged to the income statement when operations commence. Under IFRS, expenditures on start-up activities are recognised as an expense when they are incurred.

#### (iii) Depreciation of oil and gas properties

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

#### (iv) Capitalisation of general borrowing costs

Under the PRC Accounting Rules and Regulations, only borrowing costs on

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funds that are specifically borrowed for construction are capitalised as part of the cost of property, plant and equipment. Under IFRS, to the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the borrowing costs should be capitalised as part of the cost of that asset.

(v) Unrecognised losses of subsidiaries

Under the PRC Accounting Rules and Regulations, the results of subsidiaries are included in the Group's consolidated income statement to the extent that the subsidiaries' accumulated losses do not result in their carrying amount being reduced below zero. Further losses are debited to a separate reserve in the shareholders' funds.

Under IFRS, the results of subsidiaries are included in the Group's consolidated income statement from the date that control effectively commences until the date that control effectively ceases.

(vi) Acquisitions of Sinopec National Star, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants

Under the PRC Accounting Rules and Regulations, the acquisitions of Sinopec National Star, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants (the "Acquisitions") are accounted for by the acquisition method. Under the acquisition method, the income of an acquiring enterprise includes the operations of the acquired enterprise subsequent to the acquisition. The difference between the cost of acquiring Sinopec National Star and the fair value of the net assets acquired is capitalised as an exploration and production right, which is amortised over 27 years. The costs of acquiring Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants approximated the fair value of the net assets acquired.

Under IFRS, as the Group, Sinopec National Star, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants are under the common control of Sinopec Group Company, the Acquisitions are considered "combination of entities under common control" which are accounted in a manner similar to a pooling-of-interests ("as-if pooling-of-interests accounting"). Accordingly, the assets and liabilities of Sinopec National Star, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants acquired have been accounted for at historical cost and the financial statements of the Group for periods prior to the Acquisitions have been restated to include the financial condition and results of operations of Sinopec National Star, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants on a combined basis. The considerations paid by the Group are treated as equity transactions.

(vii) Revaluation of land use rights

Under the PRC Accounting Rules and Regulations, land use rights are carried at revalued amount. Under IFRS, land use rights are carried at historical cost less amortisation. Accordingly, the surplus on the revaluation of land use rights, credited to revaluation reserve, was eliminated.

(viii) Government grants

Under the PRC Accounting Rules and Regulations, government grants should be credited to capital reserve. Under IFRS, government grants relating to the purchase of equipment used for technology improvements are initially recorded as long-term liabilities and are offset against the cost of assets to which the grants related when construction commences. Upon transfer to property, plant and equipment, the grants are recognised as an income over the useful life of the property, plant and equipment by way of reduced depreciation charge.

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- (ix) Impairment losses on revalued assets  
Under the PRC Accounting Rules and Regulations, impairment losses on property, plant and equipment are recognised as an expense in the income statement. Under IFRS, impairment loss on a revalued asset is recognised directly against any related revaluation reserve to the extent that the impairment loss does not exceed the amount held in the revaluation reserve for that same asset.

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- (x) Disposal of oil and gas properties  
Under the PRC Accounting Rules and Regulations, gains and losses arising from the retirement or disposal of an individual item of oil and gas properties are recognised as an income or expense in the income statement and are measured as the difference between the estimated net disposal proceeds and the carrying amount of the asset.

Under IFRS, gains and losses on the retirement or disposal of an individual item of proved oil and gas properties are not recognised unless the retirement or disposal encompasses an entire property. The costs of the asset abandoned or retired are charged to accumulated depreciation with the proceeds received on disposals credited to the carrying amounts of oil and gas properties.

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

- (xii) Minority interests  
Under the PRC Accounting Rules and Regulations, minority interests at the balance sheet date are presented in the consolidated balance sheet separately from liabilities and as deduction from the shareholders' funds. Minority interests in the results of the Group for the period are also separately presented in the consolidated income statement as deduction before arriving at the net profit.

Under IFRS, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the parent.

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

Note

Six-

RMB

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Net profit under the PRC Accounting Rules and Regulations

Adjustments:

Equity investment differences	(i)
Pre-operating expenditures	(ii)
Depreciation of oil and gas properties	(iii)
Capitalisation of general borrowing costs, net of depreciation effect	(iv)
Unrecognised losses of subsidiaries	(v)
Acquisition of Sinopec National Star	(vi)
Acquisitions of Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants	(vi)
Reduced amortisation on revaluation of land use rights	(vii)
Reduced depreciation on government grants	(viii)
Impairment losses on revalued assets	(ix)
Disposal of oil and gas properties, net of depreciation effect	(x)
Effects of the above adjustments on taxation	
Minority interests	(xii)

Profit for the period under IFRS\*

Effects of major differences between the shareholders' funds under the PRC Accounting Rules and Regulations and the total equity under IFRS are analysed as follows:

	Note	
Shareholders' funds under the PRC Accounting Rules and Regulations		A
Adjustments:		RMB
Equity investment differences	(i)	
Pre-operating expenditures	(ii)	
Depreciation of oil and gas properties	(iii)	
Capitalisation of general borrowing costs	(iv)	
Acquisition of Sinopec National Star	(vi)	
Revaluation of land use rights	(vii)	

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Government grants	(viii)
Disposal of oil and gas properties	(x)
Impairment losses on long-lived assets	(xi)
Effects of the above adjustments on taxation	
Minority interests	(xii)
Total equity under IFRS*	

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

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### (D) SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS

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

(a) Foreign exchange gains and losses

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

(b) Capitalisation of property, plant and equipment

In the periods prior to those presented herein, certain adjustments arose between IFRS and US GAAP with regard to the capitalisation of interest and pre-production results under IFRS that were reversed and expensed under US GAAP. For the periods presented herein, there were no adjustments related to the capitalisation of interest and pre-production results. Accordingly, the US GAAP adjustments represent the amortisation effect of such originating adjustments described above.

(c) Revaluation of property, plant and equipment

As required by the relevant PRC regulations with respect to the Reorganisation, the property, plant and equipment of the Group were revalued at 30 September 1999. In addition, the property, plant and equipment of Sinopec National Star, Sinopec Maoming, Refining Assets, and Petrochemical and Catalyst Assets were revalued at 31 December 2000, 30 June 2003, 31 October 2003 and 30 June 2004, respectively, in connection with the Acquisitions. Under IFRS, such revaluations result in an increase in equity with respect to the increase in carrying amount of certain property, plant and equipment above their historical cost bases and a charge to income with respect to the reduction in carrying amount of certain property, plant and equipment below their historical cost bases.

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Under US GAAP, property, plant and equipment are stated at their historical cost less accumulated depreciation. However, as a result of the tax deductibility of the net revaluation surplus, a deferred tax asset related to the reversal of the revaluation surplus is created under US GAAP with a corresponding increase in equity.

In addition, under IFRS, on disposal of a revalued asset, the related revaluation surplus is transferred from the revaluation reserve to retained earnings. Under US GAAP, the gain and loss on disposal of an asset is determined with reference to the asset's historical carrying amount and included in current earnings.

(d) Exchange of assets

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

(e) Impairment of long-lived assets

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

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

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

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

(f) Capitalised interest on investment in associates

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

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(g) Goodwill amortisation

Under IFRS, with reference to IFRS 3, "Business Combination", goodwill arising from a business combination for which the agreement date is on or after 31 March 2004 is not amortised, or goodwill arising from a business combination for which the agreement date was before 31 March 2004 is no longer amortised from the first annual reporting period beginning on or after 31 March 2004. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

Under US GAAP, with reference to Statement of Financial Accounting Standards No.142, "Goodwill and Other Intangible Assets" ("SFAS No.142"), goodwill is no longer amortised beginning 1 January 2002. Instead, goodwill is reviewed for impairment upon adoption of SFAS No.142 and annually thereafter.

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

	Reference in note above	2005 US\$ millions	Six-month RMB
Profit attributable to equity holders of the parent under IFRS		2,375	
-----			
US GAAP adjustments:			
-----			
Foreign exchange gains and losses	(a)	3	
Capitalisation of property, plant and equipment	(b)	--	
Depreciation on revalued property, plant and equipment	(c)	214	
Disposal of property, plant and equipment	(c)	7	
Exchange of assets	(d)	1	
Reversal of impairment of long-lived assets, net of depreciation effect	(e)	5	
Capitalised interest on investments in associates, net of amortisation effect	(f)	(2)	
Goodwill amortisation for the period	(g)	--	
Deferred tax effect of US GAAP adjustments		(72)	
-----			
Profit attributable to equity holders of the parent under US GAAP		2,531	
=====			
Basic and diluted earnings per share under US GAAP		US\$0.03	
=====			
Basic and diluted earnings per ADS under US GAAP*		US\$2.92	
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\* Basic and diluted earnings per ADS is calculated on the basis that one ADS is equivalent to 100 shares.

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

	Reference in note above	At 30 Jun 2005 US\$ millions	RMB
Total equity attributable to equity holders of the parent under IFRS		24,860	
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US GAAP adjustments:			
Foreign exchange gains and losses	(a)	(32)	
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Revaluation of property, plant and equipment	(c)	(598)	
-----			
Deferred tax adjustments on revaluation	(c)	184	
-----			
Exchange of assets	(d)	(63)	
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Reversal of impairment of long-lived assets	(e)	(59)	
-----			
Capitalised interest on investments in associates	(f)	61	
-----			
Goodwill	(g)	3	
-----			
Deferred tax effect of US GAAP adjustments		34	
-----			
Total equity attributable to equity holders of the parent under US GAAP		24,390	
=====			

Note: United States dollar equivalents

For the convenience of readers, amounts in Renminbi have been translated into United States dollars at the rate of US\$1.00 = RMB 8.2765 being the noon buying rate in New York City on 30 June 2005 for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the Renminbi amounts could have been, or could be, converted into United States dollars at that rate.

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### DOCUMENTS FOR INSPECTION

The following documents will be available for inspection during normal business hours at the legal address of Sinopec Corp. from Friday, 26 August 2005 by the relevant regulatory authorities and shareholders in accordance with the Articles of Association of Sinopec Corp. and the laws and regulations of the PRC:

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

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- 2 The original audited financial statements and audited consolidated financial statements of Sinopec Corp. prepared in accordance with IFRS and the PRC Accounting Rules and Regulations for the six-month period ended 30 June 2005 signed by Mr. Chen Tonghai (Chairman of Sinopec Corp.), Mr. Wang Tianpu (President of Sinopec Corp.), Mr. Zhang Jiaren (Director, Senior Vice President and Chief Financial Officer of Sinopec Corp.) and Mr. Liu Yun (Head of the Accounting Department of Sinopec Corp.);
- 3 The original auditors' reports on the above financial statements signed by the auditors; and
- 4 All original documents and announcements published by Sinopec Corp. in the newspapers specified by the China Securities Regulatory Commission during the reporting period.

By Order of the Board  
Chen Tonghai  
Chairman

Beijing, PRC, 26 August 2005

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

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### SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

China Petroleum & Chemical Corporation

By: /s/ Chen Ge

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Name: Chen Ge

Title: Secretary to the Board of Directors

Date: August 26, 2005