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CHINA PETROLEUM & CHEMICAL CORP  
Form 20-F  
June 30, 2005

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE  
SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-15138

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[GRAPHIC OMITTED]

CHINA PETROLEUM & CHEMICAL CORPORATION  
(Exact name of Registrant as specified in its charter)

-----  
The People's Republic of China  
(Jurisdiction of incorporation or organization)

-----  
A6, Huixingdong Street  
Chaoyang District, Beijing, 100029  
The People's Republic of China  
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12 (b)  
of the Act.

Title of Each Class -----	Name of Each Exchange On Which Registered -----
American Depositary Shares, each representing 100 H Shares of par value RMB 1.00 per share .....	New York Stock Exchange, Inc.
H Shares of par value RMB 1.00 per share.....	New York Stock Exchange, Inc.*

\* Not for trading, but only in connection with the registration of American  
Depositary Shares.

Securities registered or to be registered pursuant to Section 12 (g)  
of the Act.

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None  
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15 (d) of the Act.

None  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

State-owned domestic shares, par value RMB 1.00 per share.....	67,121,951,000
H Shares, par value RMB 1.00 per share.....	16,780,488,000
A Shares, par value RMB 1.00 per share.....	2,800,000,000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) or the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant as required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No   
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Indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17  Item 18   
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CERTAIN TERMS AND CONVENTIONS

Definitions

Unless the context otherwise requires, references in this annual report to:

- o "Sinopec Corp.", "we", "our" and "us" are to China Petroleum & Chemical Corporation, a PRC joint stock limited company, and its subsidiaries;
- o "Sinopec Group Company" are to our controlling shareholder, China Petrochemical Corporation, a PRC limited liability company;
- o "Sinopec Group" are to the Sinopec Group Company and its subsidiaries other than Sinopec Corp. and its subsidiaries;
- o "Old Sinopec" are to the ministerial level enterprise of China

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Petrochemical Corporation and its affiliates before the industry restructuring in March 1998;

- o "China" or the "PRC" are to the People's Republic of China, excluding for purposes of this annual report Hong Kong, Macau and Taiwan;
- o "provinces" are to provinces and to provincial-level autonomous regions and municipalities in China which are directly under the supervision of the central PRC government;
- o "RMB" are to Renminbi, the currency of the PRC; and
- o "US\$" are to US dollars, the currency of the United States of America.

### Conversion Conventions

Conversions of crude oil from tonnes to barrels are made at a rate of one tonne to 7.35 barrels for crude oil we purchase from external sources and one tonne to 7.1 barrels for crude oil we produce, representing the typical gravity of the respective source of crude oil. Conversions of natural gas from cubic meters to cubic feet are made at a rate of one cubic meter to 35.315 cubic feet.

### Glossary of Technical Terms

Unless otherwise indicated in the context, references to:

- o "billion" are to a thousand million.
- o "BOE" are to barrels-of-oil equivalent; natural gas is converted at a ratio of 6,000 cubic feet of natural gas to one BOE.
- o "primary distillation capacity" are to the crude oil throughput capacity of a refinery's basic distillation units, calculated by estimating the number of days in a year that such basic distillation units are expected to operate, including downtime for regular maintenance, and multiplying that number by the amount equal to the units' optimal daily crude oil throughput.
- o "rated capacity" are to the output capacity of a given production unit or, where appropriate, the throughput capacity, calculated by estimating the number of days in a year that such production unit is expected to operate, including downtime for regular maintenance, and multiplying that number by an amount equal to the unit's optimal daily output or throughput, as the case may be.
- o "utilization rate" are to the amount of output or throughput by a production unit per annum as a proportion of the capacity of that unit per annum at the end of a year except where indicated otherwise.

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### CURRENCIES AND EXCHANGE RATES

We publish our financial statements in Renminbi. Unless otherwise indicated, all translations from Renminbi to US dollars have been made at a rate of RMB 8.2765 to US\$1.00, the noon buying rate as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2004. We do not represent that Renminbi or US dollar amounts could be converted into US

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dollars or Renminbi, as the case may be, at any particular rate, the rates below or at all.

The following table sets forth noon buying rate for US dollars in New York City for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

Period -----	Noon Buying Rate		
	End ---	Average (1) -----	High ----
	(RMB per US\$1.00)		
2000.....	8.2774	8.2784	8.2799
2001.....	8.2766	8.2770	8.2786
2002.....	8.2800	8.2772	8.2800
2003.....	8.2767	8.2772	8.2800
2004.....	8.2765	8.2767	8.2774
December 2004.....	8.2765	8.2765	8.2767
January 2005.....	8.2765	8.2765	8.2765
February 2005.....	8.2765	8.2765	8.2765
March 2005 .....	8.2765	8.2765	8.2765
April 2005.....	8.2765	8.2765	8.2765
May 2005.....	8.2765	8.2765	8.2765
June 2005 (up to June 17, 2005).....	8.2765	8.2765	8.2765

(1) Determined by averaging the rates on the last business day of each month during the relevant

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### FORWARD-LOOKING STATEMENTS

This annual report includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this annual report that address activities, events or developments which we expect or anticipate will or may occur in the future are hereby identified as forward-looking statements for the purpose of the safe harbor provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words such as believe, intend, expect, anticipate, project, estimate, predict, plan and similar expressions are also intended to identify forward-looking statements. These forward-looking statements address, among others, such issues as:

- o amount and nature of future exploration and development,
- o future prices of and demand for our products,
- o future earnings and cash flow,
- o development projects and drilling prospects,
- o future plans and capital expenditures,
- o estimates of proved oil and gas reserves,
- o exploration prospects and reserves potential,
- o expansion and other development trends of the petroleum and

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- o petrochemical industry,
- o production forecasts of oil and gas,
- o expected production or processing capacities, including expected rated capacities and primary distillation capacities, of units or facilities not yet in operation,
- o expansion and growth of our business and operations, and
- o our prospective operational and financial information.

These statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in particular circumstances. However, whether actual results and developments will meet our expectations and predictions depends on a number of risks and uncertainties which could cause actual results to differ materially from our expectations, including the risks set forth in "Item 3 -- Key Information -- Risk Factors" and the following:

- o fluctuations in crude oil prices,
- o fluctuations in prices of our products,
- o failures or delays in achieving production from development projects,
- o potential acquisitions and other business opportunities,
- o general economic, market and business conditions, and
- o other risks and factors beyond our control.

Consequently, all of the forward-looking statements made in this annual report are qualified by these cautionary statements and readers are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements should be considered in light of the various important factors set forth above and elsewhere in this Form 20-F. In addition, we cannot assure you that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected effect on us or our business or operations.

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### PART I

#### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

#### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

#### ITEM 3. KEY INFORMATION

##### A. SELECTED FINANCIAL DATA

The selected income statement data and cash flow data for the years ended December 31, 2002, 2003 and 2004, and the selected balance sheet data as of December 31, 2003 and 2004 have been derived from, and should be read in conjunction with, the audited consolidated financial statements included elsewhere in this annual report. The selected income statement data and cash flow data for the years ended December 31, 2000 and 2001 and the selected balance sheet data as of December 31, 2000, 2001 and 2002 are derived from our audited consolidated financial statements which are not included in this annual report and financial statements of the acquired businesses described below.

We acquired from Sinopec Group Company the equity interests of

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Sinopec National Star Petroleum Company ("Sinopec National Star") in 2001, the operations of Sinopec Group Maoming Petrochemical Company ("Sinopec Maoming"), Xi'an Petrochemical Main Factory ("Xi'an Petrochemical") and Tahe Oilfield Petrochemical Factory ("Tahe Petrochemical") in 2003, and the operations of Sinopec Group Tianjin Petrochemical Company, Sinopec Group Luoyang Petrochemical General Plant, Zhongyuan Petrochemical and certain catalyst plants (collectively, "Petrochemical and Catalyst Assets") in 2004. As we and these companies are under the common control of Sinopec Group Company, our acquisitions are considered as "combination of entities under common control" which are accounted for in a manner similar to a pooling-of-interests. Accordingly, the acquired assets and related liabilities have been accounted for at historical cost and our consolidated financial statements for periods prior to the combinations have been restated to include the financial position and the results of operations of these companies on a combined basis.

Moreover, the selected financial data should be read in conjunction with our consolidated financial statements together with accompanying notes and "Item 5 - Operating and Financial Review and Prospects" included elsewhere in this annual report. Unless otherwise indicated, our consolidated financial statements are prepared and presented in accordance with International Financial Reporting Standards, or IFRS. IFRS vary in certain significant respects from accounting principles generally accepted in the United States of America, or US GAAP. Information relating to the nature and effect of such differences is presented in Note 34 to the consolidated financial statements.

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	Years Ended December 31,			
	2000	2001	2002	2003
	RMB	RMB	RMB	RMB
	(in millions, except per share and per			
Income Statement Data(1):				
IFRS				
Consolidated results				
Operating revenues.....	341,576	326,424	350,078	449,001
Purchased crude oil, products and operating supplies and expenses.....	(230,497)	(222,700)	(239,088)	(313,238)
Selling, general and administrative expenses.....	(20,812)	(18,986)	(22,367)	(27,228)
Depreciation, depletion and amortization.....	(22,159)	(24,343)	(26,492)	(27,951)
Exploration expenses, including dry holes.....	(3,030)	(3,775)	(4,363)	(6,133)
Personnel expenses.....	(14,380)	(14,307)	(15,024)	(16,972)
Employee reduction expenses.....	-	(2,546)	(244)	(1,040)
Taxes other than income tax.....	(12,419)	(12,033)	(12,015)	(13,581)
Other operating expenses, net.....	77	(423)	(1,184)	(3,975)
Operating income.....	38,356	27,311	29,301	38,883
Interest expense, net of interest income and net foreign exchange gains (losses).....	(5,535)	(3,884)	(4,948)	(4,463)



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Gains from issuance of shares by a subsidiary.....	-	-	-	136
Other income .....	199	503	563	485
Income before income tax and minority interests.....	33,020	23,930	24,916	35,041
Income tax.....	(9,566)	(7,819)	(7,491)	(10,645)
Income before minority interests.....	23,454	16,111	17,425	24,396
Minority interests.....	(1,722)	(608)	(1,129)	(1,972)
Net income.....	21,732	15,503	16,296	22,424
Basic earnings per share(2).....	0.30	0.18	0.19	0.26
Basic earnings per ADS(2).....	30.21	18.20	18.80	25.86
Cash dividends declared per share.....	0.01	0.08	0.10	0.09
Segment results				
Exploration and production.....	25,411	23,185	14,787	19,160
Refining.....	1,429	2,151	6,024	6,073
Marketing and distribution.....	6,358	2,443	8,401	11,943
Chemicals.....	5,447	(693)	1,088	3,543
Corporate and others.....	(289)	225	(999)	(1,836)
Operating income.....	38,356	27,311	29,301	38,883
US GAAP				
Depreciation, depletion and amortization.....	(17,016)	(18,815)	(21,046)	(22,585)
Income tax.....	(10,384)	(8,084)	(8,825)	(12,143)
Net income.....	21,721	16,793	19,731	26,408
Basic earnings per share(2).....	0.30	0.20	0.23	0.30
Basic earnings per ADS(2).....	30.19	19.72	22.76	30.46
Cash dividends declared per share.....	0.01	0.08	0.10	0.09

As of December 31,

	2000	2001	2002	2003
	RMB	RMB	RMB	RMB
	(in millions)			
Balance Sheet Data(1):				
IFRS				
Cash and cash equivalents.....	20,994	22,345	19,324	16,263
Total current assets.....	142,308	114,885	106,666	103,039
Total non-current assets(3).....	247,695	286,093	301,614	317,145
Total assets(3).....	390,003	400,978	408,280	420,184
Short-term debts and loans from Sinopec Group Company and its affiliates (including current portion of long-term debts).....	61,477	52,306	39,710	34,046
Long-term debts and loans from Sinopec Group Company and its affiliates (excluding current portion of long-term debts).....	88,241	82,298	86,884	87,296

As of December 31,

2000	2001	2002	2003
------	------	------	------

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	RMB	RMB	RMB	RMB
	(in millions)			
Shareholders' equity(3).....	144,921	159,558	166,777	171,515
Capital employed(4).....	297,117	295,469	298,198	302,645
US GAAP				
Total non-current assets.....	218,918	260,566	279,552	297,308
Total assets.....	355,642	370,895	381,049	395,361
Long-term debts and loans from Sinopec Group Company and its affiliates (excluding current portion of long-term debts).....	87,791	81,798	86,569	85,496
Shareholders' equity.....	124,400	142,260	153,121	161,832

	Years Ended December 31,			
	2000	2001	2002	2003
	RMB	RMB	RMB	RMB
	(in millions)			
Other Financial Data(1):				
IFRS				
Net cash from operating activities.....	30,239	57,460	56,749	62,097
Net cash from/(used in) financing activities.....	29,215	(17,092)	(16,681)	(14,473)
Net cash used in investing activities...	(64,461)	(39,010)	(43,096)	(50,690)
Capital expenditure				
Exploration and production.....	14,813	20,276	20,228	20,628
Refining.....	5,810	9,152	6,698	9,788
Marketing and distribution.....	16,080	17,256	6,982	6,826
Chemicals.....	9,020	12,622	7,769	7,680
Corporate and others.....	398	528	816	518
Total.....	46,121	59,834	42,493	45,440
Capital expenditure of jointly controlled entities				
Exploration and production.....	-	-	-	1,200
Chemicals.....	-	-	-	2,993
Total.....	-	-	-	4,193

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- (1) The acquisition of Sinopec National Star in 2001, the acquisitions of Sinopec Maoming, Xi'an Tahe Petrochemical in 2003 and the acquisitions of Petrochemical and Catalyst Assets from Sinopec Company in 2004 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, assets and liabilities have been accounted for at historical cost and the consolidated financial statements for periods prior to the combinations have been restated to include the financial position and operations of these acquired companies on a combined basis. The considerations for these acquisitions are treated as equity transactions.
  - (2) Basic earnings per share and per ADS have been computed by dividing net income by the weighted average number of shares in issue.
  - (3) Includes the effect of the revaluation of property, plant and equipment as of September 30, 2000, property, plant and equipment of Sinopec National Star, Sinopec Maoming, Xi'an Petrochemical, Petrochemical, and Petrochemical and Catalyst Assets were revalued as of December 31, 2000, October 31, 2003, October 31, 2003 and June 30, 2004, respectively, in connection with the combinations.
  - (4) Equals the sum of short-term debts, long-term debts, loans from Sinopec Group Company and its subsidiaries and shareholders' equity and minority interests less cash and cash equivalents.

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- (5) Translated solely for the convenience of the readers into US dollars at the rate prevailing 2004 of US\$1.00 to RMB 8.2765.

### B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

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### C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

### D. RISK FACTORS

Risks Relating to Sinopec Corp.

Our development plans have significant capital expenditure and financing requirements, which are subject to a number of risks and uncertainties.

Our current capital expenditures plan contemplates approximately RMB 62.0 billion (US\$7.5 billion) in 2005. Our actual capital expenditures may vary significantly from these planned amounts due to various factors.

Our ability to obtain external financing in the future is subject to a variety of uncertainties including:

- o our future results of operations, financial condition and cash flows;
- o the economic condition in China and the market environment for our products;
- o the cost of financing and the condition of financial markets; and
- o the issuance of relevant government approvals and other project risks associated with the development of infrastructure in China.

Our failure to obtain sufficient funding for our operations or development plans could adversely affect our business, results of operations and financial condition.

We face strong competition from domestic and foreign competitors.

Among our competitors, some are major integrated petroleum and petrochemical companies within and outside the PRC, which have recently become more significant participants in the petroleum and petrochemical industry in China. We believe such trend will continue. Increased competition may have a material adverse effect on our financial condition and results of operations.

We may not be able to pass on all increases in our crude oil costs.

In 2004, approximately 79% of the crude oil required for our refinery business was sourced from outside suppliers. In addition, our development will leave us no choice but to source an increasing amount of crude oil from outside suppliers. While we try to match price increases with corresponding crude oil price increases, our ability to pass on cost increases to our customers is dependent on international and domestic market conditions as well

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as government regulations. We predict that the PRC governmental authority may continue to exercise control over the prices of certain of our products in 2005. Consequently, we may not be able to recover fully our increase in crude oil costs due to an inability to increase the sale prices of our downstream products.

Related party transactions; non-competition; conflicts of interest.

We have engaged from time to time and will continue to engage in a variety of transactions with Sinopec Group Company, which provides to us a number of services, including, but not limited to, ancillary supply, engineering, maintenance, transport, educational and community services. The nature of our transactions with Sinopec Group Company is governed by a number of service and other contracts between Sinopec Group Company and us. In addition, Sinopec Group Company has interests in businesses which compete or are likely to compete, either directly or indirectly, with our businesses. We and Sinopec Group Company have entered into a non-competition agreement whereby Sinopec Group Company has agreed to refrain from operating businesses which compete or could compete with us in any of our domestic or international markets; grant us an option to purchase Sinopec Group Company's operations that compete or could compete with our businesses; operate its sales enterprises and service stations in a manner uniform to our sales and service operations; and appoint us as

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sales agent for certain of its products which compete or could compete with our products. Notwithstanding the foregoing contractual arrangements, because Sinopec Group Company is our dominant shareholder and the interests of the Sinopec Group Company may conflict with our own interests, Sinopec Group Company or any of its member may take actions that favor its interests or other subsidiaries' interests over ours.

In addition, while we and Sinopec Group Company have entered into agreements which generally provide that these services provided by Sinopec Group Company will be priced on terms at least as favorable to us as ordinary commercial terms, we have limited or no practical alternative source of supply for some of these services, utilities, materials and equipment at reasonable cost. As a result, in the future we may have limited ability to negotiate with Sinopec Group Company over the terms of our agreements with respect to these services, utilities, materials and equipment.

Our insurance coverage may not be sufficient to cover the risks related to exploration, development and production and losses caused by natural disasters.

Due to the nature of our business, we handle many highly flammable and explosive materials and operate many facilities under high pressure and high temperatures. We have experienced accidents that have caused property damage and personal injuries, and we cannot assure that industry-related accidents will not occur in the future.

We currently maintain insurance coverage with Sinopec Group Company on our property, plant, equipment and inventory. The amount of coverage is determined on the basis of the historical value of the covered fixed assets and, with respect to inventory, twice each year on the basis of the average month-end inventory value of the most recent six months. The amount of our insurance coverage may be less than the replacement cost of the covered properties and plants and may not be sufficient to cover all our financial losses.

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We do not carry any business interruption insurance or third party liability insurance to cover claims in respect of personal injury, property or environmental damage arising from accidents on our property or relating to our operations other than third party liability insurance with respect to certain transportation vehicles. Losses incurred or payments required to be made by us, which are not fully insured, may have a material adverse effect on our results of operations.

The oil and natural gas reserves data in this annual report are only estimates, and our actual production, revenues and expenditures with respect to our reserves may differ materially from these estimates.

There are numerous uncertainties inherent in estimating quantities of proved oil and natural gas reserves, and in the timing of development expenditures and the projection of future rates of production. The reserve data set forth in this annual report represent estimates only. Adverse changes in economic conditions may render it uneconomical to develop certain reserves. Our actual production, revenues, taxes and fees payable and development and operating expenditures with respect to our reserves may likely vary from these estimates.

The reliability of reserves estimates depends on:

- o the quality and quantity of technical and economic data;
- o the prevailing oil and gas prices applicable to our production;
- o the production performance of the reservoirs;
- o extensive engineering judgments; and
- o consistency in the PRC government's oil policies.

In addition, new drilling, testing and production following the estimates may cause substantial upward or downward revisions in the estimates. Furthermore, the discounted future cash flow calculated by applying the 10% discount rate, which was included in "Consolidated Financial Statements-Supplemental Information on Oil and Gas Producing Activities (Unaudited)" following Item 19, may not represent the actual net present value of the relevant cash flow.

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Our continued business success depends in part on our ability to replace reserves and develop newly discovered reserves.

Our ability to achieve our growth objectives is dependent in part on our level of success in discovering or acquiring additional oil and natural gas reserves and further exploring our current reserve base. Our exploration and development activities for additional reserves expose us to inherent risks associated with drilling, including the risk that no economically productive oil or natural gas reservoirs will be encountered. Without reserve additions through further exploration and development or acquisition activities, our reserves and production will decline over time as our reserves will be depleted.

The PRC National Audit Office has recently audited our ultimate controlling shareholder. We cannot predict the outcome of this audit or its effect on our reputation, our business and financial condition as well as the trading prices of our ADSs and H shares.

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PRC's National Audit Office, or the NAO, from time to time performs audits on state-owned companies, such as Sinopec Group Company, our ultimate controlling shareholder. We understand that the NAO has recently completed its auditing on Sinopec Group Company. We cannot predict the outcome of this audit. If, as a result of this audit, material irregularities are found within Sinopec Group Company or Sinopec Group Company becomes the target of any negative publicity, there may be a material adverse effect on our reputation, our business and financial condition as well as the trading prices of our ADSs and H shares. In addition, we may be the subject of other governmental or third party investigations or similar events that, depending on their outcome, could have a material adverse effect on our business and financial condition and the trading prices of our ADSs and H shares.

### Risks Relating to the Petroleum and Petrochemical Industry

Our business operations may be adversely affected by present or future environmental regulations.

As an integrated petroleum and petrochemical company, we are subject to extensive environmental protection laws and regulations in China. These laws and regulations permit:

- o the imposition of fees for the discharge of waste substances;
- o the levy of fines and payments for damages for serious environmental offenses; and
- o the central government, at its discretion, to close any facility which fails to comply with orders and require it to correct or stop operations causing environmental damage.

Our production operations produce substantial amounts of waste water, gas and solid waste materials. In addition, our production facilities require operating permits that are subject to renewal, modification and revocation. We have established a system to treat waste materials to prevent and reduce pollution and believe that our operations substantially comply with all applicable PRC environmental laws and regulations as they have been previously interpreted and enforced.

The PRC government has moved, and may move further, toward more rigorous enforcement of applicable laws, and toward the adoption of more stringent environmental standards, which, in turn, would require us to incur additional expenditures on environmental matters.

Our operations may be adversely affected by the cyclical nature of the market.

Most of our revenues are attributable to sales of refined petroleum products and petrochemical products, and certain businesses and related products have historically been cyclical and sensitive to the availability and prices of feedstock and general economic conditions, such as changes in industry capacity and output levels, cyclical changes in regional and global economic conditions, prices and availability of substitute products and changes in consumer demand. With the further reduction of tariffs and other import restrictions in the PRC, many of our products have become increasingly subject to the cyclical nature of global markets. While we are a company integrated with upstream, midstream and downstream operations, it can help us reduce the effects of industry cycles only to certain extent.

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Our business faces natural disasters and operation risks that may cause significant interruption of operations.

Exploring for, producing and transporting crude oil and natural gas and producing and transporting refined and petrochemical products involve a number of hazards. As with many other companies in the world which conduct similar businesses, we have experienced accidents that have caused property damage and personal injuries. Our safety and maintenance measures at our production facilities and for our transportation facilities may not be sufficient, and significant natural disasters may cause significant interruption of our operations and property and environmental damages that could have a material adverse impact on our financial condition and results of operations.

### Risks Relating to the PRC

The political and economic situation in the PRC may affect our business.

The PRC economy differs from the economies of most developed countries in many respects, including structure, government involvement, level of development, control of foreign exchange, allocation of resources and balance of payment position. For the past two decades, the PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the PRC economy. However, since early 2004, the PRC government has implemented certain measures in order to prevent the PRC economy from overheating. We expect such macroeconomic control measures will continue in the year of 2005. Our results of operations, as well as future prospects, may be adversely affected by an economic downturn in China.

Government regulations may limit our activities and affect our business operations.

The PRC governments, though gradually liberalizing its regulation of oil and petrochemical industry and transforming toward a market economy, continue to exercise a certain degree of control over the petroleum and petrochemical industry in China by, among others:

- o licensing the right to explore and produce crude oil;
- o publishing from time to time retail guidance prices for gasoline and diesel based on formulas linked to relevant international market prices;
- o allocating and pricing of certain resources and services;
- o assessing taxes and fees payable;
- o setting import and export quotas and procedures; and
- o setting safety, environmental and quality standards.

As a result, we may face significant constraints on our flexibility and ability to expand our business operations or to maximize our profitability.

Some of our development plans require compliance with state policies and regulatory approval.

We are currently engaged in a number of construction and expansion projects. Some of our large construction and expansion projects are subject to governmental review and approval. The timing and cost of completion of these

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projects will depend on numerous factors, including such review and approvals from relevant PRC government authorities and general economic conditions in China. If any of our important projects required for our future growth are not approved, or not approved on a timely fashion, our results of operations and financial condition could be adversely impacted.

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Entry by China into the World Trade Organization significantly increases competition from foreign companies in our lines of business.

China became a member of the World Trade Organization ("WTO") in December 2001. In entering the WTO, China has agreed to significantly reduce the trade barriers over time for imports that have historically existed and that currently exist in China such as:

- o granting foreign-owned companies the right to import into China crude oil and refined products through companies authorized by the PRC government;
- o permitting foreign companies to distribute and market refined petroleum products in both retail and wholesale markets in China;
- o significantly reducing tariffs on refined products and petrochemical products; and
- o eliminating over time quotas and other non-tariff barriers for imports and exports of crude oil and refined products.

We have been facing increasing competition from foreign producers of refined petroleum products and petrochemical products in recent years. Any present or future increase in foreign competition may have an adverse effect on our results of operations.

Government control of currency conversion may adversely affect our operations and financial results.

We receive substantially all of our revenues in Renminbi. A portion of such revenues will need to be converted into other currencies to meet our foreign currency obligations, including:

- o import of crude oil and other materials;
- o debt service on foreign currency - denominated debt;
- o purchases of imported equipment; and
- o payment of any cash dividends declared in respect of the H shares.

The existing foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade and service related foreign exchange transactions and payment of dividends. Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures. The PRC government has stated publicly that it intends to make the Renminbi freely convertible in the future. However, we cannot predict whether the PRC government will continue its existing foreign exchange policy



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and when the PRC government will allow free conversion of Renminbi. In addition, there is speculation that the PRC government may revalue the Renminbi against the US dollar, and we cannot assure you that any future movements in the exchange rate of the Renminbi against the US dollar and other currencies will not adversely affect our results of operations and financial conditions.

Enforcement of shareholder rights; mandatory arbitration.

Currently, the primary sources of shareholder rights are our articles of association, the PRC Company Law and the Listing Rules of the Hong Kong Stock Exchange, which, among other things, impose certain standards of conduct, fairness and disclosure on us, our directors and our controlling shareholder. In general, their provisions for protection of shareholder's rights and access to information are different from those applicable to companies incorporated in the United States, the United Kingdom and other Western countries. In addition, the mechanism for enforcement of rights under the corporate framework to which we are subject may also be relatively undeveloped and untested. To our knowledge, there has not been any published report of judicial enforcement in the PRC by H share shareholders of their rights under constituent documents of joint

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stock limited companies or the PRC Company Law or in the application or interpretation of the PRC or Hong Kong regulatory provisions applicable to PRC joint stock limited companies. We cannot assume that our shareholders will enjoy protections that they may be entitled in other jurisdictions.

China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom or most other Western countries, and therefore recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may not be assured. Our articles of association as well as the Listing Rules of the Hong Kong Stock Exchange provide that most disputes between holders of H shares and us, our directors, supervisors, officers or holders of domestic shares, arising out of the articles of association or the PRC Company Law concerning the affairs of our company or with respect to the transfer of our shares, are to be resolved through arbitration by arbitration organizations in Hong Kong or China, rather than through a court of law. On June 18, 1999, an arrangement was made between Hong Kong and the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council, and became effective on February 1, 2000. So far as we are aware, no action has been brought in China by any shareholder to enforce an arbitral award, and we are uncertain as to the outcome of any action brought in China to enforce an arbitral award granted to shareholders.

#### ITEM 4. INFORMATION ON THE COMPANY

##### A. HISTORY AND DEVELOPMENT OF THE COMPANY

Our legal and commercial name is China Petroleum & Chemical Corporation. Our head office is located at A6, Huixindong Street, Chaoyang District, Beijing 100029, the People's Republic of China and our telephone number is (8610) 6499-0060. We have appointed SINOPEC USA Inc., 150 E. 52nd St., 28th Fl., New York, NY 10022, USA (telephone number: (212) 759-5085) as our agent for service of processes for actions brought under the U.S. securities laws.

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We were established as a joint stock limited company on February 25, 2000 under the Company Law of the PRC with Sinopec Group Company as the sole shareholder. Our principal businesses consist of petroleum and petrochemical businesses transferred to us by Sinopec Group Company pursuant to a reorganization agreement. Such businesses include:

- o exploration for and development of crude oil and natural gas;
- o refining of crude oil and marketing and distribution of refined petroleum products, including transportation, storage, trading, import and export of petroleum products; and
- o production and sales of petrochemical products.

Sinopec Group Company's continuing activities consist, among other things, of:

- o operating certain petrochemical facilities, small capacity refineries and retail service stations retained by Sinopec Group Company;
- o providing well survey, logging and downhole operational services;
- o manufacturing and maintaining production equipment;
- o providing construction services;
- o providing utilities, such as electricity and water; and
- o providing other operational services including transportation services.

Sinopec Group Company transferred the businesses to us either by transferring its equity holdings in subsidiaries or by transferring their assets and liabilities. For its 13 subsidiaries with publicly traded shares, Sinopec Group Company transferred its entire equity interests to us.

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Sinopec Group Company also agreed in the reorganization agreement to transfer to us its exploration and production licence and all rights and obligations under the agreements in connection with its core businesses transferred to us. The employees relating to these assets were also transferred to us.

In order to expand our core businesses, prevent competition among members of the same group and reduce related party transactions, since 2001 we have acquired consecutively from Sinopec Group Company Sinopec National Star, Sinopec Maoming's ethylene facility, Tahe Petrochemical and Xi'an Petrochemical. We have also divested certain auxiliary assets.

In 2004, we obtained approval from the National Development and Reform Commission, or NDRC, to issue 10-year term corporate bonds in China at a coupon rate of 4.61%, with an aggregate principal amount of RMB 3.5 billion. Such issuance was successfully completed as of March 8, 2004.

We were approved by our shareholders at the extraordinary general meeting held on December 21, 2004 to acquire certain operating assets of Sinopec Group Company. The total consideration payable was RMB 5.360 billion. In connection with these acquisitions, we disposed certain downhole operation assets to Sinopec Group Company for a consideration of RMB 1.712 billion.

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After offsetting our payables and receivables in connection with these transactions, RMB 3.648 billion was payable in cash to Sinopec Group Company.

We privatized Sinopec Beijing Yanhua Petrochemical Company Limited ("Beijing Yanhua") by way of merger through Beijing Feitian Petrochemical Co., Ltd. ("Beijing Feitian"), a wholly owned subsidiary of ours established for the purpose of such merger. Beijing Feitian intends to purchase the listed shares of Beijing Yanhua from shareholders at HK\$3.80 per share in cash, and the aggregate consideration for such merger is approximately RMB 4.076 billion. The merger was approved by the board of directors of Beijing Feitian, the board of directors and the supervisory committee of Beijing Yanhua, the general meeting of shareholders of Beijing Feitian, the extraordinary general meeting of shareholders and the general meeting of independent shareholders of Beijing Yanhua. The approvals of domestic and overseas regulators had been obtained and the merger became effective in June 2005.

### B. BUSINESS OVERVIEW

#### Exploration and Production

##### Overview

We currently explore for, develop and produce crude oil and natural gas in a number of areas across China. As of December 31, 2004, we held 195 production licenses with terms ranging from seven (7) to fifty-five (55) years, which were equal to or longer than the maximum numbers of years of the estimated life of the reserves as evaluated by us as of December 31, 2004. Our production licenses are renewable upon our application 30 days prior to expiration. During the term of our production license, we will pay an annual production right usage fee of RMB 1,000 (US\$120.8) per square kilometers. Among our oil and gas fields, the Shengli field in Shandong province is the second largest oil field in China and accounted for approximately two-thirds of our total production in 2004. In 2004, we produced an average of 843,000 barrels-of-oil equivalent per day, of which approximately 88.85% was crude oil and 11.15% was natural gas.

As of December 31, 2004, we held 371 exploration licenses for various blocks in which we engaged in exploration activities. The maximum term of our exploration licenses is seven (7) years. Our exploration licenses may be renewed upon our application 30 days prior to expiration of the original term with each renewal for a two-year term. We are obligated to make an annual minimum exploration investment relating to the exploration blocks in respect of which the exploration licenses are issued. In addition, we are also obligated to pay an annual exploration license fee starting from RMB 100 (US\$12.1) per square kilometer up to RMB 500 (US\$60.4) per square kilometer. We are entitled under state laws and regulations to apply for reduction and exemption of exploration license fee for exploration in the western region of the PRC.

##### Properties

We currently operate 16 oil and gas producing fields, each of which consists of many oil and gas producing blocks and all of which are located in China.

Shengli field is our most important producing oil field and the second largest producing oil field in China. It consists of 68 producing blocks of various sizes extending over an area of 61,000 square kilometers in northern Shandong province. In 2004, Shengli field produced 190 million barrels of crude oil and 31.78 billion cubic feet of natural gas, with an

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average daily production of 533,000 barrels-of-oil equivalent, accounting for approximately 63.26% of our total crude oil and natural gas production for the year.

### Oil and Natural Gas Reserves

Our estimated proved reserves of crude oil and natural gas as of December 31, 2004 were 3,773 million barrels-of-oil equivalent, (including 3,267 million barrels of crude oil and 3,033 billion cubic feet of natural gas), up 0.94% compared with the amount as at December 31, 2003. Our estimated proved reserves do not include additional quantities recoverable beyond the term of the relevant production licenses, or that may result from extensions of currently proved areas, or from application of improved recovery processes not yet tested and determined to be economical.

The following table contains information of our proved oil and gas reserves in the years ended December 31, 2002, 2003 and 2004, respectively.

	Years ended December 31	
	2002	2003
Proved developed and undeveloped reserves (crude oil) (million barrels)		
Beginning of year.....	3,215	3,320
Revisions of previous estimates.....	119	(81)
Improved recovery.....	126	143
Extensions and discoveries.....	130	146
Production.....	(270)	(271)
	3,320	3,257
	3,320	3,257
Proved developed reserves (crude oil) (million barrels)		
Beginning of year.....	2,444	2,732
	2,444	2,732
End of year.....	2,732	2,786
	2,732	2,786
Proved developed and undeveloped reserves (natural gas) (billion cubic feet)		
Beginning of year.....	3,488	3,329
Revisions of previous estimates.....	(133)	(649)
Extensions and discoveries.....	153	396
Production.....	(179)	(188)
	3,329	2,888
	3,329	2,888
Proved developed reserves (natural gas) (billion cubic feet)		
Beginning of year.....	1,183	1,056
	1,183	1,056
End of year.....	1,056	1,249
	1,056	1,249

### Oil and Natural Gas Production

The following tables sets forth the average daily production of crude

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oil and natural gas for the years ended December 31, 2002, 2003 and 2004.

	For the Years Ended De	
	2002	2003
	(in thousand barr	
Average Daily Crude Oil Production		
Shengli.....	520	518
Zhongyuan.....	74	70
Xibei.....	48	59
Henan.....	37	36
Jiangsu.....	31	31
Others.....	29	28
	739	742
Total Production.....	739	742

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	For the Years Ended	
	2002	2003
	(in million cubic	
Average Daily Natural Gas Production		
Shengli.....	73	78
Zhongyuan.....	157	165
Xibei.....	53	44
Henan.....	11	10
Jiangsu.....	2	9
Xinan.....	145	165
Others.....	49	43
	490	514
Total Production.....	490	514

### Lifting Cost Data

The following table sets forth our average lifting costs per barrel-of-oil equivalent of crude oil and natural gas produced, average sales prices per barrel of crude oil and average sales prices per thousand cubic meters of natural gas for the years ended December 31, 2002, 2003 and 2004.

Total	Shengli
(US\$)	(US\$)

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For the year ended December 31, 2004		
Average petroleum lifting cost per BOE.....	6.72	6.66
Average realized sales price		
Per barrel of crude oil.....	33.28	33.74
Per thousand cubic meters of natural gas.....	74.34	86.74
For the year ended December 31, 2003		
Average petroleum lifting cost per BOE.....	6.47	6.46
Average realized sales price.....		
Per barrel of crude oil.....	27.56	27.87
Per thousand cubic meters of natural gas.....	71.95	70.64
For the year ended December 31, 2002		
Average petroleum lifting cost per BOE.....	6.12	5.76
Average realized sales price.....		
Per barrel of crude oil.....	22.42	22.59
Per thousand cubic meters of natural gas.....	69.08	55.07

### Exploration and Development Activities

The following table sets forth the numbers of our exploratory and development wells, including a breakdown of successful or productive ones and dry ones, for the years ended December 31, 2002, 2003 and 2004.

	Total -----	Shengli -----	West -----
For the year ended December 31, 2004			
Exploratory			
-- Successful.....	300	149	10
-- Dry.....	290	51	15
Development			
-- Productive.....	2,365	999	56
-- Dry.....	17	-	17
For the year ended December 31, 2003			
Exploratory			
-- Successful.....	295	151	16
-- Dry.....	265	88	21
Development			
-- Productive.....	1,880	909	99
-- Dry.....	10	4	3
15			
For the year ended December 31, 2002			
Exploratory			
-- Successful.....	289	146	-
-- Dry.....	217	80	-
Development			
-- Productive.....	2,186	1,026	-
-- Dry.....	14	6	-

### Change of major oil and gas assets

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In 2004 our capital expenditure on oil and gas fields was RMB 21.24 billion. In respect of oil field development, we drilled 2,365 development wells with a footage of 5,125 kilometers in 2004, and established new capacities for production of 6.09 million tonnes crude oil per annum and 1.015 billion cubic meter natural gas per annum.

### Refining and Marketing and Distribution of Refined Petroleum Products

#### Overview

We processed approximately 133 million tonnes of crude oil in 2004, representing approximately 51.3% of China's national crude oil throughput. We produce a full range of refined petroleum products. The following table sets forth our production of our principal refined petroleum products for the years ended December 31, 2002, 2003 and 2004.

	For the Years Ended December 31,	
	2002	2003
	(in million tonnes)	
Gasoline.....	19.6	21.7
Diesel.....	37.7	41.7
Kerosene including jet fuel.....	5.1	5.3
Light Chemical feedstock.....	15.0	16.5
Lubricant.....	0.9	1.0
Liquefied petroleum gas.....	5.1	6.2
Fuel oil.....	4.5	7.3

Gasoline and diesel are our largest revenue producing products, and are sold mostly through our marketing and distribution segment through both wholesale and retail channels. We use most of our production of chemical feedstock as feedstock for our own chemical operations. Most of our production of other refined products are sold domestically to a wide variety of industrial and agricultural customers, and a small amount are exported.

#### Refining Facilities

We operate 26 refineries in China, all of which are located in our principal market. As of December 31, 2004, our consolidated primary distillation capacity of 155 million tonnes per annum was the largest in China, representing approximately 48.7% of the total domestic capacity.

The following table sets forth our total primary distillation capacity per annum, crude oil throughputs and crude oil distillation capacity utilization rate as of and for the years ended December 31, 2002, 2003 and 2004.

	As of and for the Year Ended December 31,	
	2002	2003

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Primary distillation capacity (million tonnes per annum).....	132.4	142.3
Crude oil throughputs (million tonnes).....	105.0	116.3
Crude oil distillation capacity utilization rate.....	80.6%(1)	87.8%(1)

(1) The primary distillation capacity at the beginning of the years were used in the calculation utilization rates.

In 2004, our light products yield was 74.0%, up by 0.22 percentage point from that in 2003, and our refining yield was 93.1%, up by 0.46 percentage point from that in 2003.

The following table sets forth the primary distillation capacity per annum, crude oil throughput and utilization rate calculated based on primary distillation capacity per annum at each year-end as of and for the

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years ended December 31, 2002, 2003 and 2004 of each of our 13 largest refineries. These refineries represent 77.6% of our total primary distillation capacity per annum as of December 31, 2004.

Refinery	2002			2003			Prim Distil Capa Mill Tonn
	Primary Distillation Capacity Million Tonnes	Crude Oil Throughput Million Tonnes	Utilization Rate (%)	Primary Distillation Capacity Million Tonnes	Crude Oil Throughput Million Tonnes	Utilization Rate (%)	
Maoming.....	13.5	10.4	77.4	13.5	11.0	82.1	1
Zhenhai.....	14.0	11.9	84.9	17.0	13.6	80.2	2
Qilu.....	8.5	7.5	87.9	10.5	8.0	75.7	1
Yanshan.....	8.0	7.0	86.9	8.0	7.0	87.6	
Guangzhou...	7.7	6.7	87.5	7.7	6.9	89.0	
Gaoqiao.....	7.3	6.5	89.1	10.8	8.4	78.0	1
Jinling.....	10.5	6.3	60.3	10.5	7.2	68.1	1
Tianjun.....	5.0	4.1	83.0	5.0	4.7	93.6	
Yangzi.....	6.0	4.9	82.3	8.0	6.3	78.3	
Shanghai....	8.8	7.4	84.4	8.8	8.6	97.8	
Changling...	5.0	3.3	65.7	5.0	3.5	70.4	
Luoyang.....	5.0	4.3	86.7	5.0	4.6	91.4	
Jinmen.....	5.0	2.9	58.6	5.0	3.2	63.6	

Change of Major Refining Assets

In 2004, our capital expenditure for the refining segment was RMB 14.3 billion. We have put on 31 sets of new or revamped refining units. As a result, we have increased our overall reforming capacity by 8.3 million tonnes



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per annum, with 3 million tonnes increased at our Zhenhai refinery, and increase of hydrotreating capacity by 4 million tonnes per annum and coking capacity by 3.9 million tonnes per annum. In addition, we have put to use our imported crude oil pipeline connecting Ningbo, Shanghai and Nanjing.

### Marketing, Sales and Distribution of Refined Petroleum Products

#### Overview

We operate the largest sales and distribution system for refined petroleum products in China. We estimate we have a market share of approximately 60.2% in China based on our sales volume of gasoline, diesel and kerosene including jet fuel in 2004.

In 2004, we distributed and sold in China approximately 94.6 million tonnes of gasoline, diesel and kerosene including jet fuel, among which 53.3 million tonnes were sold through approximately 26,581 service stations that we owned and operated as at the end of 2004 and 19.7 million tonnes were sold through our direct distribution network, and the remaining 21.7 million tonnes were sold through our wholesale network. Most of the refined products sold by us are produced internally. Specifically in 2004, approximately 85.4% of our gasoline sales volume and approximately 86.6% of our diesel sales volumes were produced internally by us.

In 2004, our capital expenditure for the marketing and distribution segment was RMB 16.7 billion, which is mainly used to build new channels for gasoline transportation, and to further improve gasoline sales network through building and renovating existing service stations. These efforts helped consolidate our leading position in major markets and further enhanced our brand recognition and customer loyalty.

#### Retail and Direct Distribution

All of our retail sales are made through a network of service stations and petroleum shops which operate under the Sinopec brand. Through this unified network we are more able to implement consistent pricing policies, maintain both product and service quality standards and more efficiently manage retail distribution in our principal market.

In 2004, we sold approximately 53.3 million tonnes of gasoline and diesel through our retail network, representing approximately 59.9% of our total gasoline and diesel sales volume. Our retail market share in 2004

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was approximately 70% in our principal market. Our retail network consists principally of our wholly-owned and operated service stations. In addition, we have franchised the Sinopec brand to 3,482 service stations that are operated by third parties.

Most of our wholly-owned service stations are located in central commercial districts or relatively high traffic areas. They typically have relatively long operating histories compared with other service stations and, therefore, often enjoy better brand name recognition and higher sales volume.

We also make direct distribution sales of gasoline, diesel and kerosene including jet fuel to various corporate customers. In 2004, we sold approximately 19.7 million tonnes of gasoline, diesel and kerosene including jet fuel through direct distribution to these customers, including 3.1 million tonnes of gasoline and 16.2 million tons of diesel.

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### Wholesale

In 2004, we sold approximately 21.7 million tonnes of gasoline, diesel, kerosene including jet fuel through wholesale channels, representing approximately 22.9% of our total sales volume of gasoline, diesel, and kerosene including jet fuel. Our wholesale sales include sales to large customers and independent distributors as well as sales to certain special customers designated by the central government.

We sold approximately 11.3 million tonnes of gasoline, diesel and kerosene including jet fuel to certain special customers designated by the central government, representing approximately 52% of our aggregate wholesale volume of these products in 2004. Among our sales to these special customers, we sold approximately 903,000 tonnes of gasoline, 5.1 million tonnes of diesel, 5.3 million tonnes of kerosene including jet fuel, representing, respectively, 3.3%, 8.3% and 91.9% of our total sales volume of the respective products. These special customers include the military, the railway, airlines, marine and utility industries and these sales are made at prices and in volumes directly or indirectly determined by the PRC government.

Among our wholesale sales in 2004, we sold approximately 10.4 million tonnes of gasoline, diesel and kerosene including jet fuel through wholesale centers located in the 19 provinces in our principal market and our three branch sales companies outside our principal market, representing 48% of our total wholesale volume of the same products. Most sales by the wholesale centers are made to large customers and independent distributors from various industries such as public transportation, tourism and agricultural industries.

Through our wholesale centers, we operate 558 storage facilities with a total capacity of approximately 13 million cubic meters, substantially all of which are wholly-owned by us. Our wholesale centers are connected to our refineries by railway, waterway and, in some cases, by pipelines. We also own some dedicated railways, oil wharfs, oil barges, rail tankers and oil trucks.

### Chemicals

#### Overview

We are the largest petrochemical producer in China. We produce the full range of petrochemical products including intermediate petrochemicals, synthetic resins, synthetic fiber monomers and polymers, synthetic fibers, synthetic rubber and chemical fertilizers. Synthetic resins, synthetic fibers, synthetic rubber, chemical fertilizers and some intermediate petrochemicals comprise a significant majority of our external sales. Synthetic fiber monomers and polymers and intermediate petrochemicals, on the other hand, are mostly internally consumed as feedstock for the production of other products. Our petrochemical operations are integrated with our oil and gas exploration and production and refining and marketing businesses. Because of strong domestic demand, most of our petrochemical products are sold in the domestic market.

#### Products

##### Intermediate Petrochemicals

We are the largest ethylene producer in China. Our rated ethylene capacity of 3.9 million tonnes per annum, which represented 64.3% of the total domestic ethylene capacity as of December 31, 2004. In 2004, we produced 4.1 million tonnes of ethylene, representing approximately 65% of the total domestic output, with a

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capacity utilization rate of 104.6%. Nearly all of our olefins production is used as feedstock for our petrochemical operations.

We produce aromatics mainly in the forms of benzene and xylene which are used primarily as feedstock for purified terephthalic acid, or PTA, the preferred raw material for polyester. We are the largest aromatics producer in China. Our annual rated capacities for benzene and xylene were 1.3 million tonnes and 1.8 million tonnes per annum, respectively, as of December 31, 2004. In 2004, we produced 1.4 million tonnes of benzene and 1.5 million tonnes of xylene.

Organic chemicals extracted mainly from olefins and aromatics are also intermediate petrochemicals and are essential raw materials for synthetic resins, synthetic rubber and synthetic fibers. We are the largest producer of butanol, styrene, paraxylene, vinyl acetate, phenol and acetone in China.

The following table sets forth our rated capacity per annum, capacity utilization rate, production volume and major plants of production as of or for the year ended December 31, 2004 for our principal intermediate petrochemical products.

	Our Rated Capacity	Utilization Rate	Our Production	Major Pla
	----- (thousand tonnes per annum)	----- (percent)	----- (thousand tonnes)	-----
Ethylene.....	3,895	104.6	4,074.3	Yanhua, Sha Maoming, Gu
Propylene.....	3,338.5	113.5	3,789.9	Yanhua, Sha Maoming, G Zhongyuan, Jinan, Ji
Benzene.....	1,259.5	113.5	1,429.1	Yanhua, Sha Guangzhou,
Acetic acid.....	130	81.4	105.9	Shangh
Styrene.....	464	76.6	355.2	Yanhua, Q
Xylene.....	1,759	87.5	1,539.9	Shanghai, Y a
Phenol.....	350	70.7	247.4	Yanhu

### Synthetic Resins

Synthetic resins are a core downstream product group. Our principal synthetic resin products are polyethylene, polypropylene, polyvinyl chloride,

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or PVC, and polystyrene. We are the largest producer of polyethylene, polypropylene and polystyrene in China. Synthetic resins are widely used in various sectors including agriculture, construction, automobile and consumer product industries.

The following table sets forth our rated capacity per annum, capacity utilization rate, production volumes and major plants of production for each of our principal synthetic resins as of or for the year ended December 31, 2004.

	Our Rated Capacity ----- (thousand tones per annum)	Utilization Rate ----- (percent)	Our Production ----- (thousand tonnes)	Major Pla -----
Polyethylene.....	2,663	107.1	2,852.1	Yanhua, Sha Maoming, Gu
	19			
Polypropylene.....	2,533	109.9	2,783.5	Yanhua, Guangzhou, W Maoming, Ti
Polyvinyl chloride.....	322.5	71.1	229.3	
Polystyrene.....	216	71.7	154.9	Yanhua, Q

### Synthetic Fiber Monomers and Polymers

Our principal synthetic fiber monomers and polymers are purified terephthalic acid, ethylene glycol, acrylonitrile, caprolactam and polyester. Based on our 2004 production, we are the largest producer of all of these synthetic fiber monomers and polymers except for acrylonitrile in China. Most of our production of synthetic fiber monomers and polymers are used as feedstock for synthetic fibers.

The following table sets forth our rated capacity per annum, capacity utilization rate, our production volume and major plants of production as of or for the year ended December 31, 2004 for each type of our principal synthetic fiber monomers and polymers.

	Our Rated Capacity ----- (thousand tonnes per annum)	Utilization Rate ----- (percent)	Our Production ----- (thousand tonnes)	Major P -----
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Purified terephthalic acid.....	2,360	109.0	2,571.7	Shanghai Tianj
Ethylene glycol.....	732.6	81.7	598.7	Yanhua, S
Acrylonitrile.....	250	102.8	256.9	Shanghai,
Caprolactam.....	135	106.7	144.0	Shijiaz
Polyester chips.....	2,606.6	90.1	2,349.7	Yanhua, Tianj

### Synthetic Fibers

We are the largest producer of polyester and acrylic fibers in China. Our principal synthetic fiber products are polyester fiber, acrylic fiber, nylon, vinylon fiber and polypropylene fiber.

The following table sets forth our rated capacity per annum, capacity utilization rate, production volume and major plants of production for each type of our principal synthetic fibers as of and for the year ended December 31, 2004.

	Our Rated Capacity ----- (thousand tonnes per annum)	Utilization Rate ----- (percent)	Our Production ----- (thousand tonnes)	Major Pl -----
Polyester fiber.....	1,448.4	87.6	1,268.5	Yizheng, S
Acrylic fiber.....	314.8	113.8	358.1	Shanghai
Nylon.....	18.3	38.3	7.0	
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Polypropylene fiber.....	17	78.2	13.3	

### Synthetic Rubbers

Our principal synthetic rubbers are cis-polybutadiene rubber, styrene butadiene rubber, or SBR, styrene butadiene-styrene thermoplastic elastomer and isobutadiene isoprene rubber, or IIR. Based on our 2004 production, we are the largest producer of SBR rubber and cis-polybutadiene rubber and the only producer of IIR in China.

The following table sets forth our rated capacity per annum, capacity utilization rate, production volume and major plants of production as of or for the year ended December 31, 2004 for each of our principal synthetic

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rubbers.

	Our Rated Capacity ----- (thousand tonnes per annum)	Utilization Rate ----- (percent)	Our Production ----- (thousand tonnes)	Major Pl -----
Cis-polybutadiene rubber.....	216	125.2	270.4	Yanhua, Qil
Styrene butadiene rubber.....	194.5	71.8	139.6	Yanhua, Qil
Styrene-butadiene-styrene thermoplastic elastomers .....	70	162.3	113.6	
Isobulylene isoprene rubber.....	30	125.3	37.6	

Chemical Fertilizers

We produce synthetic ammonia and urea. Our synthetic ammonia is used to manufacture urea, caprolactam and acrylic nitrile.

The following table sets forth our rated capacity per annum, capacity utilization rate, our production volume and major plants of production for ammonia and urea as of or for the year ended December 31, 2004.

	Our Rated Capacity ----- (thousand tonnes per annum)	Utilization Rate ----- (percent)	Our Production ----- (thousand tonnes)	Major Pl -----
Ammonia.....	2,235	70.7	1,579.9	Zhenhai Jiujiang, Q
Urea.....	3,730	70.5	2,630	Zhenhai Jiujiang, Q

Change of Major Petrochemical Assets

In 2004, our capital expenditure for the chemical segment was RMB 11.0 billion. Qilu increased ethylene production capacity by 270,000 tonnes per annum, PVC production capacity by 370,000 per annum, and ionic film sodium hydroxide production capacity by 200,000 tonnes per annum; Yizheng increased polyester production capacity by 210,000 tonnes per annum; Shanghai increased polyester production capacity by 150,000 tonnes per annum; Zhenhai increased polypropylene production capacity by 200,000 tonnes per annum; and Gaoqiao increased phenol production capacity by 125,000 tonnes per annum and acetone production capacity by 75,000 tonnes per annum.

## Marketing and Sales of Petrochemicals

Price and volume of petrochemical sales are market driven. The southern and eastern regions in China, where most of our petrochemical plants are located, constitute the major petrochemical market in China. Our proximity to the major petrochemical market gives us a competitive advantage over our competitors.

Our principal sales and distribution channels consist of direct sales to end-users, most of which are large and medium size manufacturing enterprises, and sales to distributors in our national sales network. In 2004, we sold approximately 62.7% of our petrochemical products directly to end-users and 37.3% to our distributors. We also provide after-sale services, including technical support and technology assistance, to our customers.

In addition, we also increased sales activities through our business-to-business petrochemical e-commerce platform. In 2004, sales initiated by our e-commerce platform amounted to RMB 19.1 billion (US\$2.3 billion), representing an increase of 9.14% from RMB 17.5 billion for the year of 2003. Domain names for our e-commerce web sites are [www.sinopec-ec.com](http://www.sinopec-ec.com) and [www.sinopec-ec.com.cn](http://www.sinopec-ec.com.cn).

## Raw Materials

## Crude Oil

Our most important raw material is crude oil. The following table sets forth the sources of our crude oil supply and each source as a percentage of our total crude oil supply for the years ended December 31, 2002, 2003 and 2004.

	2002	2003	2004
Source of Supply	(million tonnes)	(million tonnes)	(million tonnes)
Self-supply.....	28.9	28.2	28.1
PetroChina.....	14.6	13.1	10.3
CNOOC.....	6.2	5.6	6.7
Import.....	56.7	71.1	89.0
Total.....	106.4	118.0	134.2

## Competition

## Exploration and Production

Because our production of crude oil has only constituted approximately 21% of our crude oil requirements, we generally do not compete for crude oil customers.

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### Refining and Marketing of Refined Petroleum Products

Market participants compete primarily on the basis of quality of products and service, efficiency of operations including proximity to customers and awareness of brand name. We believe that we have a competitive advantage in our principal market over many of our competitors in these aspects arising from the quality of our personnel, technology, assets and organizational management.

### Petrochemicals

Our proximity to customers has given us significant competitive advantages. Our petrochemical production facilities are located in the eastern and southern regions in China, an area which has experienced higher economic growth rates in China in the past two decades. Proximity of our production facilities to our markets has given us an advantage over our competitors in terms of easy access to our customers, resulting in reduced transportation costs, more reliable delivery of products and better service to customers.

We expect competition in the petrochemicals market to increase substantially as the PRC markets open up to foreign competitors. Such competitors are likely to be large, reputable foreign companies producing high

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quality products at competitive prices. There can be no assurance that such foreign competition will not adversely affect our existing market position and our results of operations in our petrochemicals business.

### Competition and Opportunities after China's Accession to the WTO

China became a member of the WTO in December 2001. In line with the general progress of its economic reform programs and as part of its WTO commitments, China has reduced import tariffs on a wide range of products including petrochemical products in 2002. In addition, China has agreed to further lower tariff and eliminate quotas, grant foreign companies distribution rights of refined petroleum products and eventually lift its restrictions that limit competition by foreign companies in the PRC petroleum and petrochemicals industry. To the extent these restrictions are relaxed, we are likely to face more fierce competition in our businesses. In anticipation of the increased competition, we have taken measures to improve our own competitiveness.

### Patents and Trademarks

In 2004, we applied for 798 patents in China, of which 639 have been granted patent rights, making us own a total of 1,893 patents in China. In addition, Sinopec Group Company owns a total of 3,012 patents in China. We may use certain patents of Sinopec Group Company under royalty-free licenses. These patents expire from time to time and cover many products, processes and product uses. We also have royalty-free licenses from Sinopec Group Company to use certain Sinopec Group Company's trademarks and brands for our products and services. Our trademark licenses from Sinopec Group Company are for a term of ten years commencing on February 25, 2000.

### Regulatory Matters

#### Overview

China's petroleum and petrochemical industry has seen significant liberalization in the past ten years. However, the exploration, production,



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marketing and distribution of crude oil and natural gas, as well as the production, marketing and distribution of certain refined oil products are still subject to regulation of many government agencies including:

National Development and Reform Commission ("NDRC")

The NDRC is responsible for formulating and implementing key policies in respect of petroleum and petrochemical industry, including:

- o Formulating guidance plan for annual production, import and export amount of crude oil, natural gas and gasoline nationwide based on its forecast on macro economic conditions in China;
- o Publishing guidance prices for certain refined products, including gasoline and diesel;
- o Approving domestic and overseas resource investment projects whose capital expenditure is in excess of certain amount; and
- o Approving Sino-foreign cooperation projects that are in excess of certain investment limits.

The Ministry of Commerce ("MOFCOM")

MOFCOM is responsible for examining and approving production sharing contracts, Sino-foreign equity joint venture contracts and Sino-foreign cooperation joint venture contracts for oil and gas development within PRC. It is also responsible to issue quotas and licenses for import and export of crude oil and refined oil.

Ministry of Land and Resources ("MLR")

The MLR is responsible for issuing the licenses that are required to explore and produce crude oil and natural gas in China.

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Regulation of Exploration and Production

Exploration and Production Rights

The PRC Constitution provides that all mineral and oil resources belong to the state. In 1986, the standing committee of the National People's Congress passed the Mineral Resources Law which authorizes the Ministry of Land and Resources, or the MLR, to exercise administrative authority over the exploration and production of the mineral and oil resources within the PRC, including its territorial waters. The Mineral Resources Law and its supplementary regulations provide the basic legal framework under which exploration licenses and production licenses are granted. The MLR has the authority to grant exploration licenses and production licenses on a competitive bidding or other basis it considers appropriate. Applicants for these licenses must be companies approved by the State Council to engage in oil and gas exploration and production activities. Currently, only Sinopec Group Company, China National Petroleum Corporation and CNOOC Group have received such approval.

Applicants for exploration licenses must first register with the MLR blocks in which they intend to engage in exploration activities. The holder of an exploration license is obligated to make an annual minimum exploration investment relating to the exploration blocks in respect of which the license is issued. Investment ranges from RMB 2,000 per square kilometer for the

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initial year to RMB 5,000 for the second year and to RMB 10,000 for the third and subsequent years. Additionally, the holder has to pay an annual exploration license fee of RMB 100 per square kilometer for each of the first three years and increases by an additional RMB 100 per square kilometer per year for subsequent years up to a maximum of RMB 500 per square kilometer. The maximum term of an exploration license is 7 years. The exploration license may be renewed upon application by the holder 30 days prior to expiration of the original term with each renewal for a two-year term.

At the exploration stage, an applicant can also apply for a progressive exploration and production license that allows the holder to test and develop reserves not yet fully proved. The progressive exploration and production license has a maximum term of 15 years. Upon the reserves becoming proved for a block, the holder must apply for a full production license in order to undertake production.

The MLR issues full production licenses to applicants on the basis of the reserve reports approved by relevant authorities. The maximum term of a full production license is 30 years unless a special dispensation is given by the State Council. Due to a special dispensation granted to us by the State Council, the maximum term of our full production licenses is 55 years. The full production license is renewable upon application by the holder 30 days prior to expiration. A holder of the full production license has to pay an annual full production right usage fee of RMB 1,000 per square kilometer.

All companies approved by the State Council to engage in oil and gas exploration and production activities may apply for exploration and production licenses for onshore and off-shore oil and natural gas resources without geographical restrictions. We have obtained the exploration and production license of offshore oil and natural gas resources in China after we acquired Sinopec National Star.

Exploration and production licenses do not grant the holders the right to enter upon any land for the purpose of exploration and production. Holders of exploration and production licenses must separately obtain the right to use the land covered by the licenses, and current owners of the rights to use such land may transfer or lease the land to the license holder.

### Price of Crude Oil

The PRC government no longer regulates crude oil prices and generally allows crude oil producers and buyers to negotiate the prices. Any premiums or discounts in relation to the crude oil prices are subject to the agreements between the parties.

### Volume and Price of Natural Gas

The NDRC formulates the annual natural gas supply guidelines which require natural gas producers to distribute specified amount of natural gas to specified fertilizer producers. The actual production level of natural gas (excluding the amount supplied to the fertilizer producers) is determined by the natural gas producers themselves.

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The price of natural gas has two components:

- o ex-factory price; and
- o pipeline transmission tariff.

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Prior to January 2002, the price of natural gas was comprised of wellhead price, pipeline transmission tariff and purification fee. In January 2002, the NDRC merged the purification fee into the wellhead price to establish a unified natural gas ex-factory price. Ex-factory prices vary depending on whether or not the natural gas sold is within the government-formulated natural gas supply guidelines. For natural gas sold within the government-formulated supply guidelines, the NDRC fixes the ex-factory prices according to the nature of the customers. For sales of natural gas which is produced in excess of the government-formulated natural gas supply plan, the NDRC publishes the median guidance ex-factory price and allows the producers to set the price within +/-10% of this guidance price.

The NDRC sets the pipeline transmission tariff for the natural gas transported by pipelines constructed prior to 1991. Natural gas producers also submit to the NDRC for examination and approval any proposed transmission tariffs for the natural gas transported by pipelines constructed after 1991 based on the capital investment made in the pipeline, the depreciation period for the pipeline and the ability of end users to pay.

### Regulation of Refining and Marketing of Refined Petroleum Products

#### Volume and Price Controls on Gasoline and Diesel

Controls on retail and wholesale sales. Other than as described below for sales to special customers, there are no state controls on volume allocations of gasoline and diesel. The PRC government, to a limited extent, continues to exercise control over gasoline and diesel prices.

Beginning on October 17, 2001, the NDRC has started determining the retail guidance prices of gasoline and diesel based on the FOB prices on the Singapore, Rotterdam and New York markets, instead of solely relying on the Singapore market alone. Within the limit of the total adjustable amount, the NDRC may adjust the prices of gasoline and diesel according to the market conditions in China. In addition, instead of publishing the retail guidance prices monthly, the NDRC would publish the retail guidance prices whenever it determines that the average price of these international markets have fluctuated over a certain limit. The NDRC has the discretion to stop making further adjustments to the retail guidance prices when prices on the international markets have gone above or below a certain limit.

We are permitted to set our own retail prices within +/-8% of the published guidance prices. There are no government restrictions on how we set prices for sales among our segments and subsidiaries.

Controls on sales to special customers. The NDRC allocates to us a quota of minimum supply of gasoline and diesel that must be made available to meet the requirements of the military, national reserves, railways, airlines and other similar special customers. Prices to these special customer are benchmarked against the import parity prices for the relevant products. Except for sales to the military and national reserve, we are permitted to charge up to a 8% premium on the special customer prices to these special customers.

#### Imports and Exports

Other than filing with the government, state-controlled enterprises, such as our company, are no longer subject to the import quota requirements. Import and export by non-state-controlled enterprises continue to be subject to quota and licensing requirements. The MOFCOM is responsible for issuing import and export licenses. See "Item 3-Key Information-D. Risk Factors-Risks Relating to the PRC-Entry by China into the World Trade Organization significantly increases competition from foreign companies in our lines of business."

## Investment

Under the State Council's Decision on Investment System Reform, investments without the use of government funds are only subject to a licensing system or a registration system, as the case may be. It is the result of reforming the old system which any investment, regardless of investors, source of funding and nature, is subject to approval of different levels of governments and relevant authorities based on investment scale. Under the current system, only significant projects and the projects of restrictive nature are subject to approval so as to maintain social and public interests, and all other projects of any investment scale are only subject to a registration system.

Overseas investment by any Chinese party that is US\$ 30 million or above and falls within the category of resources development shall be verified and approved by the NDRC. Other projects that involve the use of foreign exchange by the Chinese party of US\$ 10 million or above shall be verified and approved by the NDRC. Any overseas investment projects other than the foregoing shall be filed with the NDRC and/or the MOFCOM if the investor is an enterprise managed by the central government, or approved by its local government according to law. Domestic enterprise's establishment of overseas enterprise (with the exception of financial enterprises) shall be approved by the MOFCOM.

## Taxation, Fees and Royalty

Companies which operate petroleum and petrochemical businesses in China are subject to a variety of taxes, fees and royalties. The table below sets forth the various taxes, fees and royalties generally payable by us or by such companies in China.

Tax Item -----	Tax Base -----	Tax Rate -----
Corporate income tax	Taxable income	33%.
Value-added tax	Revenue	13% for liquefied petroleum gas, natural gas, and low density polyethylene for use as agricultural fertilizers and 17% for other items. We pass on the value-added tax to our customers at the time of settlement on top of the selling price on behalf of the taxation authority. We do not claim refund from the value-added tax. We do not pass on to our customers of any value-added tax that we incur in purchasing materials consumed during the production process; (ii) charges paid for drilling and engineering services; and (iii) labor charges during the production process.
	Sales volume	5% for the Sino-foreign oil and gas exploration and development cooperative projects. However, the value-added tax cannot be deducted.
Business tax	Revenue from pipeline	3%.

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	transportation services	
Consumption tax	Aggregate volume sold or self-consumed	RMB 277.6 per tonne for gasoline and RMB 277.6 per tonne for diesel, payable by producer.
Import tariff	CIF China price	5% for gasoline and 6% for diesel.
Resource tax	Aggregate volume sold or self-consumed	RMB 8 to 30 per tonne for crude oil. RMB 8 to 30 per thousand cubic meter for natural gas. The applicable rate for each oil field may vary depending on the volume of the exploration and production activities and costs required to bring production at the particular oil field into commercial production.

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Compensatory fee for mineral resources	Revenue	1% for crude oil and natural gas.
Exploration license fee	Area	RMB 100 to 500 per square kilometer per annum.
Production license fee	Area	RMB 1,000 per square kilometer per annum.
Royalty fee(1)	Production volume	Progressive rate of 0-12.5% for crude oil and natural gas.
City construction tax	total amount of value-added tax, consumption tax and business tax	1% to 7%.
Education Surcharge	total amount of value-added tax, consumption tax and business tax	3%.

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(1) Payable only by Sino-foreign oil and gas exploration and development cooperative projects, and project companies of those cooperative projects are not subject to any other resource taxes.

### C. ORGANIZATIONAL STRUCTURE

For a description of our relationship with Sinopec Group Company, see "Item 4 -- Information on the Company -- History and Development of the Company" and "Item 7 -- Major Shareholders and Related Party Transactions." For a description of our significant subsidiaries, see Note 32 to our consolidated financial statements.

### D. PROPERTY, PLANT AND EQUIPMENT

See "Item 4 -- Information on the Company -- Business Overview" for description of our property, plant and equipment.

### Environmental Matters

We are subject to various national environmental laws and regulations and also environmental regulations promulgated by the local governments in whose jurisdictions we have operations. For example, national regulations

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promulgated by the central government set discharge standards for emissions into air and water. They also set forth schedules of discharge fees for various waste substances. These schedules usually provide for discharge fee increases for each incremental increase of the amount of discharge up to a certain level. Above a certain level, the central regulations permit the local government to order any of our facilities to cure certain behavior causing environmental damage and subject to the central government's approval, the local government may also issue orders to close any of our facilities that fail to comply with the existing regulations.

Each of our production subsidiaries has implemented a system to control its pollutant emissions and to oversee compliance with the PRC environmental regulations. We have a central safety and environmental compliance department to set our internal environmental requirements and procedures, and to manage and supervise the environmental protection programs at the various production facilities. Each production subsidiary has an environmental compliance department which is responsible for supervising environmental matters at the subsidiary and implementing our environmental requirements and procedures. These departments report both to the management of the subsidiary and to the central environmental compliance department.

Our production facilities have their own facilities to treat waste water, solid waste and waste gases on site. Waste water first goes through preliminary treatment at our own waste water treatment facilities. Thereafter, the water is sent to nearby waste water treatment centers operated either by us or by Sinopec Group for further treatment. All solid waste materials generated by our production facilities are buried at disposal sites or burned in furnaces either operated by us or by Sinopec Group. Waste gases are generally treated and burned in furnaces before dissipation and the ash is disposed in accordance with our solid waste disposal procedures.

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Environmental regulations also require companies to file an environmental impact report to the environmental bureau for approval before undertaking any construction of a new production facility or any major expansion or renovation of an existing production facility. Such an undertaking will not be permitted to operate until the environmental bureau has performed an inspection and is satisfied that environmentally sound equipment has been installed for the facility.

We believe our environmental protection systems and facilities are adequate for us to comply with current applicable national and local environmental protection regulations. The PRC government, however, may impose stricter regulations which require additional expenditure on compliance with environmental regulations.

We paid pollutant discharge fees of approximately RMB 287 million in 2002, RMB 245 million in 2003 and RMB 248 million (US\$30 million) in 2004.

To date, we have not incurred any significant expenditure for environmental remediation, are currently not involved in any environmental remediation, and have not accrued any amounts for environmental remediation relating to our operations. Under existing legislation, we believe that there are no probable liabilities that will have a material adverse effect on our financial position or operating results nor are we subject to any legally or contractually mandated asset retirement obligations.

### Insurance

In respect of our refining, petrochemical production, and marketing

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and sales operations, we currently maintain with Sinopec Group Company, under the terms of its Safety Production Insurance Fund ("SPI Fund"), approximately RMB 253.5 billion (US\$30.6 billion) of coverage on our property and plants and approximately RMB 23.5 billion (US\$2.8 billion) of coverage on our inventory. In 2004, we paid an insurance premium of approximately RMB 1,097 million (US\$132.5 million) to Sinopec Group Company for such coverage. Transportation vehicles and products in transit are not covered by Sinopec Group Company and we maintain insurance policies for those assets with insurance companies in the PRC.

The insurance coverage under SPI Fund applies to all enterprises controlled by Sinopec Group Company under regulations published by the Ministry of Finance. We believe that, in the event of a major accident, we will be able to recover most of our losses from insurance proceeds paid under the SPI Fund or by insurance companies.

Pursuant to an approval of the Ministry of Finance, on January 29, 2002 Sinopec Group Company entered into an agreement with China People's Insurance Company to purchase a property and casualty policy which would also cover our assets. The policy provides for an annual maximum cumulative claim amount of RMB 4.0 billion (US\$0.5 billion) and a maximum of RMB 2.36 billion (US\$0.29 billion) per occurrence.

Consistent with what we believe to be customary practice among PRC enterprises, we do not currently carry any third party liability insurance to cover claims in respect of personal injury, environmental damage arising from accidents on our property or relating to our operations other than on our transportation vehicles. We have not had a third party liability claim filed against us during the past three years. We also do not carry business interruption insurance, as such coverage is not customary in the PRC.

### ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

#### A. GENERAL

The following discussion and analysis should be read in conjunction with our audited financial statements and the accompanying notes. Part of the financial information presented in this section is derived from our audited financial statements that have been prepared in accordance with IFRS. IFRS vary in certain significant respects from US GAAP. Information relating to the nature and effect of such differences is presented in Note 34 to the consolidated financial statements. Unless otherwise indicated, all financial data, whether presented in accordance with IFRS on a consolidated basis or by segment, are presented net of inter-segment transactions (i.e., inter-segment and other intercompany transactions have been eliminated).

Moreover, we acquired Sinopec National Star Petroleum Company from Sinopec Group Company in 2001, Sinopec Maoming, Xi'an Petrochemical and Tahe Petrochemical Factory from Sinopec Group Company in 2003 and Petrochemical and Catalyst Assets from Sinopec Group Company in 2004. As we and these

companies are under the common control of Sinopec Group Company, our acquisitions are considered as "combination of entities under common control" which are accounted for in a manner similar to a pooling-of-interests. Accordingly, the acquired assets and related liabilities have been accounted for at historical cost and our consolidated financial statements for periods prior to the combinations have been restated to include the financial position and the results of operations of these acquired companies on a combined basis.

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### Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations contained elsewhere in this annual report are based on our consolidated financial statements which have been prepared in accordance with IFRS. Our reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our financial statements. We base our assumptions and estimates on historical experience and on various other assumptions that we believe to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an on-going basis, our management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgments 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 our financial statements. Our principal accounting policies are set forth in Note 2 to the consolidated financial statements. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

#### Oil and gas properties and reserves

The accounting for our upstream oil and gas activities is subject to special 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. We have elected to use the successful efforts method. A description of our policies for oil and gas properties, impairment, maintenance and repair activities is set forth in Note 2 to our consolidated financial statements.

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 capitalized and written-off (depreciation) over time.

Engineering estimates of our oil and gas reserves are inherently imprecise and represent only approximate amounts because of the subjective judgments involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated oil and gas reserves can be designated as "proved". Proved and proved developed reserves estimates are updated at least annually and take into account recent production and technical information about each field. In addition, as prices and cost levels change from year to year, the estimate of proved and proved developed reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expense and impairment expense, and in disclosing the supplemental standardized measure of discounted future net cash flows relating to proved oil and gas properties. Depreciation rates are determined based on estimated proved developed reserve quantities (the denominator) and capitalized costs of producing properties (the numerator). Producing properties' capitalized costs are amortized based on the units of oil or gas produced. Therefore, assuming all other variables are held constant, an increase in estimated proved developed reserves decreases our depreciation, depletion and amortization expense. Also, estimated reserves are often used to calculate future cash flows from our oil and gas operations, which serve as an



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indicator of fair value in determining whether a property is impaired or not. The larger the estimated reserves, the less likely the property is impaired. There have been no significant changes to the original reserve estimates during any of the three years ended December 31, 2002, 2003 and 2004.

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### Impairments

If circumstances indicate that the net book value of an asset or investment, including oil and gas properties, may not be recoverable, this asset may be considered "impaired", and an impairment loss may be recognized 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 amount of impairment loss is the difference between the carrying amount of the asset and its 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 our 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 judgment relating to level of sale volume, selling price and amount of operating costs. We use all readily available information in determining an amount that is a reasonable approximation of recoverable reserves, including estimates based on reasonable and supportable assumptions and projections of reserve quantities.

Impairment losses recognized for each of the three years ended December 31, 2002, 2003 and 2004 in our statement of income and shareholders' equity are summarized as follows:

	Years ended Dec	
	2002	2003
	RMB	RMB
	millions	millions
Impairment losses on long-lived assets recognized in statement of income		
Exploration and production.....	--	31
Refining.....	--	11
Marketing and distribution.....	--	-
Chemicals.....	--	45
	-----	-----
	--	87
	=====	=====
Impairment losses on revalued long-lived assets recognized in shareholders' equity		
Chemicals.....	--	-
	-----	-----
	=====	=====

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### Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual value. We review 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 our 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. There have been no significant changes to the estimated useful lives and residual value during each of the three years ended December 31, 2002, 2003 and 2004.

### Revaluation

As required by the relevant PRC rules and regulations, our property, plant and equipment were revalued in connection with our reorganization, and the property, plant and equipment of the companies that we acquired in 2001, 2003 and 2004 were also revalued in connection with these acquisitions. These revaluations were carried out for each asset class by independent valuers on a depreciated replacement cost basis. Subsequent to these revaluations, property, plant and equipment are carried at the revalued amount, being the fair value as at the date of the revaluation, less subsequent accumulated depreciation and impairment losses. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. We revalued our property, plant and equipment based on a depreciated replacement cost basis in accordance with our IFRS accounting policies as of December 31, 2004. The results of subsequent revaluations may have an impact on our future results to the extent the fair values of our property, plant and equipment change significantly.

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### Provision for Doubtful Debts

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

	Years ended Decem	
	2002	2003
	RMB	RMB
At beginning of year.....	2,814	3,017
Provision for the year.....	574	939
Written-off/back.....	(371)	(429)
Less: Amount distributed to Sinopec Group Company in connection with the acquisitions of assets.....	--	(177)
At end of year.....	3,017	3,350
	=====	=====

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### Recently pronounced International Financial Reporting Standards

The International Accounting Standards Board (the "IASB") has issued a number of new and revised International Financial Reporting Standards and International Accounting Standards ("new IFRS") which are applicable to us for accounting periods beginning on or after January 1, 2005.

We have not early adopted these new IFRS in the financial statements for the year ended December 31, 2004. We have completed a preliminary assessment of the impact of these new IFRS to the extent that they are applicable to us. A brief summary of the key features of these new IFRS and our preliminary assessment result is as follows:

#### IFRS 2

In February 2004, the IASB issued IFRS 2, "Share-based Payment". IFRS 2 addresses the accounting for share-based payment transactions in financial statements and requires an entity to measure the employee service received and the liability incurred at the fair value of the instrument at the grant date, and re-measure the fair value of the liability at each balance sheet date until the final settlement of the liability. Currently, we do not expect the application of IFRS 2 will have a material impact on our consolidated financial position or consolidated results of operations.

#### IFRS 3

In March 2004, the IASB issued IFRS 3, "Business Combinations", and replaced IAS 22 "Business Combinations" and related Interpretations. IFRS 3 requires all business combinations within its scope to be accounted for using the purchase method. IFRS 3 also requires goodwill to be tested for impairment annually and stated at cost less accumulated impairment losses, and negative goodwill to be recognized immediately in the income statement on acquisition. We cannot determine the potential effects that application of IFRS 3 will have on our consolidated financial statements.

#### IFRS 5

In March 2004, the IASB issued IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations", and replaced IAS 35, "Discontinued Operations". IFRS 5 requires that assets or disposal groups that are classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell. IFRS 5 classifies an operation as discontinued at the date the operation meets the criteria to be classified as held for sale or when the entity has disposed of the operation. We cannot determine the potential effects that application of IFRS 5 will have on our consolidated financial statements.

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#### IAS 1

In December 2003, the IASB issued IAS 1 (Revised 2003), "Presentation of Financial Statements", and replaced IAS 1 (Revised 1997). IAS 1 (Revised 2003) requires disclosure of an entity's judgments and assumptions on application of its accounting policies. Additionally, IAS 1 (Revised 2003) provides further guidance on classification of assets and liabilities. Currently, we do not expect the application of IAS 1 (Revised 2003) will have a material impact on our consolidated financial position or consolidated results of operations.

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### IAS 2

In December 2003, the IASB issued IAS 2 (Revised 2003), "Inventories", and replaced IAS 2 (Revised 1993) and a related Interpretation. IAS 2 (Revised 2003) eliminates the allowed alternative to measure inventories using the last-in, first-out method. Additionally, IAS 2 (Revised 2003) requires finance costs of inventories purchased with deferred settlement terms to be accounted for separately over the period of financing. Currently, we do not expect the application of IAS 2 (Revised 2003) will have a material impact on our consolidated financial position or consolidated results of operations.

### IAS 8

In December 2003, the IASB issued IAS 8 (Revised 2003), "Accounting Policies, Changes in Accounting Estimates and Errors", and replaced IAS 8. IAS 8 (Revised 2003) requires retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors and eliminates the allowed alternative to include such adjustment in the current period income statement. IAS 8 (Revised 2003) requires, rather than encourages, disclosure of an impending change in accounting policy when an entity has yet to implement a new Standard or Interpretation that has been issued but not yet come into effect. Currently, we do not expect the application of IAS 8 (Revised 2003) will have a material impact on our consolidated financial position or consolidated results of operations.

### IAS 16

In December 2003, the IASB issued IAS 16 (Revised 2003), "Property, Plant and Equipment", and replaced IAS 16 (Revised 1997) and related Interpretations. IAS 16 (Revised 2003) 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 (Revised 2003) 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. Currently, we do not expect the application of IAS 16 (Revised 2003) will have a material impact on our consolidated financial position or consolidated results of operations.

### IAS 17

In December 2003, the IASB issued IAS 17 (Revised 2003), "Leases", and replaced IAS 17 (Revised 1997). IAS 17 (Revised 2003) requires a lump sum lease of land and building to be split into a lease of land and a lease of building, in proportion to the relative fair values of the leasehold interests in the land and building elements of the lease, and account for the lease of land and lease of building separately by applying the classification criteria in the standard. Currently, we do not expect the application of IAS 17 (Revised 2003) will have a material impact on our consolidated financial position or consolidated results of operations.

### IAS 21

In December 2003, the IASB issued IAS 21 (Revised 2003), "The Effects of Changes in Foreign Exchange Rates", and replaced IAS 21 (revised 1993) and related Interpretations. IAS 21 (Revised 2003) requires each individual entity included in a reporting entity to determine its functional currency and measure its results and financial position in that currency and stipulates that an entity previously classified as an integral foreign operation will have the same functional currency as the reporting entity. Furthermore, IAS 21 (Revised 2003) disallows capitalizing exchange differences resulting from a severe

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devaluation or depreciation of a currency against which there is no means of hedging, and requires such differences be recognized in the income statement. Currently, we do not expect the application of IAS 21 (Revised 2003) will have a material impact on our consolidated financial position or consolidated results of operations.

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### IAS 24

In December 2003, the IASB issued IAS 24 (Revised 2003), "Related Party Disclosures", and replaced IAS 24 (reformatted 1994). IAS 24 (Revised 2003) expands the scope of related parties and removes the exemption of profit-oriented state controlled entities from disclosing transactions with other state-controlled entities. IAS 24 (Revised 2003) also requires additional disclosures, including the compensation of key management personnel. Currently, we do not expect the application of IAS 24 (Revised 2003) will have a material impact on our consolidated financial position or consolidated results of operations.

### IAS 27

In December 2003, the IASB issued IAS 27 (Revised 2003), "Consolidated and Separate Financial Statements", and replaced IAS 27 (Revised 2000) and a related Interpretation. IAS 27 (Revised 2003) modifies the conditions for exempting a parent from preparing consolidated financial statements and the conditions for excluding subsidiaries from consolidation. IAS 27 (Revised 2003) also requires minority interests to be presented within equity, separately from the parent shareholders' equity. In addition, IAS 27 (Revised 2003) prohibits the use of equity method of accounting for investments in subsidiaries, jointly controlled entities and associates in a parent's separate financial statements. Currently, we do not expect the application of IAS 27 (Revised 2003) will have a material impact on our consolidated financial position or consolidated results of operations.

### IAS 28

In December 2003, the IASB issued IAS 28 (Revised 2003), "Investments in Associates", and replaced IAS 28 (Revised 2000) and related Interpretations. IAS 28 (Revised 2003) clarifies its scope and the circumstances for which investments in associates must be accounted for using the equity method. Currently, we do not expect the application of IAS 28 (Revised 2003) will have a material impact on our consolidated financial position or consolidated results of operations.

### IAS 32

In December 2003, the IASB issued IAS 32 (Revised 2003), "Financial Instrument: Disclosure and Presentation", and replaced IAS 32 (Revised 2000) and related Interpretations. IAS 32 (Revised 2003) clarifies the principle for classifying a financial instrument, and introduces additional disclosures. Currently, we do not expect the application of IAS 32 (Revised 2003) will have a material impact on our consolidated financial position or consolidated results of operations.

### IAS 33

In December 2003, the IASB issued IAS 33 (Revised 2003), "Earnings Per Share", and replaced IAS 33 (Revised 1997) and a related Interpretation. IAS 33 (Revised 2003) provides guidance and illustrative examples on selected complex matters in respect of the calculation of earnings per share. Currently, we do

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not expect the application of IAS 33 (Revised 2003) will have a material impact on our consolidated financial position or consolidated results of operations.

### IAS 36

In March 2004, the IASB issued IAS 36 (Revised 2004), "Impairment of Assets", and replaced IAS 36 (Revised 1998). IAS 36 (Revised 2004) requires that the recoverable amount of any intangible asset with an indefinite useful life or not yet available for use, and goodwill acquired in a business combination, be measured annually, rather than only when there is an indication that the asset may be impaired as required by IAS 36 (Revised 1998). In addition, IAS 36 (Revised 2004) clarifies the elements that should be reflected in the calculation of an asset's value in use. Currently, we do not expect the application of IAS 36 (Revised 2004) will have a material impact on our consolidated financial position or consolidated results of operations.

### IAS 38

In March 2004, the IASB issued IAS 38 (Revised 2004), "Intangible Assets", and replaced IAS 38 (Revised 1998). IAS 38 (Revised 2004) revises the definition of an intangible asset and provides further

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guidance on recognition of an intangible asset. IAS 38 (Revised 2004) also requires an entity to determine whether the useful life of an intangible asset is definite or indefinite and removes the rebuttable presumption that the useful life of an intangible asset does not exceed 20 years. Currently, we do not expect the application of IAS 38 (Revised 2004) will have a material impact on our consolidated financial position or consolidated results of operations.

### IAS 39

In December 2003 and March 2004, the IASB issued IAS 39 (Revised 2003), "Financial Instruments: Recognition and Measurement", and Amendments to IAS 39 (March 2004), "Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk", respectively. The revised IAS 39 amends its scope and clarifies the conditions for de-recognition of a financial asset. Additionally, the revised IAS 39 provides further guidance on determining fair value using valuation techniques and evaluating impairment of financial assets. Currently, we do not expect the application of the revised IAS 39 will have a material impact on our consolidated financial position or consolidated results of operations.

### IFRS 6

In addition to the above, the IASB issued IFRS 6, "Exploration for and Evaluation of Mineral Resources" in December 2004, which is effective for accounting periods beginning on or after January 1, 2006. We have not early adopted IFRS 6 in the financial statements for the year ended December 31, 2004. A brief summary of the key features of the IFRS 6 and our preliminary assessment result is as follows:

IFRS 6 allows the costs incurred in exploration for and evaluation of mineral resources either to be recognized as exploration and evaluation assets or continue to be accounted under the current accounting policies applied before adopting IFRS 6, subject to certain limitations. We cannot determine the potential effects that applications of IFRS 6 will have on our consolidated financial statements.

Overview of Our Operations

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We are the largest integrated petroleum and petrochemical companies in China and one of the largest in Asia in terms of operating revenues. We engage in exploring for, developing and producing crude oil and natural gas, operating refineries and petrochemical facilities and marketing crude oil, natural gas, refined petroleum products and petrochemicals. We have reported our consolidated financial results according to the following four principal business segments and the corporate and others segment.

- o Exploration and Production Segment, which consists of our activities related to exploring for and developing, producing and selling crude oil and natural gas;
- o Refining Segment, which consists of purchasing crude oil from our exploration and production segment and from third parties, processing of crude oil into refined products, selling refined products principally to our marketing and distribution segment;
- o Marketing and Distribution Segment, which consists of purchasing refined petroleum products from the refining segment and third parties, and marketing, selling and distributing refined products by wholesale to large customers and independent distributors and retail through our retail network;
- o Chemicals Segment, which consists of purchasing chemical feedstock principally from the refining segment and producing, marketing, selling and distributing chemical products; and
- o Corporate and Others Segment, which consists principally of trading activities of the import and export subsidiaries and our research and development activities.

### B. CONSOLIDATED RESULTS OF OPERATIONS

The following table sets forth certain income and expense items from our consolidated statements of income for the periods indicated.

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	Year Ended December		
	2002	2003	2004
	RMB	RMB	RMB
	(in billions)		
Operating revenues			
Sales of goods.....	333.9	429.9	590.0
Other operating revenues.....	16.2	19.1	20.0
	350.1	449.0	610.0
Operating expenses			
Purchased crude oil, products and operating supplies and expenses.....	(239.1)	(313.2)	(440.0)
Selling, general and administrative expenses.....	(22.4)	(27.2)	(30.0)
Depreciation, depletion and amortization.....	(26.5)	(28.0)	(30.0)
Exploration expenses, including dry holes.....	(4.4)	(6.1)	(6.0)
Personnel expenses.....	(15.0)	(17.0)	(17.0)

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Employee reduction expenses.....	(0.2)	(1.0)	(
Taxes other than income tax.....	(12.0)	(13.6)	(1
Other operating expenses, net.....	(1.2)	(4.0)	(
	-----	-----	-----
Total operating expenses.....	(320.8)	(410.1)	(55
	-----	-----	-----
Operating income.....	29.3	38.9	6
	-----	-----	-----
Net finance costs.....	(5.0)	(4.5)	(
Gain from issuance of shares by a subsidiary.....	-	0.1	(
Other income and gains.....	0.6	0.5	(
	-----	-----	-----
Income before income tax and minority interests.....	24.9	35.0	5
Income tax.....	(7.5)	(10.6)	(1
	-----	-----	-----
Income before minority interests.....	17.4	24.4	4
Minority interests.....	(1.1)	(2.0)	(
	-----	-----	-----
Net income.....	16.3	22.4	3
	=====	=====	=====

### Year Ended December 31, 2004 Compared with Year Ended December 31, 2003

In 2004, our sales of goods and other operating income were RMB 597.2 billion (US\$72.2 billion) and RMB 22.6 billion (US\$2.7 billion), respectively, representing an increase of 38.9% and 18.3%, respectively, from those in the previous year. These results are largely attributable to a number of factors. First, the international crude oil prices continued to be volatile and remained at a high level, the chemical industry was on the up trend cycle, and the domestic economy consistently maintained fast growth, all of which resulted in strong demand for chemical products and high prices of chemical products, which, in turn, provided favorable conditions for us to maximize our returns. Second, by taking the advantage of the favorable opportunities, we proactively developed the market, increased the sales of refined oil products, maintained steady growth in oil and gas production and increased the throughput of crude oil and production of chemical products. In addition, we continued to strive for better operating results through strengthening internal management, furthering corporate reforms and improving asset structure.

#### Operating Revenues

##### Overview

In 2004, our sales of goods and other operating revenues were RMB 619.8 billion (US\$74.9 billion), representing an increase of 38.0% compared with 2003. Our sales of goods was RMB 597.2 billion (US\$72.2 billion), representing an increase of 38.9% compared with 2003. In 2004, we captured the opportunity of the increased prices of crude oil and petrochemical products in the international market, expanded the sales volume of our major petrochemical products and optimized marketing structure. Our other operating revenues increased to RMB 22.6 billion (US\$2.7 billion) in 2004, representing an increase of 18.3% compared with 2003. Our other operating revenues increased to RMB 22.6 billion (US\$2.7 billion) in 2004, representing an increase of 18.3% compared with 2003. Such other operating revenues primarily consist of revenues generated from our sale of raw and auxiliary materials to Sinopec Group as well as third parties.

The following table sets forth external sales revenues and percentages of sales of goods and other operating revenues by product category, as well as percentage changes from 2003 to 2004.



	Year Ended December 31,			Rate of Change from 2003 to 2004  (%)
	2003	2004	2004	
	(RMB)	(RMB) (in billion)	(US\$)	
External Sales Revenues				
Crude oil and natural gas.....	14.9	16.0	1.9	6.9
Refined petroleum products.....	289.7	406.2	49.1	40.2
Chemical products.....	92.0	126.0	15.2	37.0

The following table sets forth the average external sales prices and sales volumes by selected products, as well as the respective percentage changes from 2003 to 2004.

	Average External Sales Price			Rate of Change from 2003 to 2004  (%)	Sales Volume	
	2003	2004	2004		2003	2004
	(RMB)	(RMB)	(US\$)			
Crude Oil.....	1,493 (1)	1,872 (1)	226.2 (1)	25.4	7.22 (2)	
Natural Gas.....	591 (3)	609 (3)	73.6 (3)	3.0	3.41 (4)	
Gasoline .....	3,298 (1)	3,765 (1)	454.9 (1)	14.2	23.36 (2)	
Diesel .....	2,794 (1)	3,221 (1)	389.2 (1)	15.3	47.29 (2)	
Kerosene .....	2,361 (1)	2,923 (1)	353.2 (1)	23.8	4.81 (2)	
Selected Chemical Products						
Synthetic Resin .....	6,017 (1)	7,986 (1)	964.9 (1)	32.7	5.10 (2)	
Synthetic Fiber.....	9,300 (1)	10,818 (1)	1,307.1 (1)	16.3	1.72 (2)	
Synthetic Rubber.....	8,513 (1)	10,238 (1)	1,237.0 (1)	20.3	0.55 (2)	
Synthetic Fiber Monomer and Polymer.....	5,791 (1)	8,022 (1)	969.3 (1)	38.5	2.62 (2)	

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- (1) per tonne  
(2) million tonnes  
(3) per thousand cubic meters  
(4) billion cubic meters

#### Sales of crude oil and natural gas

Most of crude oil and a small portion of natural gas produced by us were internally used by our refining and chemical production. The remaining was sold to the refineries controlled by our controlling shareholder, Sinopec

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Group and third party customers.

In 2004, sales revenues from crude oil and natural gas amounted to RMB 16.0 billion (US\$1.9 billion), or 2.6% of our sales of goods and other operating revenues, representing an increase of 6.9% compared with RMB 14.9 billion in 2003. Such increase was primarily attributable to the increase in price of crude oil and expansion of natural gas business. The external sales price of crude oil increased to RMB 1,872 (US\$226.2) per tonne from RMB 1,493 per tonne in 2003, representing an increase of 25.4% from 2003. The effect of increased price was partially offset by the decrease in the quantity of external sales from 7.22 million tonnes in 2003 to 6.01 million tonnes in 2004, representing a decrease of 16.7%. The external sales price of natural gas rose from RMB 591 per thousand cubic meters in 2003 to RMB 609 (US\$73.6) per thousand cubic meters in 2004, representing an increase of 3.0%, and the external sales volume increased from 3.4 billion cubic meters in 2003 to 3.8 billion cubic meters in 2004, representing an increase by 10.5%.

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### Sales of refined petroleum products

Both the refining and the marketing and distribution segments make sales of refined petroleum products, which consist primarily of gasoline, diesel, kerosene (including jet fuel) and other refined products to third parties.

In 2004, the external sales revenue of petroleum products recorded by these two segments were RMB 406.2 billion (US\$49.1 billion), accounting for 65.5% of our sales of goods and other operating revenues, representing an increase of 40.2% from RMB 289.7 billion in 2003. Such increase was primarily attributable to the increase in prices and sales volume of gasoline, diesel and kerosene and also to the Company's proactive efforts in increasing sales volume, optimizing marketing structure and expanding the market of other petroleum products. The sales revenue of gasoline, diesel and kerosene was RMB 314.2 billion (US\$38.0 billion), comprising 77.4% of the total sales revenue of petroleum products, representing an increase of 42.5% from RMB 220.5 billion in 2003. The increase of sales revenue of gasoline, diesel and kerosene was due to the rise of prices and our active efforts in increasing the sales volume of these products. In 2004, the average external sales price of gasoline was RMB 3,765 (US\$454.9) per tonne, representing an increase of 14.2% compared with 2003, the average external sales price of diesel was RMB 3,221 (US\$389.2) per tonne, representing an increase of 15.3% compared with that in 2003 and the average sales price of kerosene was RMB 2,923 (US\$353.2) per tonne, representing an increase of 23.8% compared with that in 2003. The sales volume of gasoline was 27.4 million tonnes, representing an increase of 17.1% compared with that in 2003, and the sales volume of diesel was 60.4 million tonnes, representing an increase of 27.8% compared with that in 2003. The combined sales volume of gasoline, diesel and kerosene was 23.8% higher than that of 2003.

### Sales of chemical products

In 2004, our external sales revenue of chemical products was RMB 126.0 billion (US\$15.2 billion), accounting for 20.3% of our sales of goods and other operating revenues, or representing increase of 37.0% compared with that of RMB 92.0 billion in 2003. The increase was mainly due to the significant increase in both chemical products prices and sales volumes of major chemical products. In 2004, the external sales volumes of synthetic resin, synthetic fiber, synthetic rubber, synthetic fiber monomer and polymer were respectively 5.4 million tonnes, 1.7 million tonnes, 556,000 tonnes, 2.7 million tonnes, representing increases of 6.0%, 1.2%, 0.2% and 3.1%

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respectively compared with 2003. The external sales prices of such products were, respectively, RMB 7,986 (US\$964.9) per tonne, RMB 10,818 (US\$1,307.1) per tonne, RMB 10,238 (US\$1,237.0) per tonne and RMB 8,022 (US\$969.3) per tonne, representing increases of 32.7%, 16.3%, 20.3% and 38.5% respectively, compared with 2003.

### Operating expenses

In 2004, our operating expenses were RMB 556.7 billion (US\$67.3 billion), representing an increase of 35.7% compared with 2003. The operating expenses mainly consisted of the following:

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

Our purchased crude oil, products and operating supplies and expenses were RMB 443.6 billion (US\$53.6 billion), accounting for 79.7% of the operating expenses, representing an increase of 41.6% compared with 2003. Among others,

- o Purchased crude oil expenses were RMB 232.6 billion (US\$28.1 billion), accounting for 41.8% of the total operating expenses, representing an increase of 41.5% compared with 2003. To meet the increasing demands in the market associated with the rapid growth of the Chinese economy, we increased our throughput of crude oil purchased externally. In 2004, our throughput of crude oil purchased externally was 101 million tonnes (excluding amounts processed for third parties), representing an increase of 13.6% compared with 2003. Our average cost for crude oil purchased from third parties in 2004 was RMB 2,312 (US\$279.3) per tonne, representing an increase of 24.6% compared with 2003.
- o In 2004, our other purchase expenses were RMB 211.0 billion (US\$25.5 billion), accounting for 37.9% of the total operating expenses, representing an increase of 41.7% compared with 2003.

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This increase was mainly due to the increased costs of refined oil products and chemical feedstock purchased externally.

#### Selling, general and administrative expenses

In 2004, our selling, general and administrative expenses were RMB 31.8 billion (US\$3.8 billion), representing an increase of 16.9% compared with 2003. The increase was largely due to:

- o Sales volume of refined oil products and sales through retail and direct distribution increased. As a result, the selling expenses, such as transportation costs, increased by RMB 1.9 billion (US\$0.2 billion) from 2003;
- o An increase in repairing and maintenance expenses by RMB 1.1 billion (US\$0.1 billion) compared with 2003 due to the additions of property, plant and equipment and the increase in maintenance activities related to petrol stations;
- o Operating lease rentals increased by RMB 0.7 billion (US\$0.1 billion) from 2003. The increase was mainly due to the increase in rental of operating facilities such as petrol stations from third parties and rental of land and buildings from related parties; and

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- o Our advertising expenses increased by RMB 0.7 billion (US\$0.1 billion) as a result of our enhanced efforts to promote our image.

### Depreciation, depletion and amortization

In 2004, our depreciation, depletion and amortization amounted to RMB 32.3 billion (US\$3.9 billion), representing an increase of 15.7% over 2003. This increase was mainly due to the addition of property, plant and equipment as a result of capital expenditure.

### Exploration expenses

In 2004, our exploration expenses were RMB 6.4 billion (US\$0.8 billion), representing an increase of 4.3% from 2003. The increase was principally due to our further increase of investment in the exploration activities, especially in the major new blocks in the western and southern parts of China.

### Personnel expenses

In 2004, our personnel expenses were RMB 18.6 billion (US\$2.3 billion), representing an increase of 9.8% over 2003. The increase was largely due to our introduction of a market rate based compensation system reform. As a result, wage, salary and welfare expenses increased by RMB 1.3 billion (US\$0.1 billion).

### Employee reduction expenses

In 2004, as part of our voluntary staff reduction plan, and in connection with the acquisition of petrochemical and catalyst assets from and the disposal of downhole operation assets to Sinopec Group Company, we incurred approximately RMB 0.9 billion (US\$0.1 billion) as employee reduction expenses for approximately 24,000 employees, down by RMB 0.1 billion compared with that in 2003.

### Taxes other than income tax

In 2004, our taxes other than income tax were RMB 16.3 billion (US\$2.0 billion), representing an increase of 20.2% over 2003. The increase was largely due to the increase of consumption tax and associated city construction taxes and education surcharges as a result of the increased sales volume of gasoline and diesel.

### Other operating expenses, net

In 2004, our other operating expenses (net) were RMB 6.7 billion (US\$0.8 billion), representing an increase of 67.7% from 2003. The increase was largely due to the following reason: In order to allocate our internal resources more efficiently, we revised the production plans in 2004, and accordingly made a provision for impairment loss of RMB 3.9 billion (US\$0.5 billion) on certain less efficient chemical facilities, petrol stations and

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depots on the difference between the estimated recoverable value and the net book value of these assets, representing an increase of RMB 3.0 billion (US\$0.4 billion) compared with 2003. Meanwhile, disposals of assets decreased in 2004.

### Operating income

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In 2004, our operating income was RMB 63.1 billion (US\$7.6 billion), representing an increase of 62.2% from 2003.

### Net finance costs

In 2004, our net finance costs were RMB 4.4 billion (US\$0.5 billion), representing a decrease of 2.1% from 2003. The decrease was primarily due to a decrease in foreign exchange losses in 2004.

### Income before income tax and minority interests

In 2004, our income before income tax and minority interests was RMB 59.6 billion (US\$7.2 billion), representing an increase of 70.1% from 2003.

### Income tax

In 2004, our income tax was RMB 17.8 billion (US\$2.1 billion), representing an increase of 67.4% over 2003. The increase was primarily due to the increase in operating income.

### Minority interests

In 2004, our minority interests were RMB 5.8 billion (US\$0.7 billion), representing an increase of 192.7% over 2003. The increase was primarily due to the increase in the profits of our subsidiaries increased as compared with 2003.

### Net income

In 2004, our net income was RMB 36.0 billion (US\$4.4 billion), representing an increase of 60.6% compared with 2003.

### Year Ended December 31, 2003 Compared with Year Ended December 31, 2002

In 2003, our sales of goods and operating income were RMB 429.9 billion (US\$51.9 billion) and RMB 19.1 billion (US\$2.3 billion) respectively, representing an increase of 28.8% and 17.9%, respectively, from those in the previous year. These changes are largely attributable to a number of factors. First, we closely monitored the changes in market demands, and quickly responded to such changes through adjustments of our operating plan. Second, to take advantage of the favorable opportunity of higher prices of crude oil and chemical products in the global market and the rapid growth of Chinese economy, we managed to overcome the negative impact caused by SARS and further expanded our target market. In addition, we continued to strive for better operating results through more strengthened management, further corporate reforms, better asset structure and more efficient operation.

### Operating Revenues

#### Overview

In 2003, our sales of goods and other operating revenues were RMB 449.0 billion (US\$54.2 billion), representing an increase of 28.2% compared with 2002. Our sales of goods was RMB 429.9 billion (US\$51.9 billion), representing an increase of 28.8% compared with 2002. The increase was primarily due to increase of the prices of crude oil, petroleum products and chemical products in the global market in 2003. In addition, to seize the market opportunity, we increased our refining throughput and increased the sales volume of our refined products, and increased our sales volume of main petrochemical products significantly. Our other operating revenues increased to RMB 19.1 billion (US\$2.3 billion) in 2003, representing an increase of 17.9% compared with 2002. Such other operating revenues primarily consist of

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revenues generated from our sale of raw and auxiliary materials to Sinopec Group and its subsidiaries as well as third parties.

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The following table sets forth external sales revenues and percentages of sales of goods and other operating revenues by product category, as well as percentage changes from 2002 to 2003.

	Year Ended December 31,			Rate of Change from 2002 to 2003 (%)
	2002	2003	2003	
	(RMB)	(RMB) (in billion)	(US\$)	
<b>External Sales Revenues</b>				
Crude oil and natural gas.....	10.9	14.9	1.8	36.7
Refined petroleum products.....	226.0	289.7	35.0	28.2
Chemical products.....	72.2	92.0	11.1	27.4

The following table sets forth the average external sales prices and sales volumes by selected products, as well as the respective percentage changes from 2002 to 2003.

	Average External Sales Price			Rate of Change from 2002 to 2003 (%)	Sales Volume	
	2002	2003	2003		2002	
	(RMB)	(RMB)	(US\$)		(1)	(2)
Crude Oil.....	1,189(1)	1,493(1)	180.4(1)	25.6	6.35(2)	7
Natural Gas.....	574(3)	591(3)	71.4(3)	3.0	3.2(4)	3
Gasoline .....	2,806(1)	3,298(1)	398.5(1)	17.5	22.54(2)	23
Diesel .....	2,408(1)	2,794(1)	337.6(1)	16.0	44.04(2)	47
<b>Selected Chemical Products</b>						
Synthetic Resin .....	5,163(1)	6,017(1)	727.0(1)	16.5	4.38(2)	5
Synthetic Fiber.....	9,022(1)	9,300(1)	1,123.7(1)	3.1	1.38(2)	1
Synthetic Rubber.....	6,468(1)	8,513(1)	1,028.6(1)	31.6	0.51(2)	0
Synthetic Fiber Monomer and Polymer.....	5,338(1)	5,791(1)	699.7(1)	8.5	2.04(2)	2

- 
- (1) per tonne
  - (2) million tonnes
  - (3) per thousand cubic meter
  - (4) billion cubic meters

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### Sales of crude oil and natural gas

Most of crude oil and a small portion of natural gas produced by us were internally used by our refining and chemical production. The remaining was sold to the refineries controlled by our controlling shareholder, Sinopec Group Company and third party customers.

In 2003, sales revenues from crude oil and natural gas amounted to RMB 14.9 billion (US\$1.8 billion), or 3.3% of our sales of goods and other operating revenues, representing an increase of 36.7% compared with RMB 10.9 billion in 2002. Such increase was primarily attributable to the increase in price and sales volume of crude oil. The external sales price of crude oil increased to RMB 1,493 (US\$180.4) per tonne from RMB 1,189 per tonne in 2002, representing an increase of 25.6% from 2002. The quantity of external sales increased from 6.35 million tonnes in 2002 to 7.22 million tonnes in 2003, representing an increase of 13.7%. The external sales price of natural gas rose from RMB 574 per thousand cubic meters in 2002, to RMB 591 (US\$71.4) per thousand cubic meters in 2003, and the external sales volume increased from 3.2 billion cubic meters in 2002 to 3.4 billion cubic meters in 2003.

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### Sales of refined petroleum products

Both the Refining and the marketing and distribution segments make sales of refined petroleum products, which consist primarily of gasoline, diesel, kerosene (including jet fuel) and other refined products to third parties.

In 2003, the external sales revenue of petroleum products recorded by these two segments were RMB 289.7 billion (US\$35.0 billion), accounting for 64.5% of our sales of goods and other operating revenues, representing an increase of 28.2% from RMB 226.0 billion in 2002. The sales revenue of gasoline and diesel was RMB 209.1 billion (US\$25.3 billion), comprising 72.2% of the total sales revenue of petroleum products, representing an increase of 23.5% from RMB 169.3 billion in 2002. Among others, the sales revenue of gasoline in 2003 was RMB 77 billion (US\$9.3 billion), representing an increase of 21.6% compared with 2002. The sales revenue of diesel was RMB 132.1 billion (US\$16.0 billion), representing an increase of 24.6% compared with 2002. The increase of sales revenue of gasoline and diesel was due to the rise of gasoline and diesel prices and our active efforts in increasing the sales volume of its products. In 2003, the average external sales price of gasoline was RMB 3,298 (US\$398.5) per tonne, representing an increase of 17.5% compared with 2002, and the average external sales price of diesel was RMB 2,794 (US\$337.6) per tonne, representing an increase of 16% compared with that in 2002. The sales volume of gasoline was 23.36 million tonnes, representing an increase of 3.6% compared with that in 2002, and the sales volume of diesel was 47.29 million tonnes, representing an increase of 7.4% compared with that in 2002. The combined sales volume of gasoline and diesel was 6.1% higher than that of 2002.

### Sales of chemical products

In 2003, our external sales revenue of chemical products was RMB 92.0 billion (US\$11.1 billion), accounting for 20.5% of our sales of goods and other operating revenues, representing an increase of 27.4% compared with that of RMB 72.2 billion in 2002. The increase was mainly due to the significant increase in both chemical products prices and sales volumes of major chemical products, as a result of the strong domestic demand for chemical products. The

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strong domestic demand corresponded to the gradual recovery of the global chemical market. In order to increase production volume for our chemical products, we revamped certain of our ethylene and other downstream facilities, which increased our production capacity of certain chemical products. In 2003, the external sales volumes of synthetic resin, synthetic fiber, synthetic rubber, synthetic fiber monomer and polymer were respectively 5.10 million tonnes, 1.72 million tonnes, 550,000 tonnes, 2.62 million tonnes, representing increases of 16.4%, 24.6%, 7.8% and 28.4% respectively compared with 2002. The external sales prices of such products were, respectively, RMB 6,017 (US\$727.0) per tonne, RMB 9,300 (US\$1,123.7) per tonne, RMB 8,513 (US\$1,028.6) per tonne and RMB 5,791 (US\$699.7) per tonne, representing increases of 16.5%, 3.1%, 31.6% and 8.5% respectively, compared with 2002.

### Operating expenses

In 2003, our operating expenses were RMB 410.1 billion (US\$49.5 billion), representing an increase of 27.8% compared with 2002. The increase in operating expenses was primarily attributable to the increase in purchased crude oil, products and operating supplies and expenses and selling, general and administrative expenses.

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

Our purchased crude oil, products and operating supplies and expenses were RMB 313.2 billion (US\$37.8 billion), accounting for 76% of the operating expenses, an increase of RMB 74.1 billion (US\$9.0 billion) compared with 2002, representing an increase of 31.0%. Among others,

- o Purchased crude oil expenses were RMB 164.3 billion (US\$19.9 billion), accounting for 40.1% of the total operating expenses, an increase of RMB 45 billion (US\$5.4 billion) or 37.7% compared with 2002. To meet the increasing demands in the market associated with the rapid growth of the Chinese economy, we increased our crude oil throughput. In 2003, our crude oil throughput was 116.66 million tonnes (excluding amounts processed for third parties), representing an increase of 11.23 million tonnes, or 10.7%, compared with 2002. Of our crude oil throughput, our exploration and production segment supplied 28.08 million tonnes, representing a decrease of 1.46 million tonnes, or 4.9%, compared with 2002. We processed 88.58 million tonnes of crude oil purchased from third parties, representing an increase of 12.69 million tonnes, or 16.7%, compared with 2002. Since March 2003, crude oil price in the global market has gradually increased. Our average cost for crude oil purchased from third parties in 2003 was RMB 1,855

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(US\$224.1) per tonne, representing an increase of RMB 283 (US\$34.2) per tonne, or 18%, compared with 2002.

- o In 2003, our other purchase expenses were RMB 148.9 billion (US\$18.0 billion), accounting for 36.3% of the total operating expenses, representing an increase of RMB 29.1 billion (US\$3.5 billion), or 24.3%, compared with 2002. This increase was mainly due to the increased costs of oil products and chemical feedstock caused by the increase in crude oil price.

### Selling, general and administrative expenses

In 2003, our selling, general and administrative expenses were RMB 27.2 billion (US\$3.3 billion), representing an increase of RMB 4.8 billion



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(US\$0.6 billion), or 21.4%, compared with 2002. The increase was largely due to:

- o In 2003, provision for bad debts increased by RMB 1.15 billion (US\$0.1 billion) from 2002.
- o In connection with the upgrade of production facilities and improved technologies, we disposed of certain low efficiency production equipment in 2003 causing an increase in the expense related to disposal of relevant spare parts by RMB 500 million (US\$60.4 million) compared with 2002.
- o Expenses in research and development increased by RMB 0.60 billion (US\$72.0 million) from 2002.
- o Operating lease rentals increased by RMB 0.39 billion (US\$47.1 million) from 2002, mainly because we leased certain additional petrol stations in order to further expand our distribution channels of oil products.
- o After the expansion and revamping of some of our chemical facilities, sales volume of chemical products increased. In addition, proportion of retail over the total sales volume of refined oil products, and total sales volume of refined oil products increased. Accordingly, the selling expenses, such as transportation costs, increased by RMB 0.69 billion (US\$83.3 million) from 2002.

### Depreciation, depletion and amortization

In 2003, our depreciation, depletion and amortization amounted to RMB 28.0 billion (US\$3.4 billion), representing an increase of 5.7% over 2002. This increase was mainly due to the addition of property, plant and equipment as a result of capital expenditure.

### Exploration expenses

In 2003, our exploration expenses were RMB 6.1 billion (US\$0.7 billion), representing an increase of 38.6% from 2002. The increase was principally due to our further increase of investment in the exploration activities, especially in the major new blocks in the western and southern parts of China.

### Personnel expenses

In 2003, our personnel expenses were RMB 17.0 billion (US\$2.1 billion), representing an increase of 13.3% over 2002. The increase was largely due to our introduction of a market rate based compensation system reform. As a result, wage, salary and welfare expenses increased by RMB 1.8 billion (US\$0.2 billion).

### Employee reduction expenses

As part of our voluntary staff reduction plan, we incurred approximately RMB 1 billion (US\$0.1 billion) as employee reduction expenses for approximately 21,000 employees who voluntarily terminated their employment with us in 2003.

### Taxes other than income tax

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In 2003, our taxes other than income tax were RMB 13.6 billion (US\$1.6 billion), representing an increase of 13.3% over 2002. The increase was largely due to the increase of consumption tax and surcharges as a result of the increased sales volume of gasoline and diesel.

### Other operating expenses, net

In 2003, our other operating expenses (net) were RMB 4.0 billion (US\$0.5 billion), representing an increase of RMB 2.8 billion (US\$0.3 billion) from 2002. The increase was largely due to a number of factors. Among others,

- o To facilitate a long-term development strategy, we further improved our asset structure and our overall asset quality. In 2003, we incurred a net loss of RMB 2.2 billion (US\$0.3 billion), or an increase of RMB 1.43 billion (US\$0.2 billion) over those in 2002, on disposal of certain low efficiency assets, which included RMB 90 million (US\$10.9 million) from the exploration and production segment, RMB 0.74 billion (US\$89.4 million) from the refining segment, RMB 0.4 billion (US\$44.7 million) from the marketing and distribution segment, RMB 1.0 billion (US\$0.1 billion) from the chemicals segment, and RMB 10 million (US\$1.2 million) from corporate and others segment.
- o In order to allocate our internal resources more efficiently, we revised the production plans for certain less efficient facilities in 2003, and accordingly made a provision for impairment of long-lived assets of RMB 0.88 billion (US\$106.3 million), representing the difference between the expected recoverable value and the net book value of these assets.

### Operating income

In 2003, our operating income was RMB 38.9 billion (US\$4.7 billion), representing an increase of 33% from 2002.

### Net finance costs

In 2003, our net finance costs were RMB 4.5 billion (US\$0.5 billion), representing a decrease of RMB 0.5 billion (US\$58.6 million), or 9.8%, from 2002. The decrease was primarily due to our further reduction of the aggregate amount of our short-term loan and the adjustment of our financing structure to include, among others, certain US-dollar denominated loans. The interest expense was RMB 4.4 billion (US\$0.5 billion) in 2003, representing a decrease of RMB 0.6 billion (US\$68.5 million) from 2002.

### Income before income tax and minority interests

In 2003, our income before income tax and minority interests was RMB 35.0 billion (US\$4.2 billion), representing an increase of 40.6% from 2002.

### Income tax

In 2003, our income tax was RMB 10.6 billion (US\$1.3 billion), representing an increase of 42.1% over 2002.

### Minority interests

In 2003, our minority interests were RMB 2.0 billion (US\$0.2 billion), representing an increase of 74.7% over 2002.

### Net income

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In 2003, our net income was RMB 22.4 billion (US\$2.7 billion), representing an increase of 37.6% compared with 2002.

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### C. DISCUSSIONS ON RESULTS OF SEGMENT OPERATIONS

We divide our operations into four principal business segments, namely, exploration and production segment, refining segment, marketing and distribution segment, and chemicals segment, and a corporate and others segment.

Unless otherwise specified, inter-segment transactions have not been eliminated from the financial data discussed in this section. In addition, the operating revenue data for each segment discussed in this section include, in addition to the sales of goods, "other operating revenues" for such segment.

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

	Years Ended December 31,				As a Percentage of Consolidated Operating Revenues Before Elimination of Inter-segment Sales	
	2002	2003	2004	2004	2003	2004
	RMB	RMB (in billions)	RMB	US\$	(%)	(%)
Exploration and Production						
External sales(1).....	18.2	23.0	25.3	3.1	3.0	2.5
Inter-segment sales.....	39.4	47.3	60.1	7.3	6.3	5.9
Total operating revenue.	57.6	70.3	85.3	10.3	9.3	8.4
Refining						
External sales(1).....	44.7	56.0	68.6	8.3	7.4	6.7
Inter-segment sales.....	168.6	217.7	289.7	35.0	28.9	28.5
Total operating revenue.	213.3	273.7	358.3	43.3	36.3	35.2
Marketing and distribution						
External sales(1).....	184.7	238.8	343.6	41.5	31.7	33.8
Inter-segment sales.....	2.3	2.6	2.8	0.3	0.3	0.3
Total operating revenue.	187.0	241.4	346.4	41.9	32.0	34.1
Chemicals						

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External sales(1).....	76.5	96.4	132.2	16.0	12.8	13.0
Inter-segment sales.....	7.9	7.4	12.5	1.5	1.0	1.2
	-----	-----	-----	-----	-----	-----
Total operating revenue.	84.4	103.8	144.7	17.5	13.8	14.2
	=====	=====	=====	=====	=====	=====
Corporate and others						
External sales(1).....	26.0	34.8	50.2	6.0	4.6	4.9
Inter-segment sales.....	20.4	30.4	32.0	3.9	4.0	3.2
	-----	-----	-----	-----	-----	-----
Total operating revenue.	46.4	65.2	82.2	9.9	8.6	8.1
	=====	=====	=====	=====	=====	=====
Total operating revenue before inter-segment eliminations.....	588.7	754.4	1,016.9	122.9	100.0	100.0
					=====	=====
Elimination of inter-segment sales.....	(238.6)	(305.4)	(397.1)	(48.0)		
	-----	-----	-----	-----		
Consolidated operating revenues.....	350.1	449.0	619.8	74.9		
	=====	=====	=====	=====		

(1) includes other operating revenues. See Note 31 to the consolidated financial statements for revenues of each of our operating segments.

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

	Years Ended December 31,			
	2002	2003	2004	2004
	RMB	RMB	RMB	US\$
	(in billions)			
Exploration and Production				
Total operating revenues.....	57.6	70.3	85.3	10.3
Total operating expenses.....	(42.8)	(51.1)	(59.7)	(7.2)
	-----	-----	-----	-----
Total operating income.....	14.8	19.2	25.6	3.1
	=====	=====	=====	=====
Refining				
Total operating revenues.....	213.3	273.7	358.3	43.3
Total operating expenses.....	(207.3)	(267.7)	(352.4)	(42.6)
	-----	-----	-----	-----
Total operating income.....	6.0	6.0	5.9	0.7
	=====	=====	=====	=====
Marketing and distribution				

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Total operating revenues.....	187.0	241.4	346.4	41.9
Total operating expenses.....	(178.6)	(229.5)	(331.7)	(40.1)
	-----	-----	-----	-----
Total operating income.....	8.4	11.9	14.7	1.8
	=====	=====	=====	=====
<b>Chemicals</b>				
Total operating revenues.....	84.4	103.8	144.7	17.5
Total operating expenses.....	(83.3)	(100.3)	(126.0)	(15.3)
	-----	-----	-----	-----
Total operating income.....	1.1	3.5	18.7	2.2
	=====	=====	=====	=====
<b>Corporate and others</b>				
Total operating revenues.....	46.4	65.2	82.2	9.9
Total operating expenses.....	(47.4)	(67.0)	(84.1)	(10.1)
	-----	-----	-----	-----
Total operating loss.....	(1.0)	(1.8)	(1.9)	(0.2)
	=====	=====	=====	=====

### Exploration and Production Segment

The business activities of the exploration and production segment consist of exploration, development, production, and sale of crude oil and natural gas.

Year Ended December 31, 2004 compared with Year Ended December 31, 2003

Operating revenues from the exploration and production segment in 2004 were RMB 85.3 billion (US\$10.3 billion), representing an increase of 21.4% from RMB 70.3 billion in 2003. The increase in operating revenues was primarily due to an increase in the sales volume and sales price of crude oil compared with those in 2003.

In 2004, average realized price of crude oil by this segment was RMB 1,956 (US\$236.3) per tonne, representing an increase of 20.7% over 2003. Average realized price of natural gas was RMB 616 (US\$74.4) per thousand cubic meters, representing an increase of 3.3% over 2003.

Sales volume of crude oil was 36.3 million tonnes, representing an increase of 1.4% compared with 2003. Sales volume of natural gas was 3.9 billion cubic meters, representing an increase of 11.6% over that in 2003.

In 2004, the segment's operating expenses were RMB 59.7 billion (US\$7.2 billion), an increase of 16.8%, compared with 2003. The increase was primarily because:

- o The depreciation, depletion and amortization of the segment increased by RMB 2.6 billion (US\$0.3 billion) compared with 2003. This change was caused by the additions of oil and gas properties as a result of an increase in capital expenditure incurred in this segment.
- o The rise of fuel cost as a result of the increase in oil and gas production and fuel prices, resulting in an increase of the operating expenses by approximately RMB 1 billion (US\$0.1 billion) compared with 2003.
- o Other operating expenses including expenses related to the sales of materials were up by RMB 1.3 billion (US\$0.2 billion) compared with 2003.

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- o Exploration expenses (including dry holes) were up by RMB 0.3 billion (US\$31.8 million) compared with 2003.
- o Due to the increase of sales revenues of crude oil, the natural resources compensation fee increased accordingly. Land and building rental increased due to the increase of leased land and buildings. In addition, safety insurance fund also increased. The total of these items was up by RMB 0.5 billion (US\$0.1 billion) compared with 2003.

In 2004, operating income of the exploration and production segment was approximately RMB 25.6 billion (US\$3.1 billion), which was 33.7% higher than that in 2003.

Year Ended December 31, 2003 compared with Year Ended December 31, 2002

Operating revenues from the exploration and production segment in 2003 were RMB 70.3 billion (US\$8.5 billion), representing an increase of 22% from RMB 57.6 billion in 2002. The increase in operating revenues was primarily due to an increase in the average realized prices of crude oil. In addition, the increase was also partially due to increase in the average realized prices and sales volume of natural gas.

In 2003, average realized price of crude oil by this segment was RMB 1,620 (US\$195.7) per tonne, representing an increase of 22.9% over 2002. Average realized price of natural gas was RMB 596 (US\$72.0) per thousand cubic meters, representing an increase of 4.2% over 2002.

Sales volume of crude oil was 35.8 million tonnes, representing an increase of 0.6% compared with 2002. Sales volume of natural gas was 3.5 billion cubic meters, representing an increase of 6.1% over that in 2002.

In 2003, the segment's operating expenses were RMB 51.1 billion (US\$6.2 billion), or an increase of RMB 8.3 billion (US\$1.0 billion), or 19.4%, compared with 2002. The increase was primarily because:

- o In 2003, the segment continued to implement its strategy featuring "expansion of resources", and increased investment in exploration activities in a number of new blocks in western and southern parts of China. As a result, the exploration expenses (including the costs of dry holes) increased by RMB 1.7 billion (US\$0.2 billion) compared with 2002.
- o Due to the increase of downhole operation activities and rise of fuel and other costs as a result of the increase in crude oil price, the lifting cost of crude oil and natural gas increased by RMB 1.04 billion (US\$0.1 billion) compared with 2002.
- o Other expenses including supply of materials increased by RMB 0.8 billion (US\$0.1 billion) compared with 2002.
- o In 2003, as a result of the employee compensation system reform, wages, salaries and welfare expenses increased by approximately RMB 0.7 billion (US\$0.1 billion) compared with 2002.
- o In 2003, depreciation, depletion and amortization were RMB 9.4 billion (US\$1.1 billion), representing an increase of RMB 0.4 billion (US\$48.3 million) compared with 2002, due to the addition of fixed assets resulted from the segment's capital investments.
- o Provision for impairment losses of assets were RMB 310 million (US\$37.5 million), representing an increase of RMB 310 million

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(US\$37.5 million) compared with 2002.

- o Due to the increase of sales revenues the compensation fee for mineral resources increased. In addition, land lease rentals increased due to the increase in leased land area. The sum of these two items increased by RMB 220 million (US\$26.6 million) compared with 2002.
- o Disposal of spare parts increased by approximately RMB 100 million (US\$12.1 million) compared with 2002.

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In 2003, operating income of the exploration and production segment was approximately RMB 19.2 billion (US\$2.3 billion), which was 29.7% higher than in 2002.

### Refining Segment

Our refining segment consists of our operations related to purchasing crude oil from our exploration and production segment and from third parties, processing of crude oil into refined petroleum products, selling gasoline, diesel and kerosene including jet fuel to our marketing and distribution segment, and selling other refined petroleum products to domestic and overseas customers.

Year Ended December 31, 2004 compared with Year Ended December 31, 2003

In 2004, the refining segment's operating revenues were RMB 358.3 billion (US\$43.3 billion), representing an increase of 30.9% over 2003. The increase was mainly due to the increase in the sales prices and sales volumes of various major refined petroleum products.

The table below sets forth sales revenue and the percentage of total operating revenue for the segment by product category for 2003 and 2004, and as well as the percentage changes in sales revenue from 2003 to 2004.

	Years Ended December 31,			Rate of Change from 2003 to 2004	As Ref Tota
	2003	2004	2004		
	(RMB)	(RMB)	(US\$)	(%)	(
	(in billions)				
Refining Segments, operating revenues					
Gasoline.....	55.8	63.8	7.7	14.4	
Diesel .....	99.7	145.3	17.6	45.7	
Light chemical feedstock .....	49.9	62.1	7.5	24.5	
Other refined petroleum products.....	63.8	81.9	9.9	28.3	
Other operating revenues	4.5	5.2	0.6	15.6	
Total.....	273.7	358.3	43.3	30.9	1

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In 2004, the sales revenues of gasoline realized by the segment was RMB 63.8 billion (US\$7.7 billion), accounting for 17.8% (which was 2.6 percentage points lower than that of 2003) of this segment's operating revenues, representing an increase of 14.4% from 2003.

In 2004, the sales revenues of diesel realized by the segment was RMB 145.3 billion (US\$17.6 billion), accounting for 40.5% (which was 4.0 percentage points higher than that of 2003) of this segment's operating revenues, representing an increase of 45.7% from 2003.

In 2004, the sales revenues of chemical feedstock realized by the segment was RMB 62.1 billion (US\$7.5 billion), accounting for 17.3% (which was 0.9 percentage points lower than that in 2003) of this segment's operating revenues, representing an increase of 24.5% from 2003.

In 2004, the sales revenues of refined petroleum products other than gasoline, diesel and chemical feedstock were RMB 81.9 billion (US\$9.9 billion), accounting for 22.8% (which was 0.5 percentage point lower than that of 2003) of this segment's operating revenues, representing an increase of 28.3% from 2003.

The table below sets forth sales volume and average realized prices by product for 2003 and 2004, and as well as the percentage changes in sales volume and average realized prices for the periods shown.

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	Sales volume		Rate of change from 2003 to 2004	Average realized price	
	2003	2004		2003	2004
	(million tonnes)		(%)	(RMB per tonne)	
Gasoline.....	21.25	21.42	0.8	2,624	2,900
Diesel.....	41.46	50.27	21.2	2,404	2,800
Light chemical feedstock .....	21.91	23.17	5.7	2,277	2,600
Other refined petroleum products.....	29.64	31.71	7.0	2,155	2,500

In 2004, the operating expenses of the segment were RMB 352.3 billion (US\$42.6 billion), representing an increase of 31.6% from 2003. This increase was largely due to the rise of increase of processing volume and price crude oil.

In 2004, the average crude oil cost was RMB 2,261 (US\$273.2) per tonne, representing an increase of 24.0% from 2003. Refining throughput was 128.8 million tonnes (excluding amounts processed for third parties), representing an increase of 10.4% over 2003. In 2004, the total crude oil costs were RMB 291.3 billion (US\$35.2 billion), accounting for 82.7% of the segment's operating expenses, representing an increase of 36.9% over 2003. In addition, the proportion accounted for by the total crude oil costs in the refining segment's operating expenses in 2004 increased by 3.2 percentage points compared with 2003.



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In 2004, with oil prices remaining at a high level, we strived to minimize purchase cost of crude oil and transportation cost and increase the revenue of refined oil products, and expanded the sales market of refined petroleum products other than gasoline, diesel and kerosene. However, the increase of refined oil price was less than that of crude oil.

In 2004, operating profit of the refining segment was RMB 5.9 billion (US\$0.7 billion), similar to that in 2003.

Year Ended December 31, 2003 Compared with Year Ended December 31, 2002

In 2003, the refining segment's operating revenues were RMB 273.7 billion (US\$33.1 billion), or an increase of RMB 60 billion (US\$7.2 billion), or 28.3%, over 2002. The increase was mainly due to the increase in the selling prices and sales volumes of various major refined petroleum products.

The table below sets forth sales revenue and the percentage of total operating revenue for the segment by product category for 2002 and 2003, and as well as the percentage changes in sales revenue from 2002 to 2003. Other refined petroleum products mainly consist of kerosene (including jet fuel), liquid petroleum gas, fuel oil, lubricant and asphalt.

	Years Ended December 31,			Rate of Change	As
	2002	2003	2003	from	Re
	(RMB)	(RMB)	(US\$)	2002 to 2003	Tot
	(in billions)			(%)	(
Refining Segments, operating revenues					
Gasoline.....	44.1	55.8	6.8	26.5	
Diesel .....	79.8	99.7	12.0	24.9	
Light chemical feedstock .....	38.9	49.9	6.0	28.3	
Other refined petroleum products.....	47.4	63.8	7.7	34.6	
Other operating revenues.....	3.1	4.5	0.6	45.2	
	-----	-----	-----	-----	
Total.....	213.3	273.7	33.1	28.1	1
	=====	=====	=====	=====	=

In 2003, the sales revenues of gasoline realized by the segment was RMB 55.8 billion (US\$6.8 billion), accounting for 20.4% (which was 0.3% lower than that of 2002) of this segment's operating revenues, representing an increase of 26.5% from 2002.

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In 2003, the sales revenues of diesel realized by the segment was RMB 99.7 billion (US\$12.0 billion), accounting for 36.5% (which was 0.9% lower than that of 2002) of this segment's operating revenues, representing an increase of 24.9% from 2002.

In 2003, the sales revenues of chemical feedstock realized by the

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segment was RMB 49.9 billion (US\$6.0 billion), accounting for 18.2% (which was similar to that in 2002) of this segment's operating revenues, representing an increase of 28.3% from 2002.

In 2003, the sales revenues of refined petroleum products other than gasoline, diesel and chemical feedstock were RMB 63.8 billion (US\$7.7 billion), accounting for 23.3% (which was 1.1% higher than that of 2002) of this segment's operating revenues, representing an increase of 34.6% from 2002. The growth of the sales revenues of these products was faster than that of gasoline and diesel, mainly because the segment actively reinforced its efforts in marketing these refined petroleum products, in response to the changes in the market situation. To seize the opportunities, we further optimized our product-mix, and produced a larger quantity of those refined petroleum products with higher added values.

The table below sets forth sales volume and average realized prices by product for 2002 and 2003, and as well as the percentage changes in sales volume and average realized prices for the periods shown. Other refined petroleum products mainly consist of kerosene (including jet fuel), liquid petroleum gas, jet fuel, fuel oil, lubricant and asphalt.

	Sales volume		Rate of change	Average realized prices	
	2002	2003	from 2002 to 2003	2002	2003
	----	----	-----	----	----
	(million tonnes)		(%)	(RMB per tonne)	
Gasoline.....	19.34	21.25	9.9	2,281	2,62
Diesel.....	37.53	41.46	10.5	2,127	2,40
Light chemical feedstock .....	20.09	21.91	9.1	1,934	2,27
Other refined petroleum products.....	25.99	29.64	14.0	1,843	2,15

In 2003, the operating expenses of the segment were RMB 267.7 billion (US\$32.4 billion), representing an increase of 29.1% from 2002. This increase was largely due to the rise of crude oil price, as well as our efforts in increasing the throughput of crude oil.

In 2003, the average crude oil cost was RMB 1,824 (US\$220.4) per tonne, representing an increase of RMB 295 (US\$35.6) per tonne, or 19.3%, from 2002. Crude oil throughput was 116.66 million tonnes (excluding amounts processed for third parties), representing an increase of 11.23 million tonnes, or 10.65%, over 2002. In 2003, the total crude oil costs were RMB 212.8 billion (US\$25.7 billion), accounting for 79.5% of the segment's operating expenses, representing an increase of RMB 51.6 billion (US\$6.2 billion), or 32%, over 2002. In addition, the proportion accounted for by the total crude oil costs in the refining segment's operating expenses in 2003 increased by 1.9% compared with 2002.

In 2003, operating profit of the refining segment was RMB 6 billion (US\$724.9 million), similar to that in 2002.

### Marketing and Distribution Segment

Our marketing and distribution segment consists of our operations related to purchasing petroleum products from the refining segment and third parties, and wholesale selling of petroleum products to domestic customers,

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directly selling and distributing petroleum products through the retail network owned by this segment and provision of related services.

Year Ended December 31, 2004 Compared with Year Ended December 31, 2003

In 2004, the segment's operating revenues of our marketing and distribution segment were RMB 346.4 billion (US\$41.9 billion), representing an increase of 43.5% over 2003. The increase was primarily due to the increase in the total sales volume and sales prices of petroleum products and the sustained optimization of marketing structure, which further increased the retail and distribution ratios at gasoline and diesel.

In 2004, the operating revenues from retail of gasoline and diesel were RMB 299.9 billion (US\$36.2 billion), accounting for 86.6% of the operating revenues of this segment. The percentage of retail and the

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distribution sales in the total sales volume of the segment increased further. The percentage of retail sales of gasoline and diesel in the segment's sales volume increased from 48.9% in 2003 to 54.6% in 2004, up by 5.7 percentage points. The percentage of distribution sales of gasoline and diesel in the segment's sales volume increased from 13.3% in 2003 to 20.3% in 2004, up by 7 percentage points. The percentage of the wholesale sales of gasoline and diesel in the segment's sales volume decreased from 37.8% in 2003 to 25.1% in 2004. The percentage of wholesale sales in the total sales volume of gasoline and diesel decreased from 37.8% in 2003 to 25.1 in 2004, down by 12.7 percentage points.

The following table shows the sales volumes, average realized prices and respective percentages of change of four product categories in 2003 and 2004, including the break-down information of different sales channels for gasoline and diesel.

	Sales Volume		Rate of Change	Average	
	2003	2004	from 2003 to 2004	Realized Price 2003	Realized Price 2004
	-----	-----	-----	-----	-----
	(million tonnes)		(%)	(RMB per tonne)	
Gasoline.....	23.53	27.51	16.9	3,295	3,450
Retail sale.....	14.68	18.42	25.5	3,450	3,450
Distribution.....	1.62	2.89	78.3	3,152	3,152
Wholesale.....	7.24	6.20	(14.3)	3,011	3,011
Diesel .....	47.92	61.10	27.5	2,789	3,011
Retail sale.....	20.29	30.00	47.8	2,954	3,011
Distribution.....	7.88	15.12	91.9	2,772	3,011
Wholesale.....	19.75	15.98	(19.1)	2,626	2,626
Kerosene including jet fuel.....	4.57	5.62	23.0	2,350	2,350
Fuel Oil .....	6.37	9.69	52.0	1,670	1,670

In 2004, this segment's operating expenses were RMB 331.7 billion (US\$40.1 billion), representing an increase of 44.6% compared with 2003. Among others, purchasing costs of gasoline and diesel were RMB 260.9 billion (US\$31.5

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billion), constituting 78.7% of the segment's operating expenses. Average purchased prices of gasoline and diesel increased by 12.1% and 18.8%, respectively, compared with 2003, to RMB 3,019 (US\$364.8) per tonne and RMB 2,910 (US\$351.6) per tonne respectively. The purchasing volume of gasoline and diesel increased by 16.9% and 27.5% from 2003, to 27.51 million tonnes and 61.10 million tonnes respectively.

In 2004, the segment's operating income was RMB 14.7 billion (US\$1.8 billion), or an increase of 23.2% compared with 2003.

Year Ended December 31, 2003 Compared with Year Ended December 31, 2002

In 2003, the segment's operating revenues of our marketing and distribution segment were RMB 241.4 billion (US\$29.1 billion), or an increase of 29.1% over 2002. The increase was primarily due to the increase in the total sales volume and sales prices of petroleum products, and in particular the higher percentage accounted for by the retail volume of gasoline, diesel and high-grade gasoline in the total sales volume. In 2003, total sales volume of petroleum products was 83.86 million tonnes, representing an increase of 10.25 million tonnes, or 13.9%.

The percentage of retail and the distribution sales in the total sales volume of the segment increased further. The percentage of retail sales of gasoline and diesel in the segment's operating revenue increased from 43.7% in 2002 to 45.8% in 2003. The percentage of distribution sales of gasoline and diesel in the segment's operating revenue increased from 8.5% in 2002 to 11.2% in 2003. The percentage of the wholesale sales of gasoline and diesel in the segment's operating revenue decreased from 31.9% in 2002 to 25.1% in 2003.

In 2003, the percentage of retail sales of gasoline and diesel in the total sales volume of gasoline and diesel increased from 44.8% in 2002 to 48.9% in 2003, up by 3.4 percentage points. The percentage of distribution sales of gasoline and diesel in the total sales volume increased from 9.9% in 2002 to 13.3% in 2003, up by 4.1 percentage points. The percentage of wholesale sales of the total sales volume of gasoline and diesel decreased from 38.1% in 2002 to 30.6% in 2003, down by 7.5 percentage points. The increase in the retail percentage in the total sales volume was due to a number of factors including, among others, our continued efforts to build

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additional retail sales outlets, to further optimize the locations of our existing petrol stations, to further improve the service quality, and to further increase the throughput per petrol station.

The percentage of high-grade gasoline in the total sales volume of gasoline further increased, from 27.1% in 2002 to 35.5% in 2003, up by 8.4 percentage points.

The sales revenues of four major product categories, namely gasoline, diesel, kerosene (including jet fuel) and fuel oil, of the segment were RMB 232.6 billion (US\$28.1 billion), constituting 96.4% of the segment's operating revenue, representing an increase of 29.1% from 2002.

The following table shows the sales volumes, average realized prices, respective percentages of change of four product categories in 2002 and 2003, including the break-down information of different sales channels for gasoline and diesel.

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	Sales Volume		Rate of Change	Average	
	2002	2003	from 2002 to 2003	Realized Price	Realized Price
	----	----	-----	2002	2003
	(million tonnes)		(%)	(RMB per tonne)	
Gasoline.....	21.36	23.53	10.2	2,857	3,062
Retail sale.....	12.34	14.68	19.0	3,062	3,062
Direct sale to customers.....	0.72	0.79	9.7	2,313	2,313
Distribution.....	1.04	1.62	55.8	2,693	3,062
Wholesale.....	7.26	6.44	(11.3)	2,585	3,062
Diesel .....	44.50	47.92	7.7	2,405	2,585
Retail sale.....	17.16	20.29	18.2	2,562	2,562
Direct sale to customers.....	4.01	4.34	8.2	2,219	2,219
Distribution.....	5.48	7.88	43.8	2,398	2,398
Wholesale.....	17.85	15.41	(13.7)	2,297	2,297
Kerosene including jet fuel.....	4.34	4.57	5.3	2,112	2,112
Fuel Oil .....	2.11	6.37	201.9	1,427	1,427

In 2003, this segment's operating expenses were RMB 229.5 billion (US\$27.7 billion), representing an increase of 28.4% compared with 2002. Among others, purchasing costs of gasoline and diesel were RMB 180.8 billion (US\$21.8 billion), constituting 78.8% of the segment's operating expenses. Average purchased prices of gasoline and diesel increased by 14.3% and 13.7%, respectively, compared with 2002, to RMB 2,693 (US\$325.4) per tonne and RMB 2,450 (US\$296.0) per tonne respectively. The purchasing volume of gasoline and diesel increased by 10.2% and 7.7% from 2002, to 23.53 million tonnes and 47.92 million tonnes respectively.

In 2003, the segment's operating income was RMB 11.9 billion (US\$1.4 billion), or an increase of 41.7% compared with 2002. This increase was due to a number of factors, including its continued efforts to focus on market demands, to increase the percentage of retail and distribution sales volumes in the total sales volume, to further optimize the deployment of resources, and to increase the total sales volume of petroleum products. As a result, the segment managed to achieve relatively good operating results over the full year.

#### Chemicals Segment

Our chemicals segment consists of operations related to purchasing chemical feedstock from our refining segment, producing, marketing and distribution of petrochemical products and inorganic chemical products.

Year Ended December 31, 2004 Compared with Year Ended December 31, 2003

In 2004, the chemicals segment's operating revenue were RMB 144.7 billion (US\$17.5 billion), representing an increase of 39.3% compared with 2003. This increase was mainly due to an increase in sales volumes and sales prices of major chemical products.

The sales revenues of the six major product categories of this segment, namely, basic organic chemicals, synthetic resin, synthetic rubber, synthetic fiber, synthetic fiber monomer and polymer, and chemical fertilizer, were approximately RMB 124.7 billion (US\$15.1 billion), accounting for 86.2% of the segment's operating revenues, representing an increase of 33.7% compared with 2003.

The following table sets forth the sales volume, average realized prices and respective percentages changes of these six major categories of chemical products of the segment in 2003 and 2004.

	Sales Volumes		Rate of Change from 2003 to 2004 ----- (%)	Average Realized Prices	
	2003 ---- (million tonnes)	2004 ---- (million tonnes)		2003 ---- (RMB per tonne)	2004 ---- (RMB per tonne)
Basic organic chemicals.....	7.21	7.38	2.4	3,377	4,292
Synthetic resins.....	5.10	5.40	6.0	6,017	7,986
Synthetic rubber.....	0.55	0.56	1.4	8,513	10,247
Synthetic fiber.....	1.72	1.74	1.2	9,300	10,818
Synthetic fiber monomers and polymers.....	2.62	2.70	3.1	5,791	8,022
Chemical fertilizer.....	2.03	2.66	30.7	1,165	1,355

In 2004, the chemicals segment's operating expenses were RMB 126.0 billion (US\$15.3 billion), representing an increase of 25.6% compared with that of 2003. This change was primarily caused by the price increase of various raw materials, the increased consumption of various raw materials and auxiliary materials with the increase in the production of this segment, as well as the increased variable expenses and fixed costs. More specifically, the increase was due to the following reasons:

- o Affected by the increase in the consumption of raw materials and auxiliary materials and the increase in their unit prices, the purchasing costs for raw materials, operating supplies and other related expenses increased by approximately RMB 21.9 billion (US\$2.6 billion) compared with 2003.
- o Materials sales and other business expenses were up by RMB 1.8 billion (US\$0.2 billion) compared with 2003.
- o Provision for impairment losses on low efficient facilities for fertilizer and caprolactam was RMB 2.0 billion (US\$0.2 billion), representing an increase of RMB 1.6 billion (US\$0.19 billion).

In 2004, the segment's operating income was RMB 18.7 billion (US\$2.2 billion), representing an increase of approximately RMB 15.2 billion (US\$1.8 billion) from 2003. The percentage of operating profit of the chemicals segment in our total operating profit increased from 9% in 2003 to 29.6% in 2004, representing an increase of 20.6 percentage points.

Year Ended December 31, 2003 Compared with Year Ended December 31, 2002

In 2003, the chemicals segment's operating revenue were RMB 103.8 billion (US\$12.5 billion), representing an increase of 23.0% compared with 2002. This increase was mainly due to significant increases in sales volumes and sales prices of all major categories of chemical products except chemical

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fertilizers, as a result of the strong domestic demand for chemical products. The strong domestic demand corresponded to the gradual recovery of the global chemical market. In order to increase production volume for our chemical products, we revamped certain of our ethylene and other downstream facilities, which increased our production capacity of certain chemical products.

The sales revenues of the six major product categories of this segment, namely basic organic chemicals, synthetic resin, synthetic rubber, synthetic fiber, synthetic fiber monomer and polymer, and chemical fertilizer, were approximately RMB 93.3 billion (US\$11.3 billion), accounting for 89.9% of the segment's operating revenues, representing an increase of 25.4% compared with 2002.

The following table sets forth the sales volume, average realized prices and respective percentages changes of these six major categories of chemical products of the segment in 2002 and 2003.

	Sales Volumes		Rate of Change from 2002 to 2003	Average Realized Prices	
	2002	2003		2002	2003
	----- ---- (million tonnes)	----- ---- (million tonnes)	----- ----- (%)	----- ---- (RMB per tonne)	----- ---- (RMB per tonne)
Basic organic chemicals.....	7.99	7.21	(9.8)	2,768	3,377
Synthetic resins.....	4.38	5.10	16.4	5,163	6,017
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Synthetic rubber.....	0.51	0.55	7.8	6,468	8,513
Synthetic fiber.....	1.3	1.72	24.6	9,022	9,300
Synthetic fiber monomers and polymers.....	2.04	2.62	28.4	5,338	5,791
Chemical fertilizer.....	2.72	2.03	(25.4)	1,084	1,165

In 2003, the chemicals segment's operating expenses were RMB 100.3 billion (US\$12.1 billion), representing an increase of RMB 17.0 billion (US\$2.1 billion), or 20.4%, from 2002. Partly because the segment expanded and upgraded certain ethylene and other downstream facilities, production significantly increased. As a result, expenses on various feedstock and auxiliary materials, other variable expenses and fixed costs all increased. Among others:

- o Consumption of feedstock and auxiliary materials increased by 2.74 million tonnes, the average unit price increased by RMB 228 (US\$27.5) per tonne. As a result, the purchased costs of feedstock, operating supplies and related expenses increased by approximately RMB 12.6 billion (US\$1.5 billion) compared with 2002.
- o The losses on disposal of low-efficiency assets increased by RMB 0.89 billion (US\$107.5 million) as a result of the segment's efforts to optimize its asset structure.
- o Provision for the impairment losses on assets increased by RMB 0.45 billion (US\$54.4 million).

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- o The losses on disposal of spare parts increased by RMB 0.27 billion (US\$32.6 million).
- o Selling expenses increased by RMB 0.18 billion (US\$21.7 million), due to the increases in the production and sales volumes.
- o Depreciation and amortization were RMB 8.0 billion (US\$1.0 billion), representing an increase of RMB 0.14 billion (US\$16.9 million) over 2002.

In 2003, the segment's operating income was RMB 3.5 billion (US\$0.4 billion), representing an increase of approximately RMB 2.4 billion (US\$0.3 billion) from 2002. The increase was largely because the segment has completed expansion and upgrading of certain of its facilities, which resulted in the increase of production and sales volumes of major products. In addition, sales prices of a number of major products also contributed to the increased operating income.

### Corporate and others

Our corporate and others segment mainly involves trading activities of our import and export subsidiaries, our research and development activities as well as managerial activities at our corporate headquarters.

### Year Ended December 31, 2004 compared with Year Ended December 31, 2003

In 2004, the operating revenues of corporate and others segment were approximately RMB 82.2 billion (US\$9.9 billion), representing an increase of 26.1% from 2003. Such operating revenues mainly consisted of the consolidated operating revenues of China Petrochemical International Co., Ltd. and its subsidiaries. The increase was largely because we increased our import and export trading volume and other business transactions to capture the opportunities presented by the high prices of crude oil and petroleum products.

In 2004, the operating expenses of corporate and others were approximately RMB 84.1 billion (US\$10.1 billion), representing an increase of 25.5% from 2003. The increase was largely because the purchasing costs of China Petrochemical International Co., Ltd. and its subsidiaries increased concurrently with its increased operating revenues.

In 2004, the operating losses of the corporate and others segment were approximately RMB 1.9 billion (US\$0.2 billion), representing an increase of RMB 0.1 billion (US\$0.01 million) over 2003.

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### Year Ended December 31, 2003 compared with Year Ended December 31, 2002

In 2003, the operating revenues of corporate and others were approximately RMB 65.2 billion (US\$7.9 billion), representing an increase of 40.5% from 2002. Such operating revenues mainly consisted of the consolidated operating revenues of China Petrochemical International Co., Ltd. and its subsidiaries. The increase was largely because we increased our import and export trading volume and other business transactions to capture the opportunities presented by the high prices of crude oil and petroleum products.

In 2003, the operating expenses of corporate and others were approximately RMB 67.0 billion (US\$8.1 billion), representing an increase of 41.4% from 2002. The increase was largely because the purchasing costs of China Petrochemical International Co., Ltd. and its subsidiaries increased concurrently with its increased revenue.



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In 2003, the operating losses of the corporate and others segment were approximately RMB 1.8 billion (US\$0.2 billion), representing an increase of RMB 0.8 billion (US\$0.1 billion) over 2002. The increase was primarily due to the incurrence of RMB 1.6 billion (US\$193.3 million) in research development expenses by our headquarters and research institutes in 2003, representing an increase of approximately RMB 0.5 billion (US\$60.4 million) compared with 2002. In addition, expenses of RMB 0.12 billion (US\$14.5 million) related to the stock appreciation rights were recorded in 2003 under "corporate and others".

### D. LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of funding have been cash provided by operating activities and short-term and long-term borrowings and our primary uses of funds have been for working capital, capital expenditures and repayment of short-term and long-term borrowings.

As of December 31, 2004, our short-term debts (including short-term loans from Sinopec Group Company and its affiliates) were RMB 41.0 billion (US\$5.0 billion) and accounted for 29.6% of our total short-term and long-term debts (which long-term debts include interest free subordinated loan from Sinopec Group Company in the amount of RMB 97.6 billion due in 2020).

In March 2004, we issued 10-year domestic corporate bonds of RMB 3.5 billion (US\$0.4 billion) at an interest rate of 4.61% per year. The issuance of bonds can broaden our financing channel and reduce the average cost of funds. The proceeds raised are used to fund our capital expenditures.

Our future debt level is dependent primarily on results of operations, the capital expenditure plan and cash that may be generated from assets dispositions. We believe that we have substantial borrowing capacity to meet unanticipated cash requirements.

The following table sets forth a condensed summary of the statements of cash flows for the periods indicated and selected balance sheet items at the end of the periods indicated.

	For the Years Ended December 31,		
	2002	2003	2004
	RMB	RMB	RMB
	(in billions)		
Net cash from operating activities:			
Net cash provided by operations(1).....	58.3	72.6	104.0
Changes in working capital and other assets and liabilities(2).....	10.8	3.6	(13.3)
Net interest and tax paid(3).....	(12.4)	(14.1)	(21.6)
	-----	-----	-----
Total.....	56.7	62.1	69.1
	-----	-----	-----
Cash flows from investing activities:			
Capital expenditure including capital expenditure of jointly controlled entities.....	(42.6)	(48.5)	(73.6)
Purchase of investments net of proceeds from disposal of			

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investments.....	(1.8)	(1.4)	(1.0)
Increase in time deposits less maturity of time deposits.....	0.8	(1.2)	0.3
Proceeds from disposal of property, plant and equipment.....	0.5	0.4	0.3
	-----	-----	-----
Total.....	(43.1)	(50.7)	(74.0)
	-----	-----	-----

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Cash flows from financing activities:

Proceeds from bank and other loans including those of jointly controlled entities, net of repayments.....	(7.7)	(6.8)	13.7
Proceeds from issuance of corporate bonds, net of issuing expenses	-	-	3.5
Contribution from minority interest, net of distributions to minority interests.....	(0.2)	0.2	0.2
Dividend paid.....	(8.7)	(7.8)	(8.7)
Cash and cash equivalents distributed to Sinopec Group Company.....	-	-	(3.7)
	-----	-----	-----
Total.....	(16.6)	(14.4)	5.0
	-----	-----	-----
Net increase/(decrease) in cash and cash equivalents.....	(3.0)	(3.0)	0.1
	=====	=====	=====
Cash and cash equivalents at end of year.....	19.3	16.3	16.4

- 
- (1) Represents income/(loss) before income tax and minority interests as adjusted for depreciation, depletion and amortization, dry hole cost, income from associates, investment income, interest income, interest expense, gain from issuance of shares by a subsidiary, unrealized foreign exchange (gains)/losses, loss on disposal of property, plant and equipment, and impairment losses on long-lived assets.
  - (2) Represents decreases/(increases) in current assets, increases/(decreases) in current liabilities, increases in other assets, net of other liabilities.
  - (3) Represents interest received, interest paid, investment income received, and income tax paid.

Net Cash from Operating Activities

Net cash provided by operations, which represents income/(loss) before income tax and minority interests as adjusted for depreciation, depletion and amortization, dry hole cost, income from associates, investment income, interest income, interest expense, gain from issuance of shares by a subsidiary, unrealized foreign exchange (gains)/losses, loss on disposal of property, plant and equipment, and impairment losses on long-lived assets, increased from RMB 72.6 billion in 2003 to RMB 104.0 billion (US\$12.5 billion) in 2004. The increase was primarily due to the increased income before income tax and minority interests reflecting our better operating results in 2004. Net change in working capital and other assets and liabilities, which represents decreases/(increases) in current assets, increases/(decreases) in current liabilities and increases in other assets, net of other liabilities, was an outflow of RMB 13.3 billion (US\$1.6 billion) in 2004, which decreased from an inflow of RMB 3.6 billion in 2003 due to the increase in working capital requirement driven by the expansion of our production and operation, and the increase in purchasing costs. We believe our working capital is sufficient to meet our present working capital requirement. Net cash provided by operations, working capital and other assets was partially offset by the net interest and tax paid of RMB 21.6 billion (US\$2.6 billion). Net interest and tax paid in 2004 consisted primarily of RMB 5.5 billion (US\$0.7 billion)

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of interest payments and RMB 16.9 billion (US\$2.0 billion) of income tax paid.

### Cash Flows from Investing Activities

Our cash outflows for capital expenditure projects amounted to RMB 42.6 billion, RMB 44.4 billion and RMB 67.6 billion (US\$8.1 billion) in 2002, 2003 and 2004, respectively. In addition, we had RMB 4.1 billion and RMB 6.0 billion (US\$0.7 billion) in 2003 and 2004, respectively, of capital expenditure in our jointly controlled entities.

We made investments of RMB 2.2 billion, RMB 1.5 billion and RMB 1.2 billion (US\$0.1 billion) in 2002, 2003 and 2004, respectively, in a variety of investments and associates. We also realized RMB 0.9 billion, RMB 0.5 billion and RMB 0.5 billion (US\$0.1 billion) in 2002, 2003 and 2004, respectively, from the disposal of investments and property, plant and equipment.

Cash flow from investing activities in 2004 also included a cash inflow of RMB 0.3 billion (US\$35 million) in increase in time deposits less maturity of time deposits.

### Cash Flows from Financing Activities

Net cash from financing activities was RMB 5.0 billion (US\$0.6 billion) in 2004, primarily because our proceeds from bank and other loans exceeded repayment of bank and other loans (including loans of jointly controlled entities) by RMB 13.7 billion (US\$1.6 billion). The net cash inflow was further increased by the net proceeds from the issuance of corporate bonds of RMB 3.5 billion (US\$0.4 billion) in 2004. On the other hand, the cash inflow was partially offset by the dividend paid in 2004 of RMB 8.7 billion (US\$1.0 billion).

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Cash and cash equivalents as of December 31, 2004 were RMB 16.4 billion (US\$2.0 billion) as compared to RMB 16.3 billion as of December 31, 2003.

### Contractual Obligations and Commercial Commitments

The following table sets forth our obligations and commitments to make future payments under contracts and under contingent commitments as of December 31, 2004.

	As of December 31, 2004			
	Payment due by period			
	Total	less than 1 year	1-3 years	4-5 years
	(RMB millions)			
Contractual obligations(1)				
Short-term debts.....	26,723	26,723	-	-
Long-term debts.....	111,885	14,298	37,119	14,808
	-----	-----	-----	-----
Total contractual obligations.....	138,608	41,021	37,119	14,808

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	=====	=====	=====	=====
Other commercial commitments(2)				
Operating lease commitment.....	114,070	3,452	6,621	6,470
Capital commitment.....	46,158	28,719	17,439	-
Exploration and production licenses.....	705	90	195	141
Guarantees((3)).....	4,828	4,828	-	-
	-----	-----	-----	-----
Total commercial commitments.....	165,761	37,089	24,255	6,611
	=====	=====	=====	=====

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- (1) Contractual obligations represent on-balance sheet contractual liability as of the balance sheet date.
- (2) Other commercial commitments represent off-balance sheet contingent liabilities, and other potential cash outflows (as of the balance sheet date) which may result from contingent events.
- (3) Guarantee is not limited by time, therefore specific payment due period is not applicable. As of December 31, 2004, we have not entered into any off-balance sheet arrangements other than guarantees given to banks in respect of banking facilities granted to certain parties. As of December 31, 2004, the maximum amount of potential future payments under the guarantees was RMB 4,828 million. We will monitor the conditions that are subject to the guarantees to identify whether a loss is probable and will recognize any such loss under guarantees when those losses are estimable. As of December 31, 2004, it was not probable that we would be required to make payments under these guarantees. See Note 27 to the consolidated financial statements for further information of the guarantees.

#### Historical and Planned Capital Expenditure

The following table sets forth our capital expenditure by segment for each of the years ended December 31, 2002, 2003 and 2004 and the capital expenditure in each segment as a percentage of our total capital expenditure for such year.

	2002		2003		2004		RMB
	RMB	Percent	RMB	Percent	RMB	Percent	
	(in billions, except percentage data)						
Exploration and production .	20.2	48%	20.6	45%	21.2	33%	6
Refining.....	6.7	16	9.8	22	14.3	22	3
Marketing and distribution...	7.0	17	6.8	15	16.7	26	3
Chemicals.....	7.8	18	7.7	17	11.0	17	2
Corporate.....	0.8	1	0.5	1	1.6	2	
	-----	-----	-----	-----	-----	-----	-----
Total.....	42.5	100%	45.4	100%	64.8	100%	15
	=====	=====	=====	=====	=====	=====	=====

In 2004, according to the prevailing market conditions and our continued focus on our development strategies and core business, we adjusted and improved our investment structure, strictly followed investment decision making procedures and management methods and strengthened management of key construction projects. As a result of the above efforts, projects construction was accelerated. In 2004, our capital expenditure was RMB 64.8 billion (US\$7.8 billion). Among which, the capital expenditure for our exploration and production segment was RMB 21.2 billion (US\$2.6 billion). We enhanced oil reserves as well as production of crude oil and natural gas, and further

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improved our profile of the possible, probable and proved reserves. As a result, remarkable achievements were made in the exploration and development projects in the matured fields in

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eastern China, newly developed fields in western China and marine phase blocks in southern China. In addition, our proved reserves of crude oil increased by 284 million barrels, and natural gas increased by 352 billion cubic feet. The capital expenditure for our refining segment was RMB 14.3 billion (US\$1.7 billion). The newly added primary refining capacity was 8.3 million tonnes/year, the newly added hydro-refining capacity was 4 million tonnes/year, and the newly added delayed coking capacity was 3.9 million tonnes/year. The upgrading projects for improving oil product quality were progressing smoothly and the Ningbo-Shanghai-Nanjing crude oil pipeline was completed and put into operation. The capital expenditure for our marketing and distribution segment was RMB 16.7 billion (US\$2.0 billion), which was mainly used to construct pipelines of refined oil products, and to further optimize the marketing networks by acquiring and building new gas stations, and upgrading existing gas stations. As a result, in 2004, the number of COCO petrol stations was up by 2,075, securing our leading position in its principal market and raising brand awareness and customer loyalty. The capital expenditure for our chemicals segment was RMB 11.0 billion (US\$1.3 billion). With the investment, our ethylene capacity was increased by 270,000 tonnes/year, synthetic resin capacity increased by 700,000 tonnes/year, and capacity of monomers and polymers for synthetic fibres increased by 360,000 tonnes/year. The coal gasification projects for chemical fertilizer facilities progressed smoothly. The capital expenditure for corporate and others was RMB 1.6 billion (US\$0.2 billion), which was principally used in the construction of information technology system.

In addition, we incurred RMB 6.5 billion (US\$0.8 billion) in capital expenditure in 2004 on our jointly controlled entities including our ethylene joint venture with BP in Shanghai.

In 2005, we plan to spend RMB 62.0 billion (US\$7.5 billion) in capital expenditure. Of our planned capital expenditure, RMB 22.9 billion (US\$2.8 billion) is planned for our exploration and production segment, RMB 16.1 billion (US\$1.9 billion) for our refining segment, RMB 10.4 billion (US\$1.3 billion) for our chemicals segment, RMB 11.0 billion (US\$1.3 billion) for our marketing and distribution segment and RMB 1.6 billion (US\$0.2 billion) for construction of ERP system and other purposes.

In 2005, capital expenditure will be engaged in the following areas: In exploration and production segment, we will carry out the operation notion of oil reserves and strive to expand qualified resources, improve the profile of oil and gas reserves and increase production of oil and gas. In refining segment, we intend to complete the second-phase of Ningbo-Shanghai-Nanjing crude oil pipeline, construct the crude oil pipeline along the Yangtze River, and speed up the revamping of selected refining projects. In chemicals segment, we will focus on the revamping and construction of large-scale ethylene, aromatics and PTA facilities and accelerate the coal gasification projects. In marketing and distribution segment, we will improve the marketing networks continually, build, acquire and upgrade petrol stations, optimize layout of depots, promote pipeline transportation, improve operating efficiency, and put the southwest refined oil product pipeline into operation in the first half of 2005. Moreover, we will speed up the application of petrol IC cards to increase marketing level based on information technologies.

We plan to fund the capital and related expenditures principally through cash provided by operating activities and short- and long-term debts

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from domestic as well as overseas sources. Our capital expenditure plans are subject to a number of risks and uncertainties, and our actual capital expenditures may vary significantly from these planned amounts due to various factors. See "Item 3 -- Key Information -- Risk Factors -- Our development plans have significant capital expenditure and financing requirements, which are subject to a number of risks and uncertainties".

### Consumer Price Index

According to the data provided by the National Bureau of Statistics, the consumer price index in the PRC increased by 3.9% in 2004, compared with 1.2% in 2003 and -0.8% in 2002. Inflation in the PRC has not had a significant impact on our results of operations in recent years.

### US GAAP Reconciliation

Our consolidated financial statements are prepared in accordance with IFRS which differs in certain material respects from US GAAP. These differences, as they apply to our consolidated financial statements, relate primarily to:

- o the US GAAP requirement that investments accounted for by the equity method while the investee has activities in progress necessary to commence its planned operations are considered as qualifying assets for which interest is capitalized, whereas under IFRS, such investments are not considered as

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qualifying assets for which interest is capitalized;

- o the US GAAP requirement that foreign exchange differences on funds borrowed for property, plant and equipment be expensed, rather than capitalized as is allowed under IFRS;
- o the US GAAP requirement that property, plant and equipment be carried at historical costs less accumulated depreciation (depreciation expense is based on the historical costs), whereas under IFRS revalued property, plant and equipment can be carried in the consolidated financial statements at the revalued amount less accumulated depreciation (depreciation expense is based on the revalued amount); and
- o the US GAAP requirement that an impairment loss be recognized on an asset when the sum of the expected undiscounted future cash flows resulting from the use of the asset and its eventual disposition is less than the carrying amount of the asset and the requirement that such impairment loss cannot be reversed, rather than the IFRS standard which involves the asset's discounted future expected cash flows and which permits, in some circumstances, the reversal of amounts previously written down.

See Note 34 to the consolidated financial statements for further information.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

#### Directors

The table and discussion below set forth certain information

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concerning our directors. The current term for all our directors is three years, which will expire in April 2006.

Name ----	Age ---	Positions with Sinopec Corp. -----
Chen Tonghai	56	Chairman of the Board of Directors
Wang Jiming	62	Vice Chairman
Mou Shuling	60	Director
Zhang Jiaren	60	Director; Senior Vice President and Chief Financial Officer
Cao Xianghong	59	Director; Senior Vice President
Liu Genyuan	59	Director
Liu Kegou	57	Director until April 29, 2004
Gao Jian	55	Director since April 30, 2004
Fan Yifei	41	Director
Chen Qingtai	67	Independent Non-executive Director
Ho Tsu Kwok Charles	55	Independent Non-executive Director
Shi Wanpeng	67	Independent Non-executive Director
Zhang Youcai	63	Independent Non-executive Director
Cao Yaofeng	51	Employee Representative Director

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

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Wang Jiming, 62, is Vice Chairman of the board of directors of Sinopec Corp. Mr. Wang graduated from China Eastern Petrochemical Institute in 1964 specializing in petroleum refining. Mr. Wang is a professor level senior engineer with over 30 years' management experience in petroleum and petrochemical industry. From November 1984 to June 1993, Mr. Wang served as a Vice President, Acting President and President of Shanghai Petrochemical General Plant under former China Petrochemical Corporation. Mr. Wang served as Chairman and President of Shanghai Petrochemical Company Limited from June 1993 to February 1994 and served as a Vice President of the former China Petrochemical Corporation (before the reorganization) and Chairman of Shanghai Petrochemical Company from February 1994 to April 1998. Mr. Wang served as a Vice President of Sinopec Group Company from April 1998 to February 2000. Mr. Wang has also served as Chairman of Shanghai SECCO Petrochemical Company Limited from December 2001 to July 2003. Mr. Wang served as Director of the

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first session of the Board of Directors and President of Sinopec Corp. from February 2000 to March 2005. In April 2003, Mr. Wang was elected as Director and Vice Chairman of the second session of the Board of Directors of Sinopec Corp.

Mou Shuling, 60, is a director of Sinopec Corp. Mr. Mou graduated from Beijing Petroleum Institute in 1968 specializing in petroleum exploration engineering. Mr. Mou is a professor level senior engineer and has over 30 years' management experience in China's petroleum industry. From February 1992 to April 1997, Mr. Mou served as a Deputy Director and Director of Petroleum Exploration Bureau of Jiangsu Province. From April 1997 to April 1998, Mr. Mou served as Director of Shengli Petroleum Administration Bureau. Mr. Mou served as Vice President of Sinopec Group Company from April 1998 to February 2000. Mr. Mou served as Director of Sinopec Corp since February 2002 and was a Vice President of Sinopec Corp. from February 2000 to April 2003 and a Senior Vice President of Sinopec Corp. from April 2003 to March 2005. In April 2003, Mr. Mou was elected as Director of the second session of the Board of Directors of Sinopec Corp.

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

Cao Xianghong, 59, is a director and Senior Vice President of Sinopec Corp. Mr. Cao graduated from Nanjing Petrochemical Institute in 1967 specializing in high polymer chemistry. Mr. Cao is a professor level senior engineer and an Academician of China Academy of Engineering. Mr. Cao has over 30 years' management experience in China's petrochemical industry. From July 1984 to August 1997, Mr. Cao served as a Vice President and Chief Engineer of Beijing Yanshan Petrochemical Company, a subsidiary of the former China Petrochemical Corporation (before the reorganization). From August 1997 to February 2000, Mr. Cao served as President, Vice Chairman and Chairman of Beijing Yanshan Petrochemical Company Limited and Chairman of Beijing Yanhua Petrochemical Company Limited. Mr. Cao has been a Director of Sinopec Corp. since February 2000 and was a Vice President of Sinopec Corp. from February 2000 to April 2003. In April 2003, Mr. Cao was elected as Director of the second session of the Board of Directors of Sinopec Corp. and was appointed as Senior Vice President of Sinopec Corp.

Liu Genyuan, 59, is a director of Sinopec Corp. Mr. Liu is Managing Vice President of Sinopec Group Company. Mr. Liu graduated from Shanghai Science and Technology University in July 1968 specializing in radiation chemistry. He is a professor level senior economist and has over 30 years' extensive management experience in China's petroleum and petrochemical industry. From May 1995 to July 2001, he served as President of Shanghai Gaoqiao Petrochemical Company. Mr. Liu has been Managing Vice President of Sinopec Group Company since July 2001. Mr. Liu was elected as Director of the second session of the Board of Directors of Sinopec Corp. in June 2003.

Liu Keguo, 57, is a director of Sinopec Corp. Mr. Liu is Vice



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President of China Development Bank. Mr. Liu graduated from the Renmin University of China in February 1982 specializing in politics and economics. He then obtained a doctorate degree from Northeast Finance University in July 2000 specializing in finance. Mr. Liu was engaged in economic management over a long period of time, and has accumulated extensive experience in macro-economic management. From September 1986 to March 1990, he was Vice President of

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Beijing Public Transportation Company. From March 1990 to October 1996, he served as Vice Chairman of Financial Structure and Tax System Reform Bureau, and then as Chairman of Taxation Administration Bureau, of State Ministry of Finance. From October 1996 to May 1999, he was the assistant to Governor of Liaoning Province. From May 1999 to September 2002, he served as Vice Governor of Liaoning Province. Mr. Liu has been Vice President of China Development Bank since September 2002. Mr. Liu was elected as Director of the second session of the Board of Directors of Sinopec Corp. in June, 2003.

Gao Jian, 55, is a director of Sinopec Corp. He is Deputy Governor of the State Development Bank. In September 1982, Mr. Gao graduated from the Beijing Institute of Political Science and Law as a postgraduate specializing in politics and economics. In July 1992, he graduated from the Finance and Science Research Institute of the Ministry of Finance of the State with a Ph.D degree specializing in finance. From November 1997 to June 1998, he conducted postdoctoral researches at the Faculty of Economics at Harvard University, USA and is a Senior Economist. Mr. Gao has been engaged in researches in economic theories and financial management for a long period of time and has extensive experience in economics and financial management. From January 1989 to April 1994, he had been the Deputy Head of the Department of Treaty and Law of the Ministry of Finance and the Deputy Head of the State Liabilities Management Department. From April 1994 to October 1998, he was the Head of the State Liabilities Department and the Head of the Department of Treaty and Law of the Ministry of Finance. From October 1998 to April 2001, he was the Chief Economist, the Head of the Funds Bureau and, concurrently, the Chief Representative of the Hong Kong Representative Office of the State Development Bank. From April 2001 to July 2003, he was the Assistant to the Head of the Funds Bureau and, concurrently, the Chief Representative of the Hong Kong Representative Office of the State Development Bank. Since July 2003, he is the Deputy Governor of the State Development Bank. Mr. Gao has been our director since April 30, 2004.

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

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Chen Qingtai, 67, is an independent non-executive director of Sinopec Corp. Mr. Chen graduated from Tsinghua University in 1964 specializing in power and dynamics engineering. Mr. Chen is a researcher and a economist in China. From October 1982 to July 1992, Mr. Chen was Chief Engineer, President and Chairman of China No. 2 Automobile Works. From July 1992 to April 1993, Mr. Chen served as a Deputy Director of the State Council Economic and Trade Office. From April 1993 to March 1998, Mr. Chen served as Deputy Director of State Economic and Trade Commission. From March 1998 to November 2004, Mr. Chen served as Vice Minister of the Development Research Center at the State Council ("DRC"). Since July 2000, he has been Director of the Public Management College under Tsinghua University. Mr. Chen has been Vice Minister of State Council Development and Research Center and a member of the National Committee of the tenth session of Chinese People's Political Consultative Conference since March, 2003. From November 2004, Mr. Chen has been the senior research fellow at the DRC. Mr. Chen served as Independent Non-executive Director of the first session of the Board of Directors of Sinopec Corp. from February 2000 to April 2003. In April 2003, Mr. Chen was elected as Independent Non-executive Director of the second session of the Board of Directors of Sinopec Corp.

Ho Tsu Kwok Charles, 55, is an independent non-executive director of Sinopec Corp. Mr. Ho is President and a director of Hong Kong Tobacco Company Limited, a cigarette manufacturer and distributor in the Asia Pacific. Mr. Ho is also Chairman and a director of Global China Investments Limited, a joint-venture with a Canadian provincial government pension fund and the Ontario Municipal Employees Retirement System, and he is responsible for devising investment and management strategies of Global China Investments Limited. Mr. Ho is the Chairman of Global China Investments Holdings Limited and a Non-executive director of China National Aviation Company Limited, each listed on the Hong Kong Stock Exchange. Mr. Ho is also a member of the Chinese People's Political Consultative Conference and a economic consultative advisor to the Shandong Provincial Government. He is a Trustee of the University of

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International Business and Economics of China and an Honorary Trustee of Peking University. Mr. Ho served as Independent Non-executive Director of the first session of the Board of Directors of Sinopec Corp. from June 2000 to April 2003. In April 2003, Mr. Ho was elected as Independent Non-executive Director of the second session of the Board of Directors of Sinopec Corp.

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

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Economic and Trade Commission. He has been a member of the National Committee of the tenth session of the Chinese People's Political Consultative Conference and Deputy Director of its Economic Committee since March 2003. Mr. Shi was elected as Independent Non-executive Director of the second session of the Board of Directors of Sinopec Corp. in April 2003.

Zhang Youcai, 63, is an independent non-executive director of Sinopec Corp. Mr. Zhang is Chairman of The Chinese Institute of Chief Accountants. Mr. Zhang graduated from Nanjing Industrial University in August 1965 specializing in inorganic chemistry. He is a professor. He has long engaged in business administration, financial management and government work, and has extensive experience in industrial, economic, financial and accounting management. From January 1968 to August 1980, he served as a technician, Vice-president, Deputy Secretary of the Party Committee and President, respectively, of Nantong Chemical Fertilizer Plant. From August 1980 to January 1982, he was a Deputy Director and a member of the Leading Party Group of the Industrial Bureau of Nantong Region. From January 1982 to February 1983, he served as a Deputy Director of the Planning Commission of Nantong Region. From February 1983 to November 1989, he served as a Deputy Mayor, Deputy Secretary of the Party Committee and Mayor, respectively, of Nantong City. He was a Vice Minister and a member of the Leading Party Group of the Ministry of Finance from December 1989 to July 2002 (from May 1994 to March 1998 of this period, he served concurrently as the Director of the State-owned Assets Administration Bureau). He has been the Chairman of The Chinese Institute of Chief Accountants since November 2002. He has also been the member of the standing committee of the tenth session of the National People's Congress and Deputy Director of its Financial and Economic Committee since March 2003. Mr. Zhang was elected as Independent Non-executive Director of the second session of the Board of Directors of Sinopec Corp. in April 2003.

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

### Supervisors

The table and discussion below set forth certain information concerning our supervisors. Messrs. Yu Qingbo, Hou Shaojian and Jiang Baoxing have served up their respective terms as our supervisors and were no longer our supervisors after our shareholders' extraordinary meeting on April 22, 2003 (the "EGM"). Mr. Wang Zuoran was re-elected as our supervisor at the EGM and was subsequently elected as Chairman of our board of

supervisors. Messrs. Zhang Chongqing, Wang Peijun and Wang Xianwen were elected as our supervisors at the EGM. Mr. Cui Jianmin was elected as our independent supervisor at the EGM. Messrs. Zhang Baojian and Kang Xianzhang were elected as

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our supervisors, and Mr. Li Yonggui was elected as our independent supervisor at the EGM. In addition, our employees have elected Messrs. Su Wensheng, Cui Guoqi, Zhang Xianglin and Zhang Haicao as our employee representative supervisors as of April 22, 2003. The current term of our supervisors is three years, which will expire in April 2006.

Name ----	Age ---	Position with the Company -----
Wang Zuoran	54	Chairman of the Board of Supervisors
Zhang Chongqing	60	Supervisor
Wang Peijun	59	Supervisor
Wang Xianwen	60	Supervisor
Zhang Baojian	60	Supervisor
Kang Xianzhang	56	Supervisor
Cui Jianmin	72	Independent Supervisor
Li Yonggui	64	Independent Supervisor
Su Wensheng	48	Employee Representative Supervisor
Cui Guoqi	51	Employee Representative Supervisor
Zhang Xianglin	58	Employee Representative Supervisor
Zhang Haichao	47	Employee Representative Supervisor

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

Zhang Chongqing, 60, is a supervisor of Sinopec Corp. Mr. Zhang graduated from China University of Science and Technology in 1967 specializing in polymer chemistry. He is a professor level senior economist. From April 1991 to February 1993, Mr. Zhang served as a Deputy President of Planning Institute of Old Sinopec. From February 1993 to December 1998, Mr. Zhang served as a Deputy Director and Director of General Administrative Office of Old Sinopec. Mr. Zhang has been Director of General Administrative Office of Sinopec Group Company since December 1998. Mr. Zhang served as Supervisor of the first session of the Supervisory Committee of Sinopec Corp. from February 2000 to April 2003. In April 2003, Mr. Zhang was elected as Supervisor of the second session of the Supervisory Committee of Sinopec Corp.

Wang Peijun, 59, is a supervisor of Sinopec Corp. Mr. Wang graduated from Northeastern Petroleum Institute in 1970 specializing in oil and gas field engineering. He is a professor level senior economist. From June 1989 to August 1991, Mr. Wang was Head of Qilu Petroleum and Petrochemical Company of Old Sinopec. From August 1990 to December 1998, he served as a Deputy Director and Director of the Human Resource Department of Old Sinopec. Since December 1998, Mr. Wang has been Director of the Human Resource Department of Sinopec Group Company. Mr. Wang served as Supervisor of the first session of the Supervisory Committee of Sinopec Corp. from February 2000 to April 2003. In April 2003, Mr. Wang was elected as Supervisor of the second session of the Supervisory Committee of Sinopec Corp.

Wang Xianwen, 60, is a supervisor of Sinopec Corp. Mr. Wang graduated from Jilin University in 1968 specializing in chemistry. He is a professor

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level senior economist. From April 1984 to March 1990, Mr. Wang served as a Deputy Manager of Jinzhou Petrochemical Company of Old Sinopec. From March 1990 to December 1998, Mr. Wang served as Deputy Director and Director of Old Sinopec's Auditing Bureau of the former China Petrochemical Corporation. Mr. Wang has been Head of Sinopec Group Company's Auditing Bureau since December 1998. Mr. Wang has been Director of Sinopec Corp.'s Auditing Bureau since February 2000. Mr. Wang served as Supervisor of the first session of the Supervisory Committee of Sinopec Corp. from February 2000 to April 2003. In April 2003, Mr. Wang was elected as Supervisor of the second session of the Supervisory Committee of Sinopec Corp.

Zhang Baojian, 60, is a supervisor of Sinopec Corp. Mr. Zhang is Director of the Finance and Planning Department of China Petrochemical Group Company and Vice-chairman of the Board of Directors of Sinopec Finance Company Limited. Mr. Zhang graduated from Shandong Financial and Economic College in July 1968 specializing in accounting. He is a professor level senior accountant. From October 1985 to April 1989, he was the Chief Accountant of Yueyang Petrochemical General Plant. From April 1989 to October 1995, he served as the chief accountant and a Deputy Director of the Finance Department of the former China Petrochemical Corporation. He acted concurrently as the Vice-chairman of Sinopec Finance Company Limited from May 1993 to October 1995. From October 1995 to February 2000, he served as the Director of the Finance Department of the former China Petrochemical Corporation (before the reorganization), and concurrently served as Chairman of Sinopec Finance Company Limited. Mr. Zhang has been Director of the Finance & Planning Department of China Petrochemical Group Company as well as Vice-chairman of the board of directors of Sinopec Finance Company Limited. He has been Vice Chairman of the Board of Directors of Sinopec Finance Company Limited since October 2004. Mr. Zhang was elected as Supervisor of the second session of the Supervisory Committee of Sinopec Corp. in April 2003.

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Kang Xianzhang, 56, is a supervisor of Sinopec Corp. Mr. Kang graduated from the Correspondence Teaching Department of the Party School of the Beijing Municipal Party Committee in March 1988 specializing in ideology politics. He also graduated from the Correspondence Teaching College of the Party School of the Central Committee of the Communist Party of China in December 1992 specializing in party and political affairs management. He is a senior political worker. From June 1995 to April 1996, he was the Deputy Director of the Organization Department of the Communist Party Committee of the Tibet Autonomous Region. From April 1996 to May 1997, he was a senior researcher of the deputy director level in the Cadre Allocation Bureau of the Organization Department of the Central Committee of the Communist Party of China. He acted as the Deputy Secretary of the Communist Party Committee of the Coal Scientific Research Institute of the Ministry of Coal Industry from May 1997 to October 1998. From October 1998 to May 1999, he was a supervisor of the deputy director level in the Discipline Inspection Group and the Supervisory Bureau of China Petrochemical Group Company, and acted as a Deputy Director of the Supervisory Bureau of the same company from May 1999 to March 2001. He was the Deputy Director of the Supervisory Department of Sinopec Corp. from February 2000 to March 2001. He has been a Deputy Head of the Discipline Inspection Group of the Leading Party Group and Director of the Supervisory Bureau of China Petrochemical Group Company, as well as Director of the Supervisory Department of Sinopec Corp. since March 2001. Mr. Kang was elected as Supervisor of the second session of the Supervisory Committee of Sinopec Corp. in April 2003.

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Cui Jianmin, 72, is an independent supervisor of Sinopec Corp. Mr. Cui graduated from the People's University of China in 1962 specializing in planning. Mr. Cui is a senior auditor and has extensive management experience in audit and finance fields. From June 1983 to April 1985, Mr. Cui served as Director of Industry and Transportation Bureau of State Audit Office. From January 1985 to April 1995, Mr. Cui has served as a Deputy Auditor-General and Managing Deputy Auditor-General of State Audit Office. From December 1995 to November 2004, Mr. Cui served as Chairman of the Chinese Certified Public Accountants Association. Mr. Cui served as Independent Supervisor in the first session of Supervisory Committee of Sinopec Corp. from April 2000 to April 2003 and was elected as Independent Supervisor of the second session of Supervisory Committee of Sinopec Corp. in April 2003.

Li Yonggui, 64, is an independent supervisor of Sinopec Corp. Mr. Li is Chairman of the China Taxation Consulting Association. Mr. Li graduated from Shandong Financial and Economic College in July 1965 specializing in finance. He is a senior economist and a certified public accountant. He has long engaged in tax management work and has extensive management experience in the field of taxation. From February 1985 to December 1988, he was the Deputy Director of the Taxation Bureau of the Ministry of Finance. He served as the Chief Economist of the State Administration of Taxation from December 1988 to April 1991. From April 1991 to February 1995, he served as the Deputy Director of the State Administration of Taxation. He was the Chief Economist of the State Administration of Taxation of China From February 1995 to September 2001. Mr. Li has been the Chairman of the China Taxation Consulting Association since May 2000. Mr. Li was elected as Independent Supervisor of the second session of the Supervisory Committee of Sinopec Corp. in April 2003.

Su Wensheng, 48, is an employee representative supervisor of Sinopec Corp. Mr. Su is Acting Deputy Secretary of the Party Working Committee of the Headquarter responsible for Sinopec Corp.'s Western China E&P operation, and Director of the Ideology & Politics Department and a Deputy Secretary of the Affiliated Party Committee of China Petrochemical Group Company. Mr. Su graduated from Tsinghua University in December 1980 specializing in environmental engineering. He obtained a master's degree in management science and engineering from Petroleum University (Beijing) in June 2000. He is a senior engineer. From

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September 1986 to November 1996, he was a Deputy Secretary of the Party Committee of the former Beijing Designing Institute, and acted concurrently as the Secretary of the Disciplinary Committee of the same Institute. From November 1996 to December 1998, he was the Secretary of the Party Committee of Beijing Designing Institute of the former China Petrochemical Corporation. Mr. Su has been the Director of the Ideology & Politics Department and a Deputy Secretary of the Affiliated Party Committee of China Petrochemical Group Company since October 1998. He has acted concurrently as the Acting Deputy Secretary of the Party Working Committee of the Western New Region Exploration Headquarter of Sinopec Corp. since December 2001. Mr. Su was elected as Employee Representative Supervisor of the second session of the Supervisory Committee of Sinopec Corp. in April 2003.

Cui Guoqi, 51, is an employee representative supervisor of Sinopec Corp. Mr. Cui graduated from the Correspondence Teaching College of People's University in December 1985 specializing in industrial business management. In January 1997, he obtained a master's degree in business management from the Business Management School of Renmin University of China. He is a senior economist. Mr. Cui has served as Chairman of the Trade Union of Sinopec Yanshan Company since February 2000. Mr. Cui has been a member of the Executive Committee of the All China Federation of Trade Unions since December

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

Zhang Xianglin, 58, is an Employee Representative Supervisor of Sinopec Corp. Mr. Zhang graduated from Beijing Machinery College in July 1970 specialising in precision machine tool. He is a professor level senior political worker. From January 2000 to March 2004, he served as a Director and Chairman of the Trade Union of Sinopec Yangzi Petrochemical Company Limited. He has been deputy secretary of the Communist Party Committee of Sinopec Yangzi Petrochemical Company Limited since July 2002. From March 2004, he has been the secretary of the Commission for Discipline Inspection and concurrently the convener of the Supervisory Committee of Sinopec Yangzi Petrochemical Company Limited. Mr. Zhang was elected Employee Representative Supervisor of the Second Session of the Supervisory Committee of Sinopec Corp. in April 2003.

Zhang Haichao, 47, is an Employee Representative Supervisor of Sinopec Corp. Mr. Zhang graduated from Zhoushan Commercial Technology School in December 1979 specialising in oil storage and transportation. He also graduated from Jilin Chemical Institute in July 1985 specialising in lubricant oil reclaiming process. From January 2001 to June 2002, he participated in the business administration programme at Macau Science & Technology University. He is an economist. He served as Deputy General Manager of Zhejiang Oil Products Company from March 1998 to September 1999. He has served as General Manager of Zhejiang Oil Products Company since September 1999, and has served as Manager of Sinopec Zhejiang Oil Products Company since February 2000. Since April 2004, he serves as chairman of the BP Sinopec (Zhejiang) Petroleum Company Limited. He has been secretary of the Communist Party Committee, vice chairman and deputy president of the Sinopec Sales Company Limited since October 2004. Mr. Zhang was elected Employee Representative Supervisor of the Second Session of the Supervisory Committee of Sinopec Corp. in April 2003.

### Other Executive Officers

Wang Tianpu, 42, is President of Sinopec Corp. Mr. Wang graduated from Qingdao Chemical Institute specializing in fundamental organic chemistry in July 1985. He then graduated from Dalian University of Science and Technology in July 1996 and obtained a master's degree in business administration. In August 2003, he graduated from Zhejiang University specializing in Chemical Engineering and obtained a doctor's degree. He is a professor level senior engineer, and has accumulated extensive experience in production management in petrochemical industry. From March 1999 to February 2000, he was Vice President of Qilu Petroleum and Petrochemical Company under Old Sinopec. From February 2000 to September 2000, he was Vice President of Sinopec Corp.'s Qilu branch company. From September 2000 to August 2001, he was President of Sinopec Corp.'s Qilu branch company. Mr. Wang served as Vice President of Sinopec Corp. from August 2001 to April 2003 and as Senior Vice President of Sinopec Corp. from April 2003 to March 2005. He was appointed as President of Sinopec Corp. in March 2005.

Wang Zhigang, 48, is a Vice President of Sinopec Corp. Mr. Wang graduated from East China Petroleum Institute in January 1982 specialising in oil production, and then obtained a master degree from China Petroleum University in June 2000 specialising in oil and gas development engineering. In September 2003, he obtained a doctor degree of from Institute of Geology

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and Geophysics of China Academy of Sciences specialising in geology. He is a professor level senior engineer. From February to June in 2000, he was Vice President of Sinopec Shengli Oil Field Company Limited. From June 2000 to December 2001, Mr. Wang served as Director and President of Sinopec Shengli Oil Field Company Limited. He was appointed as Non-executive Vice Chairman of the Committee of Economics and Trade of Ningxia Hui Autonomous Region from November 2001 to May 2003. From June 2003, he has acted as the Director of Exploration and Production Department of Sinopec Corp. Mr. Wang served as Vice President of Sinopec Corp. from April 2003 to March 2005. He was appointed as Senior Vice President of Sinopec Corp. in March 2005.

Zhang Jianhua, 41, is a Vice President of Sinopec Corp. Mr. Zhang graduated from East China Chemistry and Engineering Institute in July 1986 specializing in petroleum refinery, and then obtained a master degree from East China University of Science and Technology specializing in chemical engineering in December 2000. He is a professor level senior engineer. Mr. Zhang served as Vice-president of Shanghai Gaoqiao Petrochemical Company under China Petrochemical Corporation from April 1999 to February 2000. From February to September in 2000, he was Vice-president of Shanghai Gaoqiao branch company under Sinopec Corp. From September 2000 to June 2003, he was the President of Sinopec Shanghai Gaogiao Company. Mr. Zhang has been Director of Sinopec Operation and Management Department since November 2003. Mr. Zhang was appointed as Vice President of Sinopec Corp. in April 2003. He was appointed as Senior Vice President of Sinopec Corp. in March 2005.

Cai Xiyou, 43, is a Vice President of Sinopec Corp. Mr. Cai graduated from Fushun Petroleum Institute in August 1982 specializing in petroleum refinery automation, and then obtained an MBA degree from China Industry and Science Dalian Training Center in October 1990. He is a senior economist. From June 1995 to May 1996, Mr. Cai was Vice-president of Jinzhou Petrochemical Company under China Petrochemical Corporation before the industry reorganization. From May 1996 to December 1998, he was Managing Vice-president of Dalian Western Pacific Petrochemical Limited Company. From December 1998 to June 2001, he acted as Vice-president of Sales Company under Sinopec Corp.; and from June to December in 2001, he acted as Managing Vice-president of Sales Company under Sinopec Corp. He has been Director and President of China International United Petroleum & Chemicals Company Limited since December 2001. Mr. Cai was appointed as Vice President of Sinopec Corp. in April 2003.

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

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

### B. COMPENSATION



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### Salaries of Directors, Supervisors and Members of the Senior Management

Our directors and supervisors who hold working posts with us and other senior management members receive their remuneration in the form of basic salary and performance rewards. We have adopted initiative policies approved by the first extraordinary shareholders' meeting on September 7, 2000 including the performance evaluation and remunerations incentive scheme for the senior management, the share appreciation rights scheme, and the conditions for the implementation of the initial granting of share appreciation rights scheme.

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During 2004, directors in office (excluding directors and independent non-executive directors who do not hold any working post with us), supervisors (excluding independent supervisors) and other senior management officers were paid RMB 5,777,234 in total as annual remuneration. The three highest paid directors and senior management officers respectively received RMB 847,834 and RMB 1,009,620 remuneration in total. The total annual director fees for our independent non-executive directors and independent supervisors were RMB 141,000. Directors Mr. Liu Genyuan, Mr. Liu Keguo and Mr. Fan Yifei (and Mr. Gao Jian, who replaced Mr. Liu Keguo as director as of April 30, 2004) do not hold any working post with us, and accordingly are not paid any remuneration by us.

During 2004, among our directors (excluding directors and independent non-executive directors who do not hold any working post with us), supervisors (excluding independent supervisors) and other senior management officers, four of them received annual remuneration for an amount above RMB 300,000, 18 of them received annual remuneration between RMB 200,000 and RMB 300,000.

We do not have any service contract with any director that provides for benefits upon termination of service.

#### C. BOARD PRACTICE

In accordance with the Rules and Procedures for the Board of Directors' Meeting that was adopted as an appendix to our articles of association at the extraordinary shareholders' meeting on April 22, 2003 and amended at the Annual General Meeting of Shareholders for the year 2003 on May 18, 2004, we have established three special committees, namely, an audit committee, a strategy committee and a remuneration and evaluation committee. The majority of the members of these special committees are independent directors. In addition, the audit committee shall have at least one independent director who is a financial expert.

The main responsibilities of the audit committee include:

- o to propose the appointment or replacement of the external auditor;
- o to oversee the internal auditing system and its implementation;
- o to coordinate the communication between the internal auditing department and the external auditor;
- o to examine and approve financial information and its disclosure; and
- o to examine the internal control system.

The main responsibilities of the strategy committee are to conduct research and put forward proposals on the long-term development strategy and

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significant investments.

The main responsibilities of the remuneration and evaluation committee include:

- o to research on evaluation criteria for directors and the president, to conduct their evaluations and make necessary suggestions; and
- o to research on and review the policies and proposals in respect of the remuneration of directors, supervisors, president, vice-president, Chief Financial Officer and secretary of the board of directors.

The members of audit committee are Chen Qingtai, Shi Wanpeng, Zhang Youcai, Ho Tsu Kwok Charles and Cao Yaofeng. The members of strategy committee are Wang Jiming, Shi Wanpeng, Ho Tsu Kwok Charles, Mou Shuling, Zhang Jiaren, Liu Keguo (until April 2005), Cao Xianghong and Fan Yifei. The members of remuneration and evaluation committee are Shi Wanpeng, Chen Qingtai, Zhang Youcai, Mou Shuling and Liu Genyuan.

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### D. EMPLOYEES

As of December 31, 2002, 2003 and 2004, we had approximately 418,871, 400,513 and 389,451 employees. The following table sets forth the number of our employees by our business segments, their scope of work and their education as of December 31, 2004.

By Segment	Number of Employees -----	Percentage of Total Number of Employees -----
Exploration and Production .....	143,846	36.9
Refining .....	80,344	20.6
Marketing and Distribution .....	70,516	18.1
Chemicals .....	89,908	23.1
Corporate and Others .....	4,837	1.3
Total .....	389,451	100

  

By Employee's Scope of Work	Number of Employees -----	Percentage of Total Number of Employees -----
Production.....	187,126	48.0
Sales.....	69,535	17.9
Technical.....	45,146	11.6
Finance.....	10,012	2.6
Administration.....	32,448	8.3
Others.....	45,184	11.6
Total .....	389,451	100

  

By Education	Number of Employees -----	Percentage of Total Number of Employees -----
Master's degree and above.....	3,317	0.9

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University .....	47,688	12.2
Tertiary education.....	70,420	18.1
Technical/polytechnic school.....	46,321	11.9
Secondary, technical/polytechnic school or below.....	221,705	56.9
Total .....	389,451	100

We have trade unions that protect employee rights, organize educational programs, assist in the fulfillment of economic objectives, encourage employee participation in management decisions, and assist in mediating disputes between us and individual employees. We have not been subject to any strikes or other labor disturbances that have interfered with our operation, and we believe that our relations with our employees are good.

The total remuneration of our employees includes salary, performance bonuses and allowances. Employees also receive certain subsidies in housing, health services, education and other miscellaneous items.

As at December 31, 2004, we had a total of 111,764 retired employees, and all of them have participated in basic pension schemes administered by provincial governments. Details of our employee's retirement scheme are set out in Note 30 to our consolidated financial statements included elsewhere in this annual report.

We have planned to reduce the number of employees by 100,000 persons by means of retirement, voluntary resignation and/or redundancy within the period of 5 years from 2001 to 2005, so as to enhance our efficiency and operating profit. The aggregate employee reduction in the four years ended December 31, 2004 amounted to 119,000 persons. In 2004, we recorded employee reduction expenses of RMB 919 million relating to the reduction of approximately 24,000 employees.

### E. SHARE OWNERSHIP

Our directors, supervisors and senior officers do not have share ownership in us.

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## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. MAJOR SHAREHOLDERS

The following table sets forth information regarding our major shareholders as of June 17, 2005.

Shareholder -----	Number of Shares Owned (in millions) -----	Percentage of Ownership (%) -----
Sinopec Group Company.....	58,886	67.92

As of June 15, 2005, we had 67,121,951,000 state-owned shares, 16,780,488,000 H shares and 2,800,000,000 A shares outstanding. As of June 10, 2005, 1,829,572,600 H shares were registered in the name of a nominee of Citibank, N.A., the depository under our ADS deposit agreement. Citibank, N.A. has advised us that, as of June 10, 2005, 18,295,726 ADSs, representing 1,829,572,600 H shares, were held of record by Cede & Co. and 61 other

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registered shareholders domiciled in and outside of the United States. We have no further information as to common shares held, or beneficially owned, by U.S. persons.

### B. RELATED PARTY TRANSACTIONS

Sinopec Group Company owns 67.92% of our outstanding equity as of June 17, 2005. Sinopec Group Company will be able to exercise all the rights of a controlling shareholder, including the election of directors and voting in respect of amendments to our articles of association. Sinopec Group Company, as our controlling shareholder, will be subject to certain minority shareholder protection provisions under our articles of association.

We have engaged from time to time and will continue to engage in a variety of transactions with Sinopec Group Company, which provide a number of services to us, including ancillary supply, transport, educational and community services. The nature of our transactions with Sinopec Group Company are governed by a number of service and other contracts between Sinopec Group Company and us. A discussion of these agreements and arrangements is set forth under the heading "Item 7 - Major Shareholders and Related Party Transactions-Related Party Transactions" in our annual report on Form 20-F filed with the Securities and Exchange Commission on April 17, 2001.

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

The proposals of the acquisition of petrochemical assets, catalyst assets and petrol station assets from Sinopec Group and disposal of downhole operation assets were approved by our shareholders at the extraordinary general meeting held on December 21, 2004. The total consideration payable for these acquisitions was RMB 5.3 billion (US\$0.6 billion) and the consideration receivable for the disposal was RMB 1.7 billion (US\$0.2 billion), resulting in a net cash consideration of RMB 3.6 billion (US\$0.4 billion) payable to Sinopec Group Company.

Please also see Note 29 to our consolidated financial statements included elsewhere in this annual report.

### C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

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## ITEM 8. FINANCIAL INFORMATION

### A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See F-pages following Item 19.

### Legal Proceedings

We are involved in certain judicial and arbitral proceedings before Chinese courts or arbitral bodies concerning matters arising in connection with the conduct of our businesses. We believe, based on currently available information, that the results of such proceedings, in the aggregate, will not

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have a material adverse effect on our financial condition or results of operations.

### Dividend Distribution Policy

Our board of directors will determine the payment of dividends, if any, with respect to our shares on a per share basis. Any final dividend for a financial year shall be subject to shareholders' approval. The board may declare interim and special dividends at any time under general authorization by a shareholders' ordinary resolution. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on our results of operations, cash flows, financial condition, the payment by our subsidiaries of cash dividends to us, future prospects and other factors which our directors may determine are important.

For holders of our H shares, cash dividend payments, if any, shall be declared by our board of directors in Renminbi and paid in HK dollars. The depositary will convert the HK dollar dividend payments and distribute them to holders of ADSs in US dollars, less expenses of conversion.

In addition to cash, dividends may be distributed in the form of shares. Any distribution of shares, however, must be approved by special resolution of the shareholders. Dividends in the form of shares will be distributed to the depositary and, except as otherwise described in the Deposit Agreement, will be distributed by the depositary in the form of additional ADSs, to holders of ADSs.

Dividends may be paid only out of our distributable profits (less allocations to the statutory funds which generally range from 15% to 20% of our net income determined in accordance with PRC GAAP) and may be subject to PRC withholding tax. Our articles of association limit our distributable profits to the lower of the amount determined in accordance with PRC GAAP and IFRS. Subject to the above, we currently expect that we will distribute as dividends up to 40% of our distributable profits.

Our shareholders' meeting has approved a final dividend of RMB 0.12 per ordinary share for the year ended December 31, 2004, which is equivalent to RMB 12.0 (US\$1.45) per ADS. After deducting the interim dividends distribution of RMB 0.04 per ordinary share, the year end dividend is RMB 0.08 per ordinary share, which is equivalent to RMB 8.0 (US\$0.97) per ADS.

### B. SIGNIFICANT CHANGES

None.

## ITEM 9. THE OFFER AND LISTING

### A. OFFER AND LISTING DETAILS

Not applicable, except for Item 9A (4) and Item 9C.

Our H Shares have been listed on the Hong Kong Stock Exchange (Code: 0386), and our ADSs, each representing 100 H Shares, have been listed on the New York Stock Exchange and the London Stock Exchange under the symbol "SNP", since we completed our initial public offering on October 19, 2000. Prior to that time, there was no public market for our H Shares. The Hong Kong Stock Exchange is the principal non-U.S. trading market for our H Shares. Our publicly traded domestic shares, or A shares, are listed on the Stock Exchange of Shanghai since August 8, 2001 (Code: 600028).

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The following table sets forth, for the periods indicated, the high and low closing prices per H Share, as reported on the Stock Exchange of Hong Kong, per ADS, as reported on the New York Stock Exchange and per A share, as reported on the Stock Exchange of Shanghai.

Period	The Stock Exchange of Hong Kong -----		The New York Stock Exchange -----		The Shanghai Excha -----	
	High	Low	High	Low	High	
	(HK dollar per H share)		(US dollar per ADS)		(RMB per	
	Past 6 months					
2005	May	3.150	2.800	40.04	37.04	4.18
	April	3.225	2.975	41.08	38.32	4.38
	March	3.525	3.125	43.75	39.56	4.51
	February	3.575	3.075	45.42	39.86	4.52
	January	3.20	2.95	40.62	38.26	4.22
2004	December	3.30	3.075	42.27	39.59	4.48
	Quarterly Data					
2005	First Quarter	3.575	2.950	45.42	38.26	4.52
2004	Fourth Quarter	3.325	2.925	42.31	37.95	4.67
	Third Quarter	3.175	2.75	41.05	35.35	5.13
	Second Quarter	3.125	2.475	40.15	32.08	5.55
	First Quarter	3.85	2.75	49.90	36.05	5.77
2003	Fourth Quarter	3.475	2.15	44.41	27.87	5.06
	Third Quarter	2.475	1.81	32.12	23.85	3.90
	Second Quarter	1.88	1.45	24.50	18.34	4.04
	First Quarter	1.56	1.36	19.42	17.30	3.60
2002	Fourth Quarter	1.38	1.17	17.49	14.60	3.40
	Third Quarter	1.44	1.13	18.05	14.57	3.85
	Second Quarter	1.42	1.25	18.33	15.85	3.90
	First Quarter	1.30	1.05	16.68	13.50	3.40
	Annual Data					
2004		3.85	2.475	49.90	32.08	5.77
2003		3.475	1.24	44.41	17.30	5.06
2002		1.44	1.05	18.33	13.50	3.90
2001		1.65	1.00	21.00	12.80	4.36
2000	(October 19 to December 31)	1.70	1.19	21.44	14.88	

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Source: Bloomberg

### ITEM 10. ADDITIONAL INFORMATION

#### A. SHARE CAPITAL

Not applicable.

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### B. MEMORANDUM AND ARTICLES OF ASSOCIATION

The following is a summary of certain provisions of our articles of association, as amended, the Company Law of the PRC (1993) and certain other applicable laws and regulations of the PRC. You and your advisors should refer to the text of our articles of association, as amended, and to the texts of applicable laws and regulations for further information.

#### Objects and Purposes

We are a joint stock limited company established in accordance with the Company Law and certain other laws and regulations of the PRC. We are registered with the PRC State Administration of Industry and Commerce with business license number 1000001003298. Article 12 of our articles of association provides that our scope of businesses includes, among other things, exploration, development and sales of petroleum and natural gas; pipeline transportation of petroleum and natural gas; petroleum refining; production, sales and storage of refined petroleum products, petrochemical products, chemical fiber products and other chemical products; wholesale, retailing and storage of refined petroleum products and other petroleum products; operation of convenience stores; power generation; manufacturing and installation of machinery; purchase and sales of raw materials, charcoal, equipment and its components; research, development, application of technology and information; import and export; and provision of technology services and labor services.

#### Directors

Our directors shall be elected at our shareholders' general meeting. Cumulative voting shall be adopted for the election of directors if a controlling shareholder controls 30% or more of our shares. Details of the cumulative voting mechanism are set forth in Article 57 of the Rules and Procedures for the Shareholders' General Meetings that is an appendix to, and forms an integral part of, our articles of association. Our directors shall be elected for a term of three years and may serve consecutive terms upon re-election, except that independent directors may only serve a maximum of two terms. Our directors are not required to hold any shares in us, and there is no age limit requirement for the retirement or non-retirement of our directors.

Where a director is materially interested, directly or indirectly, in a contract, transaction or arrangement (including any proposed contract, transaction or arrangement) with us, he or she shall declare the nature and extent of his or her interests to the board of directors at the earliest opportunity, whether or not such contract, transaction or arrangement is otherwise subject to the approval of the board. A director shall not vote, and shall not be counted in the quorum of the meeting, on any resolution concerning any contract, transaction or arrangement where the director owns material rights or interests therein. A director is deemed to be interested in a contract, transaction or arrangement in which his associate (as defined by the Listing Rule of the Hong Kong Stock Exchange) is interested.

Unless the interested director discloses his interests to the board and the contract, transaction or arrangement in which the director is materially interested is approved by the board at a meeting in which the director neither votes nor is not counted in the quorum, such contract, transaction or arrangement shall be voidable by us except with respect to a bona fide party thereto who does not have notice of the director's interests.

We are prohibited from making loans or providing guarantees to our directors and their associates except where such loan or guarantee is to meet expenditure requirement incurred or to be incurred by the director for the

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purposes of the company or for the purpose of enabling the director to perform his or her duties properly.

The board of directors shall examine and approve the amount of the long-term loans for the current year in accordance with the annual investment plan as approved by the shareholders' general meeting. The chairman of the board may make adjustments of not more than 10% of the total amount of the long-term loans for the current year as approved by the board of directors. The board of directors shall also approve the total amount of the working capital loans for the current year. Within the total amount of the long-term or working capital loans as approved by the board of directors, the chairman of the board is authorized to approve and sign on behalf of the company any such loan contract with loan amount over RMB 1.0 billion, and the president of the company is authorized to approve and sign on behalf of the company any such loan contract with loan amount not exceeding RMB 1.0 billion.

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Matters relating to the remuneration and liability insurance of our directors shall be determined by the shareholders' general meeting.

### Dividends

A distribution of final dividends for any financial year is subject to shareholders' approval. Except otherwise decided by Shareholders' meeting, the board of directors may make decision on the distribution of interim dividends. Except otherwise provided by law and regulation, the sum of interim dividends shall not exceed 50 percents of the distributive profit as set out in the table for semi-year profit. Dividends may be distributed in the form of cash or shares. A distribution of shares, however, must be approved by special resolution of the shareholders.

Dividends may only be distributed after allowance has been made for:

- o recovery of losses, if any;
- o allocations to the statutory common reserve fund;
- o allocations to the statutory common welfare fund; and
- o allocations to a discretionary common reserve fund if approved by the shareholders.

The minimum and maximum aggregate allocations to the statutory funds are 15% and 20%, respectively, of our net income determined in accordance with PRC accounting rules.

The articles of association require us to appoint on behalf of the holders of H shares a receiving agent which is registered as a trust corporation under the Trustee Ordinance of Hong Kong to receive dividends declared by us in respect of the H shares on behalf of such shareholders. The articles of association require that cash dividends in respect of H shares be declared in Renminbi and paid by us in HK dollars. The depositary of our ADSs will convert such proceeds into U.S. dollars and will remit such converted proceeds to our holders of ADSs. If we record no profit for the year, we may not normally distribute dividends for the year.

Dividend payments may be subject to PRC withholding tax.

### Voting Rights and Shareholders' Meetings

Our board of directors shall convene a shareholders' annual general meeting once every year and within six months from the end of the preceding financial year. Our board shall convene an extraordinary general meeting



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within two months of the occurrence of any one of the following events:

- o where the number of directors is less than the number stipulated in the PRC Company Law or two-thirds of the number specified in our articles of association;
- o where our unrecovered losses reach one-third of the total amount of our share capital;
- o where shareholder(s) holding 10% or more of our issued and outstanding voting shares request(s) in writing the convening of an extraordinary general meeting;
- o whenever our board deems necessary or our board of supervisors so requests; or
- o circumstances provided in the articles of association.

Meetings of a special class of shareholders must be called in certain enumerated situations when the rights of the holders of such class of shares may be modified or adversely affected as discussed below. Resolutions proposed by the board of supervisors or shareholder(s) holding 5% or more of the total number of voting shares shall be included in the agenda for the relevant annual general meeting if they are matters which fall within the scope of the functions and powers of shareholders in general meeting.

All shareholders' meetings must be convened by our board by written notice given to shareholders not less than 45 days before the meeting. Based on the written replies received by us 20 days before a shareholders' meeting, we shall calculate the number of voting shares represented by shareholders who have indicated that they intend to attend the meeting. Where the number of voting shares represented by those shareholders amount to more than one-half of our total voting shares, we may convene the shareholders' general meeting (regardless of the number of shareholders who actually attend). Otherwise, we shall, within five days, inform the shareholders again of the motions to be considered and the date and venue of the meeting by way of public announcement. After the announcement is made, the shareholders' meeting may be convened. The accidental

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omission by us to give notice of a meeting to, or the non-receipt of notice of a meeting by, a shareholder will not invalidate the proceedings at that shareholders' meeting.

Shareholders at meetings have the power, among other things, to approve or reject our profit distribution plans, annual budget, financial statements, increase or decrease in share capital, issuance of debentures, merger or liquidation and any amendment to our articles of association. In addition, the rights of a class of shareholders may not be modified or abrogated, unless approved by a special resolution of all shareholders at a general shareholders' meeting and by a special resolution of shareholders of that class of shares at a separate meeting. Our articles of association enumerate, without limitation, certain amendments which would be deemed to be a modification or abrogation of the rights of a class of shareholders, including increasing or decreasing the number of shares of a class disproportionate to increases or decreases of other classes of shares, removing or reducing rights to receive dividends in a particular currency or creating shares with voting or equity rights superior to shares of such class.

Cumulative voting is adopted for the election of directors. For all other matters, each share is entitled to one vote on all such matters submitted to a vote of our shareholders at all shareholders' meetings, except for meetings of a special class of shareholders where only holders of shares

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of the affected class are entitled to vote on the basis of one vote per share of the affected class.

Shareholders are entitled to attend and vote at meetings either in person or by proxy. Proxies must be in writing and deposited at our legal address, or such other place as is specified in the meeting notice, not less than 24 hours before the time for holding the meeting at which the proxy proposes to vote or the time appointed for the passing of the relevant resolution(s). When the instrument appointing a proxy is executed by the shareholder's attorney-in-fact, such proxy when deposited must be accompanied by a notary certified copy of the relevant power of attorney or other authority under which the proxy was executed.

Except for those actions discussed below which require supermajority votes ("special resolutions"), resolutions of the shareholders are passed by a simple majority of the voting shares held by shareholders who are present in person or by proxy. Special resolutions must be passed by or more than two-thirds of the voting rights represented held by shareholders who are present in person or by proxy.

The following decisions must be adopted by special resolution:

- o an increase or reduction of our share capital or the issue of shares, including stock distributions, of any class, warrants and other similar securities;
- o issuance of debentures;
- o our division, merger, dissolution and liquidation; (Shareholders who object to a proposed division or merger are entitled to demand that either we or the shareholders who approved the merger purchase their shares at a fair price.)
- o repurchase of shares;
- o amendments to our articles of association; and
- o any other matters considered by the shareholders in a general meeting and which they have resolved by way of an ordinary resolution to be of a nature which may have a material impact on us and should be adopted by special resolution.

All other actions taken by the shareholders, including the appointment and removal of our directors and supervisors and the declaration of cash dividend payments, will be decided by an ordinary resolution of the shareholders. The listing agreement between us and the Hong Kong Stock Exchange (the "Listing Agreement") provided that we may not permit amendments to certain sections of the articles of association which have been mandated by the Hong Kong Stock Exchange. These sections include provisions relating to:

- o varying the rights of existing classes of shares;
- o voting rights;
- o our power to purchase our own shares;
- o rights of minority shareholders; and
- o procedure on liquidation.

In addition, certain amendments to the articles of association require the approval and consent of the relevant PRC authorities.

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Any shareholder resolution which is in violation of any laws or regulations of the PRC or the articles of association will be null and void.

Liquidation Rights

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In the event of our liquidation, the H shares will rank pari passu with the domestic ordinary shares, and payment of debts out of our remaining assets shall be made in the order of priority prescribed by applicable laws and regulations or, if no such standards exist, in accordance with such procedure as the liquidation committee which has been appointed either by us or the People's Court of the PRC may consider to be fair and reasonable. After payment of debts, we shall distribute the remaining property to shareholders according to the class and proportion of their shareholders.

### Further Capital Call

Shareholders are not liable to make any further contribution to the share capital other than according to the terms, which were agreed by the subscriber of the relevant shares at the time of subscription.

### Increases in Share Capital and Preemptive Rights

The articles of association require the approval by a special resolution of the shareholders and by special resolution of holders of domestic ordinary shares and H shares at separate shareholder class meetings be obtained prior to authorizing, allotting, issuing or granting shares, securities convertible into shares or options, warrants or similar rights to subscribe for any shares or such convertible securities. No such approval is required if, but only to the extent that:

- o we issue domestic ordinary shares and/or H shares, either separately or concurrently, in numbers not exceeding 20% of the number of domestic ordinary shares and H shares then in issue, respectively, in any 12-month period, as approved by a special resolution of the shareholders; or
- o if our plans for issuing domestic ordinary shares and H shares upon its establishment are implemented within fifteen months of the date of approval by the China Securities Regulatory Commission.

New issues of shares must also be approved by the relevant PRC authorities.

### Reduction of Share Capital and Purchase by Us of Our Shares and General Mandate to Repurchase Shares

We may reduce our registered share capital only upon obtaining the approval of the shareholders by a special resolution and, in certain circumstances, of relevant PRC authorities. The number of H shares, which may be purchased is subject to the Hong Kong Takeovers and Share Repurchase Codes.

### Restrictions on Large or Controlling Shareholders

Our articles of association provide that, in addition to any obligation imposed by laws and administration regulations or required by the listing rules of the stock exchanges on which our H shares are listed, a controlling shareholder shall not exercise his voting rights in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders:

- o to relieve a director or supervisor from his or her duty to act honestly in our best interests;
- o to approve the expropriation by a director or supervisor (for his or her own benefit or for the benefit of another person) of our assets in any way, including, without limitation, opportunities which may benefit us; or

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- o to approve the expropriation by a director or supervisor (for his or her own benefit or for the benefit of another person) of the individual rights of other shareholders, including, without limitation, rights to distributions and voting rights (save according to a restructuring of our company which has been submitted for approval by the shareholders in a general meeting in accordance with our articles of association).

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A controlling shareholder, however, will not be precluded by our articles of association or any laws and administrative regulations or the listing rules of the stock exchanges on which our H shares are listed from voting on these matters.

When a controlling shareholder intends to put forward a new motion on profit distribution at an annual general meeting, the controlling shareholder shall, at not less than ten days before the date of the annual general meeting, submit the motion to the board of directors to enable it to make an announcement, failing which the shareholder is not entitled to put forward the motion at the annual general meeting.

A controlling shareholder is defined by our articles of association as any person who acting alone or in concert with others:

- o is in a position to elect more than one-half of the board of directors;
- o has the power to exercise, or to control the exercise of, 30% or more of our voting rights;
- o holds 30% or more of our issued and outstanding shares; or
- o has de facto control of us in any other way.

As of the date of this annual report, Sinopec Group Company is and will be our only controlling shareholder.

### Disclosure

The Listing Agreement imposes a requirement on us to keep the Hong Kong Stock Exchange, our shareholders and other holders of our listed securities informed as soon as reasonably practicable of any information relating to us and our subsidiaries, including information on any major new developments which are not public knowledge, which:

- o is necessary to enable them and the public to appraise the position of us and our subsidiaries;
- o is necessary to avoid the establishment of a false market in its securities; and
- o might be reasonably expected materially to affect market activity in and the price of its securities.

There are also requirements under the Listing Rules for us to obtain prior shareholders' approval and/or to disclose to shareholders details of certain acquisitions or disposals of assets and other transactions (including transactions with controlling shareholders).

### Sources of Shareholders' Rights

The PRC's legal system is based on written statutes and is a system in which decided legal cases have little precedent value. The PRC's legal system is similar to civil law systems in this regard. In 1979, the PRC began the process of developing its legal system by undertaking to promulgate a

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comprehensive system of laws. In December 1993, the Standing Committee of the 8th National People's Congress adopted the PRC Company Law. Although the PRC Company Law is expected to serve as the core of a body of regulatory measures, which will impose a uniform standard of corporate behavior on companies and their directors and shareholders, only a limited portion of this body of regulatory measures has so far been promulgated.

Currently, the primary sources of shareholder rights are our articles of association, as amended, the PRC Company Law and the Listing Rules of the Hong Kong Stock Exchange, which, among other things, impose certain standards of conduct, fairness and disclosure on us, our directors and our controlling shareholder, i.e., Sinopec Group Company. To facilitate the offering and listing of shares of PRC companies overseas, and to regulate the behavior of companies whose shares are listed overseas, the State Council Securities Committee and the State Commission for Restructuring the Economic System issued on August 27, 1994 the Mandatory Provisions for articles of association of Company Listing Overseas (the "Mandatory Provisions"). These Mandatory Provisions become entrenched in that, once they are incorporated into the articles of association of a PRC company, any amendment to those provisions will only become effective after approval by the State-owned Assets Supervision and Administration Commission of the State Council. The Listing Rules require a number of additional provisions to the Mandatory Provisions to be included in the articles of association of PRC companies listing H shares on the Hong Kong Stock Exchange (the "Additional Provisions"). The Mandatory Provisions and the Additional Provisions have been incorporated into our articles of association.

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In addition, upon the listing of and for so long as the H shares are listed on the Hong Kong Stock Exchange, we will be subject to those relevant ordinances, rules and regulations applicable to companies listed on the Hong Kong Stock Exchange, including the Listing Rules of the Hong Kong Stock Exchange, the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the Securities (Insider Dealing) Ordinance and the Hong Kong Codes on Takeovers and Mergers and Share Repurchases (the "Hong Kong Takeovers and Repurchase Codes").

Unless otherwise specified, all rights, obligations and protections discussed below derive from our articles of association and/or the PRC Company Law.

### Enforceability of Shareholders' Rights

There has not been any public disclosure in relation to the enforcement by holders of H shares of their rights under constitutive documents of joint stock limited companies or the PRC Company Law or in the application or interpretation of the PRC or Hong Kong regulatory provisions applicable to PRC joint stock limited companies.

In most states of the United States, shareholders may sue a corporation "derivatively". A derivative suit involves the commencement by a shareholder of a corporate cause of action against persons (including corporate officers, directors or controlling shareholders) who have allegedly wronged the corporation, where the corporation itself has failed to enforce such claim against such persons directly. Such action is brought based upon a primary right of the corporation, but is asserted by a shareholder on behalf of the corporation. Because the right to sue derivatively is not available under PRC law, our shareholders may have to rely on other means to enforce the rights of shareholders, such as through administrative proceedings.

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Our articles of association provide that all differences or claims:

- o between a holder of H shares and us;
- o between a holder of H shares and any of our directors, supervisors, general managers, deputy general managers or other senior officers; or
- o between a holder of H shares and a holder of domestic ordinary shares, arising from any provision of our articles of association, any right or obligation conferred or imposed by the PRC Company Law or any other relevant law or administrative regulation which concerns our affairs

must, with certain exceptions, be referred to arbitration at either the China International Economic and Trade Arbitration Commission in the PRC or the Hong Kong International Arbitration Center. Our articles of association provide that such arbitration will be final and conclusive. In June 1999, an arrangement was made between the People's Courts of the PRC and the courts of Hong Kong to mutually enforce arbitration awards rendered in the PRC and Hong Kong according to their respective laws. This new arrangement was approved by the Supreme Court of the PRC and the Hong Kong Legislative Council and became effective on February 1, 2000. We have provided an undertaking to the United States Securities and Exchange Commission that, at such time, if any, as all applicable laws and regulations of the PRC and (unless our H shares are no longer listed on the Hong Kong Stock Exchange) all applicable regulations of the Stock Exchange of Hong Kong Ltd. shall not prohibit, and to the extent Section 14 under the United States Securities Act of 1933, as amended, so requires, our board of directors shall propose an amendment to the articles of association which would permit shareholders to adjudicate disputes arising between our shareholders and us, our directors, supervisors or officers by means of judicial proceedings.

The holders of H shares will not be able to bring actions on the basis of violations of the Listing Rules and must rely on the Hong Kong Stock Exchange to enforce its rules. The SDI Ordinance establishes certain obligations in relation to disclosure of shareholder interests in Hong Kong listed companies, the violation of which is subject to prosecution by the Securities and Futures Commission of Hong Kong. The Hong Kong Takeovers and Repurchase Codes do not have the force of law and are only standards of commercial conduct considered acceptable for takeover and merger transactions and share repurchases in Hong Kong as established by the Securities and Futures Commission and the securities and futures industry in Hong Kong.

We have appointed our subsidiary in the U.S., SINOPEC-USA Co., Ltd., 150 E. 52nd Street, 28th Floor, New York, NY 10022, USA, as our agent to receive service of process with respect to any action brought against us in certain courts in New York under the United States federal and New York State's securities laws. However, as the PRC does not have treaties providing for the reciprocal recognition and enforcement of

judgments of courts within the United States, the United Kingdom, Japan or most other the Organization for Economic Cooperation and Development countries, administrative actions brought by regulatory authorities, such as the Commission, and other actions which result in foreign court judgments, could (assuming such actions are not required by PRC law and the articles of association to be arbitrated) only be enforced in the PRC on a reciprocal basis or according to relevant international treaty to which China is a party if such judgments or rulings do not violate the basic principles of the law of the PRC or the sovereignty, security and public interest of the society of the PRC, as determined by a People's Court of the PRC which has the jurisdiction for

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recognition and enforcement of judgments. We have been advised by our PRC counsel, Haiwen & Partners, that there is certain doubt as to the enforceability in the PRC of actions to enforce judgments of United States courts arising out of or based on the ownership of H shares or ADSs, including judgments arising out of or based on the civil liability provisions of United States federal or state securities laws.

### Restrictions on Transferability and the Share Register

According to PRC Company Law, our domestic ordinary shares held by Sinopec Group Company may not be transferred within three years of our establishment on February 25, 2000, except as permitted under the March 23, 2000 debt to equity swap agreement executed on March 23, 2000 between Sinopec Group Company and our other shareholders, whereby Sinopec Group Company may transfer our domestic ordinary shares to such other shareholders. H shares may be traded only among investors who are not PRC persons, and may not be sold to PRC investors. There are no restrictions on the ability of investors who are not PRC residents to hold H shares.

As provided in the articles of associations we may refuse to register a transfer of H shares unless:

- o any relevant transfer fee is paid;
- o the instrument of transfer is only related to H shares listed in Hong Kong;
- o the instrument of transfer is accompanied by the share certificates to which it relates, or such other evidence is given as may be reasonably necessary to show the right of the transferor to make the transfer;
- o the stamp duty which is chargeable on the instrument of transfer has already been paid;
- o if it is intended that the shares be transferred to joint owners, the maximum number of joint owners shall not be more than four (4); and
- o the Company does not have any lien on the relevant shares.

We are required to keep a register of our shareholders which shall be comprised of various parts, including one part which is to be maintained in Hong Kong in relation to H shares to be listed on the Hong Kong Stock Exchange. Shareholders have the right to inspect and, for a nominal charge, to copy the share register. No transfers of ordinary shares shall be recorded in our share register within 30 days prior to the date of a shareholders' general meeting or within 5 days prior to the record date established for the purpose of distributing a dividend.

We have appointed HKSCC Registrars Limited to act as the registrar of our H shares. This registrar maintains our register of holders of H shares at our offices in Hong Kong and enters transfers of shares in such register upon the presentation of the documents described above.

### C. MATERIAL CONTRACTS

We have not entered into any material contracts other than in the ordinary course of business and other than those described in Item 4. Information on the Company, Item 7. Major Shareholders and Related Party Transactions - Related Party Transactions or elsewhere in this Form 20-F.

### D. EXCHANGE CONTROLS

The existing foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade and service related foreign exchange transactions and

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payment of dividends. We may undertake current account foreign exchange transactions without prior approval from the State Administration of Foreign Exchange by producing commercial documents evidencing such transactions, provided that they are processed through Chinese banks licensed to engage in foreign exchange transactions. The PRC government has stated publicly that it intends to make the Renminbi

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freely convertible in the future. However, we cannot predict whether the PRC government will continue its existing foreign exchange policy and when the PRC government will allow free conversion of Renminbi to foreign currency.

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures.

Since 1994, the conversion of Renminbi into Hong Kong and United States dollars has been based on rates set by the People's Bank of China, which are set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. Although the Renminbi to US dollar exchange rate has been relatively stable since 1994, we cannot predict nor give any assurance of its future stability. Fluctuations in exchange rates may adversely affect the value, translated or converted into US dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends. In addition, there is speculation that the PRC government may revalue the Renminbi against the US dollar, and we cannot give any assurance that any future movements in the exchange rate of the Renminbi against the US dollar and other foreign currencies will not adversely affect our results of operations and financial condition. We do not currently hedge exchange rate fluctuations between the Renminbi and the US dollar or other currencies and currently have no plans to do so. For further information on our foreign exchange risks, foreign exchange rates, our hedging activities and our historical foreign currency requirements, see "Currencies Exchange Rates" and "Item 11 -- Qualitative and Quantitative Disclosure about Market Risk -- Foreign Exchange Rate Risk."

### E. TAXATION

#### PRC Taxation

The following discussion addresses the principal PRC tax consequences of investing in the H shares or ADSs.

#### Taxation of Dividends

##### Individual Investors

According to the current PRC tax regulations, dividends paid by PRC companies are ordinarily subject to a PRC withholding tax levied at a flat rate of 10%. However, such withholding tax is not applicable with respect to those PRC companies which have their shares listed on an overseas stock exchange, such as H shares and ADSs, because of an exemption issued first in 1993 and then confirmed in 1994. The relevant tax authority has not collected withholding tax on dividend payments on H shares or ADSs.

In the event that the exemption is no longer available or is withdrawn, a 10% tax may be withheld on dividends in accordance with the PRC



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individual income tax law. Such withholding tax may be reduced under an applicable treaty on the avoidance of double taxation.

### Foreign Enterprises

According to the current PRC tax regulations, dividends paid by PRC companies to foreign enterprises are ordinarily subject to a PRC withholding tax levied at a flat rate of 10%. However, foreign enterprises with no permanent establishment in China receiving dividends paid with respect to a PRC company's H shares or ADSs have been temporarily exempted from the 10% withholding tax. If such withholding tax becomes applicable in the future, the rate could be reduced under an applicable treaty on the avoidance of double taxation.

### Tax Treaties

Holders resident in countries which have entered into avoidance of double taxation treaties with the PRC may be entitled to a reduction of the withholding tax imposed on the payment of dividends. The PRC currently has avoidance of double taxation treaties with a number of other countries, which include Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

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Under a tax treaty between United States and China, China may tax dividends paid by Sinopec Corp. to eligible US Holders up to a maximum of 10% of the gross amount of such dividend. Under the tax treaty, an eligible US Holder is a person who, by reason of domicile, residence, place of head office, place of incorporation or any other criterion of similar nature is liable to tax in the United States, subject to a detailed "treaty shopping" provision.

### Taxation of Capital Gains

A PRC tax regulation provides that gains realized upon the sale of overseas shares by foreign enterprises and individuals are not subject to tax on capital gains. However, the Provision for Implementing of the Individual Income Tax Law of the PRC (the "Detailed Implementing Rules"), promulgated on January 28, 1994, imposes income tax of 20% on gains derived from the sale of equity shares by an individual. A notice issued in 1998 by the Ministry of Finance and State Administration of Tax states that no capital gains tax will be imposed on gains from the sale of shares by individuals from 1997. If such tax exemption relief is no longer available, individual holders of H shares or ADSs may be subject to a 10% capital gains tax unless such tax is reduced or eliminated by an applicable double taxation treaty. As the Amendments and the Detailed Implementing Rules only relate to individual income tax, the tax exemption for foreign enterprises under the PRC tax regulation should still be valid.

### PRC Stamp Tax Considerations

Under the current PRC tax regulation, the PRC stamp tax is not imposed on the transfer of H shares and ADSs of PRC companies publicly listed outside China.

### United States Federal Income Tax Considerations

The following is a summary of United States federal income tax considerations that are anticipated to be material for US Holders (as defined below) who purchase H shares or ADSs. This summary is based upon existing

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United States federal income tax law, which is subject to change, possibly with retroactive effect. This summary does not discuss all aspects of United States federal income taxation which may be important to particular investors in light of their individual investment circumstances, such as investors subject to special tax rules including: financial institutions, insurance companies, broker-dealers, tax-exempt organizations, non-US Holders, investors who own (directly, indirectly, or constructively) 10% or more of our voting stock, investors that will hold H shares or ADSs as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for United States federal income tax purposes, or US Holders that have a functional currency other than the United States dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this summary does not discuss any foreign, state, local or alternative minimum tax considerations. This summary only addresses investors that will hold their H shares or ADSs as "capital assets" (generally, property held for investment) under the United States Internal Revenue Code. Each prospective investor is urged to consult its tax advisor regarding the United States federal, state, local, and foreign income and other tax considerations of the purchase, ownership, and disposition of H shares or ADSs.

For purposes of this summary, a US Holder is a beneficial owner of H shares or ADSs that is for United States federal income tax purposes:

- o an individual who is a citizen or resident of the United States;
- o a corporation created in or organized under the laws of, the United States or any State or political subdivision thereof;
- o an estate the income of which is includible in gross income for United States federal income tax purposes regardless of its source;
- o a trust the administration of which is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust; or
- o a trust that was in existence on August 20, 1996, was treated as a United States person, for United States federal income tax purposes, on the previous day and elected to continue to be so treated.

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If a partnership (including any entity treated as a partnership for United States federal income tax purposes) holds H shares or ADSs, the tax treatment of a partner in such partnership will depend upon the status of the partner and the activities of the partnership. Partners in a partnership holding our H shares or ADSs are urged to consult their tax advisors as to the particular United States federal income tax consequences applicable to them.

A beneficial owner of the H shares or ADSs that is not a US Holder is referred to herein as a "Non-US Holder."

A foreign corporation will be treated as a "passive foreign investment company" (a "PFIC"), for United States federal income tax purposes, if 75% or more of its gross income consists of certain types of "passive" income or 50% or more of its assets are passive. Sinopec Corp. presently believes that it is not a PFIC and does not anticipate becoming a PFIC. This is, however, a factual determination made on an annual basis and is subject to change. The following discussion is based on the belief that Sinopec Corp. will not be classified as a PFIC for United States federal income tax purposes. See the discussion below under the heading "PFIC Considerations" for

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a brief summary of the PFIC rules.

### US Holders

For United States federal income tax purposes, a US Holder of an ADS will be treated as the owner of the proportionate interest of the H shares held by the depository that is represented by an ADS and evidenced by such ADS. Accordingly, no gain or loss will be recognized upon the exchange of an ADS for the holder's proportionate interest in the H shares. A US Holder's tax basis in the withdrawn H shares will be the same as the tax basis in the ADS surrendered therefor, and the holding period in the withdrawn H shares will include the period during which the holder held the surrendered ADS.

### Dividends

Any cash distributions paid by Sinopec Corp. out of earnings and profits, as determined under United States federal income tax principles, will be subject to tax as dividend income and will be includible in the gross income of a US Holder upon receipt. A non-corporate recipient of dividend income will generally be subject to tax on dividend income from a "qualified foreign corporation" at a maximum U.S. federal tax rate of 15% rather than the marginal tax rates generally applicable to ordinary income so long as certain holding period requirements are met. A non-U.S. corporation (other than a passive foreign investment company) generally will be considered to be a qualified foreign corporation (i) if it is eligible for the benefits of a comprehensive tax treaty with the United States which the Secretary of Treasury of the United States determines is satisfactory for purposes of this provision and which includes an exchange of information program or (ii) with respect to any dividend it pays on stock which is readily tradable on an established securities market in the United States. There is currently a tax treaty in effect between the United States and the People's Republic of China which the Secretary of Treasury of the United States determined is satisfactory for these purposes. Additionally, our ADSs trade on the New York Stock Exchange, an established securities market in the United States. Cash distributions paid by Sinopec Corp. in excess of its earnings and profits will be treated as a tax-free return of capital to the extent of the US Holder's adjusted tax basis in its shares or ADSs, and after that as gain from the sale or exchange of a capital asset. Dividends paid in Hong Kong dollar will be includible in income in a United States dollar amount based on the United States dollar - Hong Kong dollar exchange rate prevailing at the time of receipt of such dividends by the depository, in the case of ADSs, or by the US Holder, in the case of H shares held directly by such US Holder. Gain or loss, if any, recognized on a subsequent sale, conversion or other disposition of Hong Kong dollars generally will be U.S. source income or loss. Dividends received on H shares or ADSs will not be eligible for the dividends received deduction allowed to corporations.

Dividends received on H shares or ADSs will be treated, for United States federal income tax purposes, as foreign source income. A US Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on H shares or ADSs. US Holders who do not elect to claim a foreign tax credit for foreign income tax withheld may instead claim a deduction, for United States federal income tax purposes, in respect of such withholdings, but only for a year in which the US Holder elects to do so for all creditable foreign income taxes.

A distribution of additional shares of Sinopec Corp.'s stock to US Holders with respect to their H shares or ADSs that is pro rata to all Sinopec Corp.'s shareholders may not be subject to United States federal income tax. The tax basis of such additional shares will be determined by allocating the US Holders' adjusted

tax basis in the H shares or ADSs between the H shares or ADSs and the additional shares, based on their relative fair market values on the date of distribution.

#### Sale or Other Disposition of H shares or ADSs

A US Holder will recognize capital gain or loss upon the sale or other disposition of H shares or ADSs in an amount equal to the difference between the amount realized upon the disposition and the US Holder's adjusted tax basis in such H shares or ADSs, as each is determined in US dollars. Any capital gain or loss will be long-term if the H shares or ADSs have been held for more than one year and may be, under the income tax treaty between the People's Republic of China and the United States, foreign source gain or loss. The claim of a deduction in respect of a capital loss, for United States federal income tax purposes, may be subject to limitations.

#### PFIC Considerations

If Sinopec Corp. were to be classified as a PFIC in any taxable year, a U.S. Holder would be subject to special rules generally intended to reduce or eliminate any benefits from the deferral of United States federal income tax that a U.S. Holder could derive from investing in a foreign company that does not distribute all of its earnings on a current basis. In such event, a U.S. Holder of the H shares or ADSs may be subject to tax at ordinary income tax rates on (i) any gain recognized on the sale of the H shares or ADSs and (ii) any "excess distribution" paid on the H shares or ADSs (generally, a distribution in excess of 125% of the average annual distributions paid by Sinopec Corp. in the three preceding taxable years). In addition, a U.S. Holder may be subject to an interest charge on such gain or excess distribution.

The above results may be eliminated if a "mark-to-market" election is available and a US Holder validly makes such an election. If the election is made, such holder generally will be required to take into account the difference, if any, between the fair market value and its adjusted tax basis in H shares or ADSs at the end of each taxable year as ordinary income or ordinary loss (to the extent of any net mark-to-market gain previously included in income). In addition, any gain from a sale or other disposition of H shares or ADSs will be treated as ordinary income, and any loss will be treated as ordinary loss (to the extent of any net mark-to-market gain previously included in income).

#### Non-US Holders

An investment in H shares or ADSs by a Non-US Holder will not give rise to any United States federal income tax consequences unless:

- o the dividends received or gain recognized on the sale of H shares or ADSs by such person is treated as effectively connected with the conduct of a trade or business by such person in the United States as determined under United States federal income tax law; or
- o in the case of gains recognized on a sale of H shares or ADSs by an individual, such individual is present in the United States for 183 days or more and certain other conditions are met.

In order to avoid back-up withholding on dividend payments made in the United States, a Non-US Holder of the H shares or ADSs may be required to

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complete, and provide the payer with, an Internal Revenue Service Form W-8BEN, or other documentary evidence, certifying that such holder is an exempt foreign person.

### F. DIVIDENDS AND PAYING AGENTS

Not applicable.

### G. STATEMENT BY EXPERTS

Not applicable.

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### H. DOCUMENTS ON DISPLAY

We filed with the Securities and Exchange Commission in Washington, D.C. a Registration Statement on Form F-1 (Registration No. 333-12502) under the Securities Act in connection with the ADSs offered in the global offering. The Registration Statement contains exhibits and schedules. Any statement in this annual report about any of our contracts or other documents is not necessarily complete. If the contract or document is filed as an exhibit to the Registration Statement, the contract or document is deemed to modify the description contained in this annual report. You must review the exhibits themselves for a complete description of the contract or documents.

You may inspect and copy our registration statements, including their exhibits and schedules, and the reports and other information we file with the Securities and Exchange Commission in accordance with the Exchange Act at the public reference facilities maintained by the Securities and Exchange Commission at Judiciary Plaza, 450 Fifth Street, Room 1024, N.W., Washington, D.C. 20549 and at the regional offices of the Securities and Exchange Commission located at 233 Broadway, New York, NY 10279 and at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You may also inspect the registration statements, including their exhibits and schedules, at the office of the New York Stock Exchange, Wall Street, New York, New York 10005. Copies of such material may also be obtained from the Public Reference Section of the Securities and Exchange Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. You may obtain information regarding the Washington D.C. Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330 or by contacting the Securities and Exchange Commission over the internet at its website at <http://www.sec.gov>.

### I. SUBSIDIARY INFORMATION

Not applicable.

## ITEM 11. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk exposures are to fluctuations in oil and gas prices, exchange rates and interest rates.

### Commodity Price Risk

We are exposed to fluctuations in prices of crude oil, refined products and petrochemicals whose prices are volatile. We purchase substantial volumes of crude oil from domestic and international suppliers and sell substantial volumes of refined products and petrochemicals to domestic buyers. We do not enter into commodity derivative instruments or futures to hedge the potential price fluctuations of these products or for other purposes. Therefore, fluctuations of prices of crude oil, refined products and

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petrochemicals have a significant effect on our operating expenses and net profits.

### Foreign Exchange Rate Risk

A portion of the our Renminbi revenues are converted into other currencies to meet foreign currency financial instrument obligations and to pay for imported materials and equipment. Foreign currency payments for imported equipment represented 9.6%, 5.6% and 7.5% of our total capital expenditure in 2002, 2003 and 2004, respectively. Foreign currency payments for other imports, principally crude oil, represented 34.5%, 40.5% and 42.9% of our purchased crude oil, products and operating supplies and expenses in 2002, 2003 and 2004, respectively.

The Renminbi is not a freely convertible currency. Actions taken by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates. Although the Renminbi to US dollar exchange rate has been relatively stable since 1994, we cannot predict nor give any assurance of its future stability. Fluctuations in exchange rates may adversely affect the value, translated or converted into US dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends. We cannot give any assurance that any future movements in the exchange rate of the Renminbi against the US dollar and other foreign currencies will not adversely affect our results of operations and financial condition.

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The following presents various market risk information regarding market-sensitive financial instruments that we held or issued as of December 31, 2004 and 2003. We conduct our business primarily in Renminbi, which is also our functional and reporting currency.

The following tables provide information regarding instruments that are sensitive to foreign exchange rates as of December 31, 2004 and 2003. For debt obligations, the table presents cash flows and related weighted average rates by expected maturity dates.

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As of December 31, 2004:

	Expected maturity					
	2005	2006	2007	2008	2009	thereaf
	(RMB equivalent in millions, except interest rates)					
<hr style="border-top: 1px dashed black;"/>						
Assets						
Cash and cash equivalents						
In United States dollar	786	-	-	-	-	-
In Hong Kong dollar	50	-	-	-	-	-
In Japanese yen	18	-	-	-	-	-
In Euro	10	-	-	-	-	-

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Time deposits with financial institutions

In United States dollar	23	-	-	-	-	-
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Liabilities

Debts in United States dollar

Fixed rate	1,441	278	289	192	194	87
Average interest rate	4.2%	3.9%	3.6%	3.3%	2.9%	2.9%
Variable rate	12,894	1,970	1,256	307	306	1,351
Average interest rate (1)	3.2%	3.4%	3.3%	3.5%	3.5%	3.3%

Debts in Japanese yen

Fixed rate	294	281	198	116	116	1,131
Average interest rate	3.2%	3.0%	2.8%	2.6%	2.6%	2.6%
Variable rate	511	405	387	279	291	541
Average interest rate (1)	4.4%	4.1%	4.2%	4.3%	5.2%	5.2%

Debts in Hong Kong dollar

Fixed rate	417	-	-	-	-	-
Average interest rate	1.5%	-	-	-	-	-
Variable rate	781	1	-	-	-	-
Average interest rate (1)	3.4%	5.3%	-	-	-	-

Debts in Euro

Fixed rate	28	28	28	28	28	28
Average interest rate	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%

(1) The average interest rates for variable rate loans are calculated based on the rates reported in 2004.

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As of December 31, 2003:

Expected maturity

	2004	2005	2006	2007	2008	thereafter
	-----	-----	-----	-----	-----	-----
	(RMB equivalent in millions, except interest rates)					
	-----	-----	-----	-----	-----	-----

Assets

Cash and cash equivalents

In United States dollar	968	-	-	-	-	-
In Hong Kong dollar	38	-	-	-	-	-
In Japanese yen	16	-	-	-	-	-
In Euro	17	-	-	-	-	-

Time deposits with financial institutions

In United States dollar	59	-	-	-	-	-
In Hong Kong dollar	37	-	-	-	-	-

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### Liabilities

Debts in United States dollar						
Fixed rate	4,547	706	348	191	169	1,0
Average interest rate	3.4%	5.3%	5.1%	4.7%	4.7%	4
Variable rate	6,475	1,506	1,583	410	333	9
Average interest rate (1)	2.0%	2.7%	2.3%	2.7%	2.6%	1
Debts in Japanese yen						
Fixed rate	593	485	475	397	317	1,8
Average interest rate	3.7%	3.6%	3.5%	3.3%	3.2%	3
Variable rate	241	242	138	114	-	-
Average interest rate (1)	1.2%	1.2%	1.6%	1.6%	-	-
Debts in Hong Kong dollar						
Fixed rate	116	-	-	-	-	-
Average interest rate	0.7%	-	-	-	-	-
Variable rate	4	2	1	-	-	-
Average interest rate (1)	5.3%	5.3%	5.3%	-	-	-
Debts in Europe dollar						
Fixed rate	83	75	75	75	75	1
Average interest rate	6.5%	6.4%	6.4%	6.4%	6.4%	6

(1) The average interest rates for variable rate loans are calculated based on the rates reported in the financial statements.

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### Interest Rate Risk

We are exposed to interest rate risk resulting from fluctuations in interest rates on our short- and long-term debts. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding floating rate borrowings.

Our debts consist of fixed and variable rate debt obligations with original maturities ranging from 1 to 27 years. Fluctuations in interest rates can lead to significant fluctuations in the fair values of our debt obligations.

The following tables present principal cash flows and related weighted average interest rates by expected maturity dates of our interest rate sensitive financial instruments as of December 31, 2004 and 2003.

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As of December 31, 2004:

Expected maturity					
2005	2006	2007	2008	2009	thereafter
(RMB equivalent in millions, except interest rates)					



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Cash and cash equivalents						
In Renminbi	15,517	-	-	-	-	-
In United States dollar	786	-	-	-	-	-
In Hong Kong dollar	50	-	-	-	-	-
In Japanese yen	18	-	-	-	-	-
In Euro	10	-	-	-	-	-
Time deposits with financial institutions						
In Renminbi	1,876	-	-	-	-	-
In United States dollar	23	-	-	-	-	-
Liabilities						
Debts in Renminbi						
Fixed rate	24,105	12,523	18,973	6,741	5,888	39,699
Average interest rate	4.9%	4.9%	4.9%	4.9%	4.8%	0.5%
Variable rate	550	400	102	169	153	2,031
Average interest rate (2)	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Debts in United States dollar						
Fixed rate	1,441	278	289	192	194	870
Average interest rate	4.2%	3.9%	3.6%	3.3%	2.9%	2.5%
Variable rate	12,894	1,970	1,256	307	306	1,351
Average interest rate (2)	3.2%	3.4%	3.3%	3.5%	3.5%	3.5%
Debts in Japanese yen						
Fixed rate	294	281	198	116	116	1,138
Average interest rate	3.2%	3.0%	2.8%	2.6%	2.6%	2.6%
Variable rate	511	405	387	279	291	546
Average interest rate (2)	4.4%	4.1%	4.2%	4.3%	5.2%	5.1%
Debts in Hong Kong dollar						
Fixed rate	417	-	-	-	-	-
Average interest rate	1.5%	-	-	-	-	-
Variable rate	781	1	-	-	-	-
Average interest rate (2)	3.4%	5.3%	-	-	-	-
Debts in Euro						
Fixed rate	28	28	28	28	28	25
Average interest rate	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%

(1) Carrying amounts are used for loans from Sinopec Group Company and its affiliates as it is difficult to estimate their fair values because the cost of obtaining discount and borrowing rates for such borrowings would be excessive.

(2) The average interest rates for variable rate loans are calculated based on the rates reported as of December 31, 2004.

As of December 31, 2003:

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	Expected maturity					
	2004	2005	2006	2007	2008	thereafter
	(RMB equivalent in millions, except interest rates)					
<b>Assets</b>						
Cash and cash equivalents						
In Renminbi	15,224	-	-	-	-	-
In United States dollar	968	-	-	-	-	-
In Hong Kong dollar	38	-	-	-	-	-
In Japanese yen	16	-	-	-	-	-
In Euro	17	-	-	-	-	-
Time deposits with financial institutions						
In Renminbi	2,088	-	-	-	-	-
In United States dollar	59	-	-	-	-	-
In Hong Kong dollar	37	-	-	-	-	-
<b>Liabilities</b>						
Debts in Renminbi						
Fixed rate	19,998	9,162	7,798	9,957	6,131	37,746
Average interest rate	4.8%	5.0%	5.0%	5.1%	5.1%	0.3%
Variable rate	1,989	2,301	1,621	65	61	678
Average interest rate (2)	5.1%	5.1%	5.1%	4.9%	4.8%	4.8%
Debts in United States dollar						
Fixed rate	4,547	706	348	191	169	1,060
Average interest rate	3.4%	5.3%	5.1%	4.7%	4.7%	4.2%
Variable rate	6,475	1,506	1,583	410	333	975
Average interest rate (2)	2.0%	2.7%	2.3%	2.7%	2.6%	1.4%
Debts in Japanese yen						
Fixed rate	593	485	475	397	317	1,839
Average interest rate	3.7%	3.6%	3.5%	3.3%	3.2%	3.2%
Variable rate	241	242	138	114	-	-
Average interest rate (2)	1.2%	1.2%	1.6%	1.6%	-	-
Debts in Hong Kong dollar						
Fixed rate	116	-	-	-	-	-
Average interest rate	0.7%	-	-	-	-	-
Variable rate	4	2	1	-	-	-
Average interest rate (2)	5.3%	5.3%	5.3%	-	-	-
Debts in Euro						
Fixed rate	83	75	75	75	75	185
Average interest rate	6.5%	6.4%	6.4%	6.4%	6.4%	6.2%

(1) Carrying amounts are used for loans from Sinopec Group Company and its affiliates as it is practicable to estimate their fair values because the cost of obtaining discount and borrow rates for comparable borrowings would be excessive.

(2) The average interest rates for variable rate loans are calculated based on the rates reported as of December 31, 2003.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

A. MATERIAL MODIFICATIONS TO THE RIGHTS TO SECURITIES HOLDERS

None.

B. USE OF PROCEEDS

The following use of proceeds information relates to the registration statement on Form F-1 (Registration No. 333-12502) filed by us in connection with the global offering of American depository shares underlying our H shares, which went effective on October 11, 2000.

The use of offering proceeds is described in Section 4, Item 8 - Disclosure of Significant Events, in our 2004 annual report.

ITEM 15. CONTROLS AND PROCEDURES

Our management, with the participation of our Chairman, President and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) of the Securities Exchange Act of 1934) as of the end of the fiscal year covered by this annual report. Based on this evaluation, our Chairman, President and Chief Financial Officer have concluded that, as of the end of the fiscal year covered by this annual report, our disclosure controls and procedures were adequate and effective to ensure that material information relating to our company, including our consolidated subsidiaries, was made known to them by others within our company and our consolidated subsidiaries.

In 2004, we continued to make effort to improve and strengthen our corporate governance.

- o In accordance with the Notice on Certain Issues Relating to Regulating Fund Transfers between a Listed Company and Connected Parties and the External Guarantees of Listed Company promulgated by the China Securities Regulatory Commission and the State-owned Assets Supervision and Administration Commission of the State Council and the new Listing Rules introduced by the Hong Kong Stock Exchange, we have made prompt amendments to our corporate governance documents such as Articles of Association, Rules and Procedures for the General Meeting of Shareholders and Rules and Procedures for Board of Directors Meeting and, in particular, revised various provisions related to corporate guarantee, voting on connected

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transactions and nomination of directors. The amended Articles of Association, Rules and Procedures for the General Meeting of Shareholders and Rules and Procedures for Board of Directors Meeting were attached as Exhibit 1 to our 2003 Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 18, 2004.

- o Based on the evaluation results in respect to the operation of our internal control system, we have revised and optimized the system by introducing two new procedures, namely, Procedure for Importing Ordinary Equipment and Materials as an Agent and Intangible Assets Management Procedure. The revised internal control system comprises 13 broad categories which are sub-divided into 43 individual procedures regarding production, operation and management of our company. The proposal of the revision of the system was approved by our board of directors on

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October 31, 2004, and the implementation of the revised system in all operation and management areas have started since January 2005.

- o Pursuant to relevant domestic and overseas regulatory requirements and Rules on Corporate Information Disclosure System and Rules on the Work of Corporate Investor Relations of Sinopec Corp., we are committed to further enhancing information disclosure and to improving investor relations.

### ITEM 16. RESERVED

#### ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The board of directors has determined that Mr. Zhang Youcai qualifies as an audit committee financial expert in accordance with the terms of Item 16.A of Form 20-F. For Mr. Zhang's biographical information, see "Item 6 Directors, Senior Management and Employees - A. Directors, members of the supervisory committee and senior management."

#### ITEM 16B. CODE OF ETHICS

As of the date of this annual report, we do not have, in form, a code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer. Our principal executive officers, Mr. Chen Tonghai (Chairman) and Mr. Wang Jiming (President(1)), and our principal financial officer, Mr. Zhang Jiaren (CFO), currently also serve as our directors and are thus subject to the director service contracts that they have with us. Under the director service contracts, each of them agrees that he owes a fiduciary and diligence obligation to our company and that he shall not engage in any activities in competition with our business or carry any activities detrimental to the interests of our company. Each of them also agrees to perform his respective duties as a director and senior officer in accordance with the Company Law of the PRC, relevant rules and regulations promulgated by China Securities Regulatory Commission and the Mandatory Provisions of Articles of Association of Overseas Listed Companies.

#### ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate audit fees, audit-related fees, tax fees of our principal accountants and all other fees billed for products and services provided by our principal accountants other than the audit fees, audit-related fees and tax fees for each of the fiscal years 2003 and 2004:

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	Audit Fees -----	Audit-Related Fees -----	Tax Fees -----	Other Fees -----
2003	RMB 79 million	RMB 8 million	--	--
2004	RMB 76 million	--	--	--

Before our principal accountants were engaged by our company or our subsidiaries to render audit or non-audit services, the engagement has been approved by our audit committee.

### ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDITS COMMITTEES

Not applicable.

### ITEM 16E. PURCHASERS OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

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- (1) Mr. Wang Jiming served as President of Sinopec Corp. until March 2005. Mr. Wang Tianpu was appointed as President of Sinopec Corp. in March 2005.

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## PART III

### ITEM 17. FINANCIAL STATEMENTS

Not applicable.

### ITEM 18. FINANCIAL STATEMENTS

See F-pages following Item 19.

### ITEM 19. EXHIBITS

- 1\*\* Articles of Association of the Registrant, amended and adopted by the shareholders' meeting on April 22, 2004 (English version), incorporated by reference to Exhibit 1 to our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 18, 2004.
- 4.1\*\* Director Service Contracts, incorporated by reference to Exhibit 4.1 to our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 18, 2003.
- 4.2\*\* Supervisor Service Contract, incorporated by reference to Exhibit 4.2 to our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 18, 2003.
- 4.3\*\* Reorganization Agreement between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.1 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).
- 4.4\*\* Agreement for Mutual Provision of Products and Ancillary Services between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.3 to our

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Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).

- 4.5\*\* Agreement for Provision of Cultural, Educational, Hygiene and Community Services between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.4 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).
- 4.6\*\* Trademark License Agreement between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.6 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).
- 4.7\*\* Patents and Proprietary Technology License Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.7 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).
- 4.8\*\* Computer Software License Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.8 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).
- 4.9\*\* Assets Swap Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.9 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).
- 4.10\*\* Land Use Rights Leasing Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to

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Exhibit 10.10 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).

- 4.12\*\* Property Leasing Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.11 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).
- 4.13\*\* Accounts Collectable Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated August 16, 2000 (including English translation), incorporated by reference to Exhibit 10.17 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).
- 4.14\*\* Loan Transfer and Adjustment Contract between China Petrochemical

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Corporation and China Petroleum & Chemical Corporation dated August 16, 2000 (including English translation), incorporated by reference to Exhibit 10.18 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).

- 8\* A list of the Registrant's subsidiaries.
- 12.1\* Certification of Chairman pursuant to Rule 13a-14(a).
- 12.2\* Certification of President pursuant to Rule 13a-14(a).
- 12.3\* Certification of CFO pursuant to Rule 13a-14(a).
- 13\* Certification of CEO and CFO pursuant to 18 U.S.C. ss.1350, and Rule 13a-14(b).

\* Filed as part of this annual report

\*\* Incorporated by reference.

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### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

#### INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated statements of income for the years ended December 31, 2002, 2003 and 2004 .....	
Consolidated balance sheets as of December 31, 2003 and 2004 .....	
Consolidated statements of cash flows for the years ended December 31, 2002, 2003 and 2004.....	
Consolidated statements of shareholders' equity for the years ended December 31, 2002, 2003 and 2004 .....	
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Supplemental information on oil and gas producing activities (unaudited).....	

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of  
China Petroleum & Chemical Corporation:

We have audited the accompanying consolidated balance sheets of China Petroleum & Chemical Corporation and subsidiaries (the "Group") as of December 31, 2003 and 2004, and the related consolidated statements of income, cash flows and shareholders' equity for each of the years in the three-year period ended December 31, 2004, all expressed in Renminbi. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Petroleum & Chemical Corporation and subsidiaries as of December 31, 2003 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

International Financial Reporting Standards vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 34 to the consolidated financial statements.

The accompanying consolidated financial statements as of and for the year ended December 31, 2004 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and in our opinion, the consolidated financial statements expressed in Renminbi have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

KPMG  
Hong Kong, China  
March 25, 2005

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004  
(Amounts in millions, except per share data)



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	Note	Years ended December		
		2002	2003	2004
		RMB	RMB	RMB
<b>OPERATING REVENUES</b>				
Sales of goods.....		333,873	429,949	597,1
Other operating revenues.....	3	16,205	19,052	22,5
		-----	-----	-----
		350,078	449,001	619,7
<b>OPERATING EXPENSES</b>				
Purchased crude oil, products and operating supplies and expenses.....		(239,088)	(313,238)	(443,5
Selling, general and administrative expenses.....		(22,367)	(27,228)	(31,8
Depreciation, depletion and amortization.....		(26,492)	(27,951)	(32,3
Exploration expenses, including dry holes.....		(4,363)	(6,133)	(6,3
Personnel expenses.....	4	(15,024)	(16,972)	(18,6
Employee reduction expenses.....	5	(244)	(1,040)	(9
Taxes other than income tax.....	6	(12,015)	(13,581)	(16,3
Other operating expenses, net.....	7	(1,184)	(3,975)	(6,6
		-----	-----	-----
Total operating expenses.....		(320,777)	(410,118)	(556,7
		-----	-----	-----
Operating income.....		29,301	38,883	63,0
		-----	-----	-----
<b>FINANCE COSTS</b>				
Interest expense.....	8	(4,932)	(4,365)	(4,5
Interest income.....		351	322	3
Foreign exchange losses.....		(427)	(450)	(2
Foreign exchange gains.....		60	30	
		-----	-----	-----
Net finance costs.....		(4,948)	(4,463)	(4,3
Gain from issuance of shares by a subsidiary.....	9	-	136	
Investment income.....		239	89	1
Income from associates.....		324	396	7
		-----	-----	-----
Income before income tax and minority interests .....		24,916	35,041	59,6
Income tax.....	10	(7,491)	(10,645)	(17,8
Income before minority interests.....		17,425	24,396	41,7
Minority interests.....		(1,129)	(1,972)	(5,7
		-----	-----	-----
Net income .....		16,296	22,424	36,0
		=====	=====	=====
Basic earnings per share.....	11	0.19	0.26	0.
		=====	=====	=====
Weighted average number of shares.....	11	86,702	86,702	86,7
		=====	=====	=====

See accompanying notes to consolidated financial statements.

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## CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2003 AND 2004 (Amounts in millions)

		December 31,	
		2003	2004
		RMB	RMB
<b>ASSETS</b>			
Current assets			
		16,263	16,381
		2,184	1,899
	12	9,479	9,756
		6,283	7,812
	13	47,916	64,329
	14	20,914	20,094
		103,039	120,271
Non-current assets			
	15	270,731	284,123
	16	29,354	46,185
	17	2,709	2,538
	18	8,121	10,222
	20	3,067	4,558
		810	750
	21	2,353	5,947
		317,145	354,323
		420,184	474,594
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
	22	29,181	32,307
	22	4,865	8,714
	23	23,319	23,792
		24,267	30,797
	24	43,561	45,276
		4,079	5,391
		129,272	146,277
Non-current liabilities			
	22	48,257	60,822
	22	39,039	36,765
	20	4,599	5,636
		1,451	1,008
		93,346	104,231
		222,618	250,508
		26,051	31,046
Shareholders' equity			
	25	86,702	86,702
	26	84,813	106,338
		171,515	193,040

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Total liabilities and shareholders' equity.....	----- 420,184 =====	----- 474,594 =====
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See accompanying notes to consolidated financial statements.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004  
(Amounts in millions)

	Note	Years ended 2002 ----- RMB	2003 ----- RMB
Net cash from operating activities.....	(a)	56,749	62,097
Cash flows from investing activities			
Capital expenditure.....		(42,600)	(44,434)
Capital expenditure of jointly controlled entities.....		--	(4,107)
Purchase of investments and investments in associates.....		(2,205)	(1,519)
Proceeds from disposal of investments and investments in associates.....		427	141
Proceeds from disposal of property, plant and equipment.....		464	400
Increase in time deposits with financial institutions.....		(1,342)	(2,871)
Maturity of time deposits with financial institutions.....		2,160	1,700
Net cash used in investing activities.....		(43,096)	(50,690)
Cash flows from financing activities			
Proceeds from bank and other loans.....		256,993	235,163
Proceeds from bank and other loans of jointly controlled entities.....		--	1,450
Proceeds from issuance of corporate bonds, net of issuing expenses.....		--	--
Repayments of bank and other loans.....		(264,779)	(243,503)
Distributions to minority interests.....		(455)	(360)
Contributions from minority interests.....		230	580
Dividend paid.....		(8,670)	(7,803)
Cash and cash equivalents distributed to Sinopec Group Company.....		--	--
Net cash (used in)/from financing activities.....		(16,681)	(14,473)
Net (decrease)/increase in cash and cash equivalents.....		(3,028)	(3,066)
Effect of foreign exchange rate.....		7	5
Cash and cash equivalents at beginning of year.....		22,345	19,324
Cash and cash equivalents at end of year.....		19,324	16,263

See accompanying notes to consolidated financial statements.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004  
(Amounts in millions)

- (a) Reconciliation of income before income tax and minority interests to net cash from operating activities

The reconciliation of income before income tax and minority interests to net cash from operating activities is as follows:

	Years end	
	2002	2003
	RMB	RMB
Income before income tax and minority interests.....	24,916	35,041
Adjustment for:		
Depreciation, depletion and amortization.....	26,492	27,951
Dry hole cost.....	1,771	2,789
Income from associates.....	(324)	(396)
Investment income.....	(239)	(89)
Interest income.....	(351)	(322)
Interest expense.....	4,932	4,365
Gain from issuance of shares by a subsidiary.....	--	(136)
Unrealized foreign exchange losses.....	303	289
Loss on disposal of property, plant and equipment, net.....	806	2,238
Impairment losses on long-lived assets.....	--	877
Decrease/(increase) in trade accounts receivable.....	452	1,487
Increase in bills receivable.....	(1,382)	(1,031)
(Increase)/decrease in inventories.....	(217)	449
Decrease in prepaid expenses and other current assets.....	4,506	981
(Increase)/decrease in lease prepayments.....	(11)	19
Increase in long-term prepayments and other assets.....	(384)	(781)
Increase in trade accounts payable.....	2,325	3,283
Increase/(decrease) in bills payable.....	4,575	(6,544)
Increase/(decrease) in accrued expenses and other payables.....	205	5,715
Increase/(decrease) in other liabilities.....	745	38
Cash flow generated from operations .....	69,120	76,223
Interest received.....	366	313
Interest paid.....	(6,489)	(5,392)
Investment and dividend income received.....	355	449
Income tax paid.....	(6,603)	(9,496)
Net cash from operating activities.....	56,749	62,097

=====

See accompanying notes to consolidated financial statements.

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## CHINA PETROLEUM &amp; CHEMICAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Amounts in millions)

	Share capital	Capital reserve	Share premium	Revaluation reserve	Other reser
	RMB	RMB	RMB	RMB	RMB
Shareholders' equity at January 1, 2002, as previously reported.....	86,702	(18,878)	18,072	33,025	15,06
Adjusted for acquisition of the Acquired Group...	--	--	--	--	2,85
Shareholders' equity at January 1, 2002, as adjusted.....	86,702	(18,878)	18,072	33,025	17,92
Final dividend for 2001.....	--	--	--	--	--
Interim dividend for 2002.....	--	--	--	--	--
Net income.....	--	--	--	--	--
Appropriations (Note 26).....	--	--	--	--	9,82
Revaluation surplus realized.....	--	--	--	(544)	--
Elimination of surplus on land use rights.....	--	--	--	(840)	24
Realization of deferred tax on land use rights...	--	--	--	--	(
Transfer from retained earnings to other reserves .....	--	--	--	--	21
Net assets contributed from Sinopec Group Company (Note ii).....	--	--	--	--	18
Shareholders' equity at December 31, 2002.....	86,702	(18,878)	18,072	31,641	28,39
Final dividend for 2002 .....	--	--	--	--	--
Interim dividend for 2003.....	--	--	--	--	--
Net income.....	--	--	--	--	--
Appropriations (Note 26).....	--	--	--	--	3,80
Revaluation surplus realized.....	--	--	--	(1,316)	--
Revaluation surplus of Refining Assets.....	--	(82)	--	16	8
Deferred tax effect of surplus on land use rights	--	--	--	--	1
Realization of deferred tax on land use rights...	--	--	--	--	(
Transfer from retained earnings to other reserves.....	--	--	--	--	1,15
Net assets distributed to Sinopec Group Company (Note ii).....	--	--	--	--	(6,26
Consideration for Acquisitions of Ethylene Assets and Refining assets (Note 1) .....	--	--	--	--	(3,65
Shareholders' equity at December 31, 2003.....	86,702	(18,960)	18,072	30,341	23,52
Final dividend for 2003 .....	--	--	--	--	--
Interim dividend for 2004.....	--	--	--	--	--

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Net income.....	--	--	--	--	--
Appropriations (Note 26).....	--	--	--	--	6,45
Revaluation surplus realized.....	--	--	--	(1,891)	--
Revaluation surplus of Petrochemical and Catalyst Assets.....	--	(257)	--	257	25
Realization of deferred tax on land use rights...	--	--	--	--	(
Impairment losses on revalued assets (Note 7)....	--	--	--	(709)	--
Transfer from retained earnings to other reserves .....	--	--	--	--	1,49
Net assets distributed to Sinopec Group Company (Note ii).....	--	--	--	--	(2,24
Consideration for Acquisition of Petrochemical and Catalyst Assets.....	--	--	--	--	(3,12
Shareholders' equity at December 31, 2004.....	86,702	(19,217)	18,072	27,998	26,36
US Dollars equivalent.....	10,476	(2,322)	2,184	3,383	3,18

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY - (Continued)  
(Amounts in millions)

Note:

- (i) Net gains and losses not recognized in the consolidated statements of income represent revaluation surplus and impairment losses recognized directly against the related revaluation reserve in respect of those assets that were carried at revalued amount after adjusting for the amount attributable to minority interests. Net gains not recognized in the combined statements of income was nil for the year ended December 31, 2002 and amounted to RMB 16 for the year ended December 31, 2003. Net losses not recognized in the combined statements of income was RMB 452 for the year ended December 31, 2004. The recognized gains of the Group, which represents the aggregate of the net income, the revaluation surplus and impairment losses recognized directly against the related revaluation reserve in respect of those assets that were carried at revalued amount were RMB 16,296, RMB 22,440 and RMB 35,567 for the years ended December 31, 2002, 2003 and 2004, respectively.
- (ii) These represent net assets contributed from and distributed to Sinopec Group Company for no monetary consideration. The net assets distributed to Sinopec Group Company during the year ended December 31, 2004 primarily represent certain assets retained by Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets. The net assets distributed to Sinopec Group Company during the year ended December 31, 2003 primarily represent certain assets retained by Sinopec Group Company in connection with the Acquisition of Ethylene Assets and the Acquisition of Refining Assets. These transactions were recorded at historical cost and was reflected as changes in other reserves in the Acquisition of the year the transaction occurred.

See accompanying notes to consolidated financial statements.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(All amounts in millions of Renminbi, except share data)

1 PRINCIPAL ACTIVITIES, ORGANIZATION AND BASIS OF PRESENTATION

Principal activities

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

Organization

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

As part of the Reorganization, 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 December 31, 1999. On February 25, 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 February 25, 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 August 24, 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 October

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28, 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 December 29, 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 and RMB 135, respectively which was paid in 2004 (hereinafter referred to as the "Acquisition of Refining Assets").

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### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

Pursuant to the resolutions passed at the Extraordinary General Meeting held on December 21, 2004, the Group acquired the equity interest of Sinopec Group Tianjin Petrochemical Company ("Tianjin Petrochemical"), Sinopec Group Luoyang Petrochemical General Plant ("Luoyang Petrochemical"), Zhongyuan Petrochemical Company, Ltd. ("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 (hereinafter referred to as the "Acquisition of Petrochemical and Catalyst Assets").

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

The financial condition and results of operations previously reported by the Group as of December 31, 2003 and for the years ended December 31, 2002 and 2003 have been restated to include the financial condition and results of operations of Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical, Guangzhou Petrochemical and Catalyst Plants (collectively the "Acquired Group") as set out below.



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	The Group without the Acquired Group ----- RMB	The Acquired Group ----- RMB	Combined ----- RMB
2002			
Results of operations:			
Operating revenue.....	345,145	4,933	350,078
Net income / (loss).....	16,315	(19)	16,296
Basic earnings per share.....	0.19	--	0.19

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(All amounts in millions of Renminbi, except share data)

	The Group without the Acquired Group -----	The Acquired Group -----	Combined -----
2003			
Results of operations:			
Operating revenue.....	443,136	5,865	449,001
Net income.....	21,593	831	22,424
Basic earnings per share.....	0.25	0.01	0.26
Financial condition:			
Current assets.....	99,328	3,711	103,039
Total assets.....	400,818	19,366	420,184
Current liabilities.....	122,005	7,267	129,272
Total liabilities.....	207,053	15,565	222,618
Shareholders' equity.....	167,899	3,616	171,515

For the years presented, all significant balances and transactions between the Group and the Acquired Group have been eliminated.

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board. IFRS includes International Accounting Standards ("IAS") and related interpretations. Information relating to the nature and effect of the significant differences between IFRS and accounting principles generally accepted in the United States of America ("US GAAP") are set forth in Note 34.

The accompanying consolidated financial statements are prepared on the historical cost basis as modified by the revaluation of certain property, plant and equipment (Note 15). The accounting policies described in Note 2 have been consistently applied by the Group.

The International Accounting Standards Board has issued a number of new

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and revised IFRS and IAS ("new IFRS") which are effective for accounting periods beginning on or after January 1, 2005. The Group has not early adopted these new IFRS in the financial statements for the year ended December 31, 2004. The Group has commenced an assessment of the impact of these new IFRS but is not yet in a position to state whether these new IFRS would have a significant impact on its results of operations and financial position.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

The accompanying consolidated financial statements are expressed in Renminbi ("RMB"), the national currency of the PRC. Solely for the convenience of the reader, the December 31, 2004 consolidated financial statements have been translated into United States dollars at the noon buying rate in New York City on December 31, 2004 for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York of US\$ 1.00 = RMB 8.2765. No representation is made that the Renminbi could have been, or could be, converted into United States dollars at that rate or at any other certain rate on December 31, 2004, or at any other certain date.

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### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

#### 2. PRINCIPAL ACCOUNTING POLICIES

##### (a) Basis of consolidation

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

The results of subsidiaries are included in the consolidated statements of income from the date that control effectively commences until the date that control effectively ceases, and the share attributable to minority interests is deducted from or added to income before minority interests. All significant inter-company balances and transactions and any unrealized gains arising from inter-company transactions, are eliminated on consolidation.

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

##### (b) Translation of foreign currencies

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

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balance sheet date.

Exchange differences, other than those capitalized as construction in progress, are recognized as income or expenses in the consolidated statements of income. There were no exchange differences capitalized for the years ended December 31, 2002, 2003 and 2004.

(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.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

(e) Inventories

Inventories, other than spare parts and consumables, are stated at the lower of cost and net realizable 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 labor and an appropriate proportion of production overheads. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

(f) Property, plant and equipment

An item of property, plant and equipment is initially recorded at cost, less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Subsequent to the revaluation (Note 15), which was based on depreciated replacement costs, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluations are performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Expenditure incurred after the asset has been put into operation is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is charged to the consolidated statements

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of income in the year in which it is incurred.

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

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

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

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### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

#### (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 capitalized. The cost of exploratory wells is initially capitalized 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. Capitalized costs relating to proved properties are amortized at the field level on a unit-of-production method. The amortization 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 recognized unless the disposal encompasses an entire property. The proceeds on such disposals are credited to the carrying amounts of oil and gas properties.

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### (h) Lease prepayments

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

### (i) Construction in progress

Construction in progress represents buildings, oil and gas properties, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the periods of construction.

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

No depreciation is provided in respect of construction in progress.

### (j) Investments

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

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## CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

### (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.

The consolidated statements of income include the Group's share of the results of its associates for the period. In the consolidated balance sheets, interests in associates are stated at the Group's attributable share of net assets.

### (l) Jointly controlled entities

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

The Group's interests in jointly controlled entities are accounted for on a proportionate consolidation basis. Under this method, the Group combines its

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proportionate share of the jointly controlled entity's operating revenues and expenses with each major operating revenues and expenses caption of the Group's statements of income 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.

### (m) Provisions

A provision is recognized in the consolidated balance sheets 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 recognized in the consolidated statements of income upon performance of the services. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

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

Gains arising from the issuance of shares by subsidiaries are recognized in the consolidated statements of income. Further information is set out in Note 9.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

### (o) Borrowing costs

Borrowing costs are expensed in the consolidated statements of income in the year in which they are incurred, except to the extent that they are capitalized 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

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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 recognized as expenses in the year in which they are incurred. Research and development costs amounted to RMB 1,526, RMB 2,122 and RMB 1,518 for the years ended December 31, 2002, 2003 and 2004, respectively.

(s) Operating leases

Operating lease payments are charged to the consolidated statements of income on a straight-line basis over the period of the respective leases. Operating lease charges amounted to RMB 3,210, RMB 3,601 and RMB 4,288 for the years ended December 31, 2002, 2003 and 2004, respectively.

(t) Retirement benefits

The contributions payable under the Group's retirement plans are charged to the consolidated statements of income as incurred and according to the contribution determined by the plans. Further information is set out in Note 30.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

(u) Impairment loss

The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value. The amount of the reduction is recognized as an expense in the consolidated statements of income unless the asset is carried at revalued amount for which an impairment loss is recognized 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 recognized for an asset in prior years may no

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longer exist. An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down or write-off cease to exist, is recognized as income unless the asset is carried at revalued amount. Reversal of an impairment loss on a revalued asset is credited to the revaluation reserve except for impairment loss which was previously recognized as an expense in the consolidated statements of income; a reversal of such impairment loss is recognized as income. The reversal is reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred.

### (v) Income tax

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

The tax value of losses expected to be available for utilization 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 realized.

### (w) Dividends

Dividends are recognized 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.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

### 3. OTHER OPERATING REVENUES

Other operating revenues represent:

Years ended December 31,		
2002	2003	2004
-----	-----	-----



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	RMB	RMB	RMB
Sale of materials, service and others.....	15,850	18,653	22,213
Rental income.....	355	399	373
	-----	-----	-----
	16,205	19,052	22,586
	=====	=====	=====

4. PERSONNEL EXPENSES

Personnel expenses represent:

	Years ended December 31,		
	2002	2003	2004
	-----	-----	-----
	RMB	RMB	RMB
Wages and salaries.....	10,820	12,468	13,589
Staff welfare.....	1,501	1,624	1,772
Contribution to retirement schemes.....	1,726	1,882	2,242
Social security contributions.....	977	998	1,031
	-----	-----	-----
	15,024	16,972	18,634
	=====	=====	=====

5. EMPLOYEE REDUCTION EXPENSES

During the year ended December 31, 2002, in connection with the assets swap agreement between the Company and Sinopec Group Company (Note 29), the Company made payments of RMB 244 relating to approximately 11,000 employees that were transferred to Sinopec Group Company.

During the year ended December 31, 2003, in accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 1,040 relating to the reduction of approximately 21,500 employees.

During the year ended December 31, 2004, in accordance with the Group's voluntary employee reduction plan, and in connection with the Acquisition of Petrochemical and Catalyst Assets from and Disposal of Downhole Assets to Sinopec Group Company, the Group recorded employee reduction expenses of RMB 919 relating to the reduction of approximately 24,000 employees.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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6. TAXES OTHER THAN INCOME TAX

Taxes other than income tax represent:

Years ended December 31,

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	2002	2003	2004
	RMB	RMB	RMB
Consumption tax.....	8,851	9,898	11,920
City construction tax.....	1,694	2,078	2,533
Education surcharge.....	806	995	1,255
Resources tax.....	499	434	452
Business tax.....	165	176	164
	12,015	13,581	16,324

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

7. OTHER OPERATING EXPENSES, NET

Other operating expenses, net represent:

	Years ended December 31,		
	2002	2003	2004
	RMB	RMB	RMB
Fines, penalties and compensations.....	76	165	277
Donations.....	80	152	290
Loss on disposal of property, plant and equipment, net.....	806	2,238	1,686
Impairment losses on long-lived assets.....	--	877	3,919
Others.....	222	543	494
	1,184	3,975	6,666

Asset impairment

There were no impairment losses or reversal of impairment losses recognized on long-lived assets for the years ended December 31, 2002.

Impairment losses recognized on long-lived assets of the refining and chemicals segment of RMB 114 and RMB 453, respectively, for the year ended December 31, 2003, and RMB 14 and RMB 2,747, respectively, for the year ended December 31, 2004 relate to certain refining and chemicals production facilities that are held for use. The carrying values of these facilities were written down to their recoverable values which were based on the asset held for use model using the present value of estimated future cash flows. Amounts of RMB 567 and RMB 2,052 for the years ended December 31, 2003 and 2004, respectively, were charged to the income statement with the remaining amount of RMB 709 for the year ended December 31, 2004 in the chemicals segment recognized directly against the related revaluation reserve in respect of those assets that were carried at revalued amount. The primary factor resulting in the impairment losses of the chemicals segment was due to higher operating and production costs caused by the increase in the prices of raw materials that are not expected to be recovered through an increase in selling price.

Impairment losses recognized on long-lived assets of the marketing and distribution segment of RMB 1,769 for the year ended December 31, 2004 primarily relate to certain service stations that were closed

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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during the year. In measuring the amounts of impairment charges, the carrying amounts of these assets were compared to the present value of the expected future cash flows of the assets, as well as information about sales and purchases of similar properties in the same geographic area.

The factors resulting in the exploration and production ("E&P") segment impairment losses of RMB 310 and RMB 98 for the year ended December 31, 2003 and 2004, respectively, were unsuccessful development drilling and high operating and development costs for certain oil fields. The carrying values of these E&P properties were written down to a recoverable value which was determined based on the present values of the expected future cash flows of the assets. The oil and gas pricing was a factor used in the determination of the present values of the expected future cash flows of the assets and had an impact on the recognition of the asset impairment.

8. INTEREST EXPENSE

Interest expense represents:

	Years ended December 31,		
	2002	2003	2004
	RMB	RMB	RMB
Interest expense incurred.....	5,866	5,316	5,491
Less: Interest expense capitalized*.....	(934)	(951)	(908)
	-----	-----	-----
	4,932	4,365	4,583
	=====	=====	=====

* Interest rates per annum at which borrowing costs were capitalized for construction in progress.....	3.1% to 6.2%	3.1% to 6.1%	3.1% to 6.0%
	=====	=====	=====

9. GAIN FROM ISSUANCE OF SHARES BY A SUBSIDIARY

The gain for the year ended December 31, 2003 represents the increase in the Company's share of net assets of a subsidiary after the sale of additional shares by the subsidiary.

Nature of company	Principal activities	Type of transactions	No. of shares issued	Price per share	Amount of gross proceeds	Percent
						owned before issuance
						-----

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				RMB	RMB	
Sinopec Zhongyuan Petroleum Company Limited	Exploration and production of crude oil and natural gas	Placement of A shares	58,650,000	9.10	534	75.00%

10. INCOME TAX

Income tax in the consolidated statements of income represents:

	Years ended December 31,		
	2002	2003	2004
	RMB	RMB	RMB
Provision for PRC income tax			
- the Group.....	6,574	10,868	18,195
- associates.....	50	148	340
Deferred taxation (Note 20).....	867	(371)	(720)
	7,491	10,645	17,815
	=====	=====	=====

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

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

	Years ended December 31,		
	2002	2003	2004
	RMB	RMB	RMB
Income before income tax and minority interests.....	24,916	35,041	59,000
Expected PRC income tax expense at a statutory tax rate of 33%.....	8,222	11,564	19,587
Non-deductible expenses.....	274	639	1,000
Non-taxable income.....	(451)	(231)	1,000
Differential tax rate on subsidiaries' income (Note).....	(496)	(1,232)	(2,000)
Tax losses not recognized for deferred tax.....	250	248	1,000
(Over)/under-provision in prior years.....	(102)	79	1,000
Other.....	(206)	(422)	1,000
Income tax.....	7,491	10,645	17,815
	=====	=====	=====

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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%.

### 11. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net income of RMB 16,296, RMB 22,424 and RMB 36,019 divided by the weighted average number of shares in issue during the year of 86,702,439,000 for each of the years in the three-year period ended December 31, 2004.

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for each of the years in the three-year period ended December 31, 2004.

### 12. TRADE ACCOUNTS RECEIVABLE, NET

Trade accounts receivable are analyzed as follows:

	December 31,	
	2003	2004
	RMB	RMB
Third parties.....	9,820	10,989
Sinopec Group Company and its affiliates.....	2,928	2,349
Associates.....	81	89
	12,829	13,427
Less: Allowance for doubtful accounts.....	(3,350)	(3,671)
	9,479	9,756

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### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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The allowance for doubtful accounts is analyzed as follows:

	Years ended Decem	
	2002	2003
	RMB	RMB
At beginning of year.....	2,814	3,017
Provision for the year.....	574	939

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Written-off/back.....	(371)	(429)
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Ethylene Assets.....	--	(177)
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets.....	--	--
	-----	-----
At end of year.....	3,017	3,350
	=====	=====

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 its affiliates are repayable under the same terms.

13. INVENTORIES

Inventories represent:

	December 31,	
	2003	2004
	-----	-----
	RMB	RMB
Crude oil and other raw materials.....	24,295	32,562
Work in progress.....	7,040	8,341
Finished goods.....	12,877	20,804
Spare parts and consumables.....	4,305	3,528
	-----	-----
	48,517	65,235
Less: Allowance for diminution in value of inventories.....	(601)	(906)
	-----	-----
	47,916	64,329
	=====	=====

The allowance for diminution in value of inventories is analyzed as follows:

	Years ended Decem	
	2002	2003
	-----	-----
	RMB	RMB
At beginning of year.....	684	568
Provision for the year.....	172	196
Written-off/back.....	(288)	(163)
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets.....	--	--
	-----	-----
At end of year.....	568	601
	=====	=====

The carrying amount of inventories carried at net realizable value amounted to RMB 1,551 and RMB 1,624 as of December 31, 2003 and 2004, respectively.

The cost of inventories recognized as an expense in the consolidated

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statements of income amounted to RMB 266,123, RMB 341,115 and RMB 474,961 for the years ended December 31, 2002, 2003 and 2004, respectively.

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### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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#### 14. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets represent:

		December 31
	2003	2002
	RMB	RMB
Advances to third parties.....	2,726	9,409
Amounts due from Sinopec Group Company and its affiliates.....	9,409	1,830
Other receivables.....	1,830	2,588
Purchase deposits.....	2,588	2,675
Prepayments in connection with construction work and equipment purchases.....	2,675	1,355
Prepaid value-added tax and customs duty.....	1,355	331
Amounts due from associates.....	331	20,914
	-----	-----
	20,914	20,914
	=====	=====

#### 15. PROPERTY, PLANT AND EQUIPMENT, NET

By segment:

	Exploration and production	Refining	Marketing and distribution	Chemical
	RMB	RMB	RMB	RMB
Cost/valuation:				
Balance at January 1, 2004.....	177,962	105,237	54,482	160,237
Additions.....	1,402	793	1,555	3,147
Transferred from construction in progress.....	17,428	13,489	9,283	9,409
Acquired from Sinopec Group Company (Note 29).....	--	805	1,536	--
Revaluation.....	--	35	--	2,726
Disposals.....	(1,085)	(3,354)	(1,511)	(4,285)
Disposed to Sinopec Group Company (Note 29).....	(3,631)	--	--	--
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets.....	--	(95)	--	(2,726)
	-----	-----	-----	-----

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Balance at December 31, 2004.....	192,076	116,910	65,345	163,2
Accumulated depreciation:				
Balance at January 1, 2004.....	84,604	50,901	10,014	84,2
Depreciation charge for the year.....	12,042	7,594	2,624	9,1
Impairment losses for the year.....	98	14	1,769	2,7
Acquired from Sinopec Group Company (Note 29).....	--	458	--	
Written back on disposals.....	(942)	(2,323)	(942)	(3,1
Disposed to Sinopec Group Company (Note 29).....	(1,774)	--	--	
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets.....	--	(64)	--	(9
Balance at December 31, 2004.....	94,028	56,580	13,465	92,0
Net book value:				
At December 31, 2004.....	98,048	60,330	51,880	71,1
At December 31, 2003.....	93,358	54,336	44,468	76,0

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

By asset class:

	Buildings	Oil and gas properties	Oil depots, storage tanks and service stations	mac eq an
	RMB	RMB	RMB	
COST/VALUATION:				
Balance at January 1, 2004.....	44,728	158,634	46,337	
Additions.....	342	450	1,301	
Transferred from construction in progress.....	2,357	17,428	12,461	
Acquired from Sinopec Group Company (Note 29).....	--	--	1,533	
Revaluation.....	1	--	--	
Disposals.....	(927)	(586)	(1,099)	
Disposed to Sinopec Group Company (Note 29).....	(97)	(2,362)	--	
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets.....	(1,550)	--	--	
Balance at December 31, 2004.....	44,854	173,564	60,533	
ACCUMULATED DEPRECIATION:				
Balance at January 1, 2004.....	18,975	77,582	8,785	
Depreciation charge for the year.....	1,768	9,211	2,332	
Impairment losses for the year.....	325	98	1,249	
Acquired from Sinopec Group Company (Note 29).....	--	--	--	
Written back on disposals.....	(428)	(541)	(585)	
Disposed to Sinopec Group Company (Note 29).....	(22)	(1,207)	--	



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Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets.....	(310)	--	--
	-----	-----	-----
Balance at December 31, 2004.....	20,308	85,143	11,781
	-----	-----	-----
NET BOOK VALUE:			
At December 31, 2004.....	24,546	88,421	48,752
	=====	=====	=====
At December 31, 2003.....	25,753	81,052	37,552
	=====	=====	=====

As required by the relevant PRC regulations with respect to the Reorganization, the property, plant and equipment of the Group as of September 30, 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. The surplus on revaluation of RMB 32,320, net of amounts allocated to minority interests, was incorporated in the financial statements of the Group at December 31, 1999.

In connection with the Acquisition of Sinopec National Star, the property, plant and equipment of Sinopec National Star were revalued at December 31, 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, resulting in a surplus on revaluation of RMB 1,136, 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 June 30, 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, which approximated the net historical carrying value of the assets.

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### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions of Renminbi, except share data)

In connection with the Acquisition of Refining Assets, the property, plant and equipment of the Refining Assets were revalued at October 31, 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, 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 June 30, 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

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depreciated replacement cost basis, was determined at RMB 11,895, 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 December 31, 2004, which was based on depreciated replacement costs, the carrying value of property, plant and equipment did not differ materially from their fair value.

### 16. CONSTRUCTION IN PROGRESS

	Exploration and production	Refining	Marketing and distribution	Chemicals
	----- RMB	----- RMB	----- RMB	----- RMB
Balance at January 1, 2004.....	5,535	8,470	7,941	6,957
Additions.....	22,808	13,479	15,123	10,711
Additions of jointly controlled entities.....	1,323	--	--	5,178
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets.....	--	(1)		(216)
Dry hole costs written off.....	(2,976)	--	--	--
Transferred to property, plant and equipment...	(17,428)	(13,489)	(9,283)	(9,460)
	-----	-----	-----	-----
Balance at December 31, 2004.....	9,262	8,459	13,781	13,170
	=====	=====	=====	=====

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

Net changes in capitalized cost of exploratory wells included in the Group's construction in progress in the E&P segment are analyzed as follows:

	Years ended Decem	
	----- 2002	----- 2003
	----- RMB	----- RMB
At beginning of year.....	1,471	2,395
Additions to capitalized cost of exploratory wells pending the determination of proved reserves.....	4,134	4,675
Transferred to oil and gas properties based on the determination of proved reserves.....	(1,439)	(1,843)
Dry hole costs written off.....	(1,771)	(2,789)
	-----	-----
At end of year.....	2,395	2,438
	=====	=====

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## CHINA PETROLEUM &amp; CHEMICAL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(All amounts in millions of Renminbi, except share data)

## 17. INVESTMENTS

	December 31,	
	2003	2004
	RMB	RMB
Unlisted investments, at cost.....	3,041	2,891
Less: Provision for impairment losses.....	(332)	(353)
	2,709	2,538
	=====	=====

Provision for impairment losses is analyzed as follows:

	Years ended December 31,		
	2002	2003	2004
	RMB	RMB	RMB
At beginning of year.....	545	553	332
Provision for the year.....	13	131	96
Written-off.....	(5)	(62)	(14)
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Ethylene Assets.....	--	(290)	--
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets.....	--	--	(61)
At end of year .....	553	332	353
	=====	=====	=====

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.

## 18. INTERESTS IN ASSOCIATES

	December 31,	
	2003	2004
	RMB	RMB
Share of net assets	8,121	10,222

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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:

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(All amounts in millions of Renminbi, except share data)

Name of company -----	Form of business structure -----	Particulars of issued and paid up capital -----	Percentage of equity held by the Company ----- %	Per equ Co sub -----
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	
BASF-YPC Company Limited	Incorporated	Registered capital RMB 8,793,000,000	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

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admitted for trading in any stock exchange in the PRC. The market value of the investments in Dynamic based on the quoted market price are RMB 783 and RMB 479 as of December 31, 2003 and 2004, respectively. The market value of the investments in Taishan based on the quoted market price are RMB 1,971 and RMB 1,516 as of December 31, 2003 and 2004, respectively.

### 19. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	December 31,	
	2003	2004
	-----	-----
	RMB	RMB
Share of net assets.....	1,043	3,568
	=====	=====

The Group's investments in jointly controlled entities are primarily engaged in the oil and gas and chemical operations in the PRC, the principal interests in jointly controlled entities are as follows:

Name of company	Form of business structure	Particulars of issued and paid up capital	Percentage of equity held by the Company	Percentage of equity held by the Company's subsidiaries
-----	-----	-----	-----	-----
			%	%
Shanghai Secco Petrochemical Company Limited	Incorporated	Registered capital USD 901,440,964	30.00	20.00
Yueyang Sinopec and Shell Coal Gasification Company Limited	Incorporated	Registered capital USD 45,588,700	50.00	-
Block A Oil Field in the Western Area Chengda in Bohai Bay	Unincorporated	-	-	43.00

The Group's proportionate share of the jointly controlled entities' current and non-current assets, current and non-current liabilities, and operating revenues and expenses is not material to the Group's financial condition or results of operations for all years presented.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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### 20. DEFERRED TAX ASSETS AND LIABILITIES

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

	Assets		Liabilities	
	December 31,		December 31,	
	2003	2004	2003	2004
	RMB	RMB	RMB	RMB
Current				
Provisions, primarily for receivables and inventories	1,446	2,528	--	--
Non-current				
Property, plant and equipment.....	272	1,566	(981)	(1,704)
Accelerated depreciation.....	--	--	(3,618)	(3,932)
Tax value of losses carried forward, net of valuation allowance.....	923	66	--	--
Lease prepayment (Note i) .....	373	366	--	--
Others.....	53	32	--	--
	-----	-----	-----	-----
Deferred tax assets/(liabilities) .....	3,067	4,558	(4,599)	(5,636)
	=====	=====	=====	=====

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 realized 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 realizability of the deferred tax assets. The Group has reviewed its deferred tax assets as of December 31, 2002, 2003 and 2004. Based on this review, valuation allowances of RMB 250, RMB 248 and RMB 409 were provided for the years ended December 31, 2002, 2003 and 2004, respectively. The Group determined the valuation allowance based on management's assessment of the probability that taxable profits will be available over the period which the deferred tax assets can be realized or utilized. 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 utilized 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 realized.

The valuation allowance is analyzed as follows:

	Years ended December 31		
	2002	2003	2004
	RMB	RMB	RMB
At beginning of year.....	693	943	693
Allowance during the year.....	250	248	409
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Ethylene Assets.....	--	(550)	--
	-----	-----	-----
At end of year .....	943	641	1,102
	=====	=====	=====

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As of December 31, 2004, certain subsidiaries of the Company had tax value of losses carried forward for PRC income tax purpose of RMB 3,382 which were available to offset future PRC taxable income of respective subsidiaries, if any. RMB 264, RMB 561, RMB 567, RMB 751, and RMB 1,239 expire in 2005, 2006, 2007, 2008, and 2009, respectively.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

Movements in temporary differences between calculations of certain items for accounting and for taxation purposes can be specified as follows:

	Balance at January 1, 2002 ----- RMB	Recognized in consolidated statements of income ----- RMB
Current		
Provisions, primarily for receivables and inventories.....	432	(157)
Non-current		
Property, plant and equipment.....	(753)	173
Accelerated depreciation.....	(2,185)	(773)
Tax value of losses carried forward, net of valuation allowance....	962	16
Lease prepayments (Note i).....	--	(7)
Others.....	121	(119)
	-----	-----
Net deferred tax (liabilities)/assets.....	(1,423)	(867)
	=====	=====
		(Note 10)

	Balance at January 1, 2003 ----- RMB	Recognized in consolidated statements of income ----- RMB
Current		
Provisions, primarily for receivables and inventories.	275	1,171
Non-current		
Property, plant and equipment.....	(580)	(129)
Accelerated depreciation.....	(2,958)	(660)
Tax value of losses carried forward, net of valuation allowance.....	978	(55)
Lease prepayments (Note i).....	364	(7)
Others.....	2	51
	-----	-----
Net deferred tax (liabilities)/assets.....	(1,919)	371
	=====	=====
		(Note 10)

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	Balance at January 1, 2004 ----- RMB	Recognized in consolidated statements of income ----- RMB
Current		
Provisions, primarily for receivables and inventories.	1,446	1,082
Non-current		
Property, plant and equipment.....	(709)	571
Accelerated depreciation.....	(3,618)	(314)
Tax value of losses carried forward, net of valuation allowance (Note ii).....	923	(591)
Lease prepayments (Note i).....	373	(7)
Others.....	53	(21)
	-----	-----
Net deferred tax (liabilities)/assets.....	(1,532)	720
	=====	=====
		(Note 10)

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

Note:

- (i) Land use rights are carried at cost effective January 1, 2002. The effect of this change resulted in a decrease in the revaluation reserve and an increase in other reserves relating to the recognition of the deferred tax asset of RMB 371 as of January 1, 2002. During the year ended December 31, 2003, in connection with the Acquisition of Refining Assets, the land use rights of the Refining Assets were revalued resulting in a surplus of RMB 66 as required by the relevant PRC rules and regulations but were not revalued for financial reporting purposes and, accordingly, deferred tax assets of RMB 16 were created with corresponding increase in other reserves.
- (ii) As of December 31, 2004, deferred tax assets of RMB 266 were distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets.

21. LONG-TERM PREPAYMENTS AND OTHER ASSETS

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

22. SHORT-TERM AND LONG-TERM DEBTS AND LOANS FROM SINOPEC GROUP COMPANY AND ITS AFFILIATES

Short-term debts represent:

December 31,

-----



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	2003	2004
	-----	-----
	RMB	RMB
THIRD PARTIES' DEBTS		
Short-term bank loans.....	19,961	20,009
Short-term other loans.....	29	-
	-----	-----
	19,990	20,009
Current portion of long-term bank loans.....	7,359	12,177
Current portion of long-term other loans.....	332	121
Current portion of convertible bonds.....	1,500	-
	-----	-----
	9,191	12,298
	-----	-----
	29,181	32,307
	-----	-----
LOANS FROM SINOPEC GROUP COMPANY AND ITS AFFILIATES		
Short-term loans.....	4,046	6,714
Current portion of long-term loans.....	819	2,000
	4,865	8,714
	-----	-----
	34,046	41,021
	=====	=====

The Group's weighted average interest rates on short-term loans were 3.2% and 3.9% as of December 31, 2003 and 2004, respectively.

As of December 31, 2003, the Company had standby credit facilities with several PRC financial institutions which allowed the Company to borrow up to RMB 103,500 on an unsecured basis, at rates ranging from 1.65% to 5.31%. As of December 31, 2003, the Company's outstanding borrowings under these facilities totaling RMB 11,970 which are included in short-term bank loans. These facilities expire at various dates in 2004 and contain no financial covenants.

As of December 31, 2004, the Company had standby credit facilities with several PRC financial institutions which allowed the Company to borrow up to RMB 107,000 on an unsecured basis, at rates ranging from 2.95% to 4.54%. As of December 31, 2004, the Company's outstanding borrowings under these facilities totaling RMB 6,203 which are included in short-term bank loans. These facilities expire at various dates in 2005 and contain no financial covenants.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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Long-term debts comprise:

Interest rate and final maturity

THIRD PARTIES' DEBTS

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### LONG-TERM BANK LOANS

Renminbi denominated	Interest rates ranging from interest free to 6.2% per annum as of December 31, 2004 with maturities through 2013	40,95
Japanese Yen denominated	Interest rates ranging from 2.6% to 5.8% per annum as of December 31, 2004 with maturities through 2024	4,84
US Dollar denominated	Interest rates ranging from interest free to 7.4% per annum as of December 31, 2004 with maturities through 2031	7,56
Euro denominated	Fixed interest rate at 6.7% per annum at December 31, 2004 with maturities through 2010	54
Hong Kong Dollar denominated	Floating rate at Hong Kong Prime Rate plus 0.3% per annum as of December 31, 2004 with maturities through 2006	----- 53,91 =====

### LONG-TERM OTHER LOANS

Renminbi denominated	Interest rates ranging from interest free to 5.0% per annum as of December 31, 2004 with maturities through 2008	41
US Dollar denominated	Interest rates ranging from interest free to 4% per annum as of December 31, 2004 with maturities through 2015	15
Euro denominated	Interest rates ranging from 1.8% to 8.1% per annum as of December 31, 2003 with maturities through 2025; paid off as of December 31, 2004	----- 2 ----- 58 =====

### CONVERTIBLE BONDS

Renminbi denominated	Interest rate at 2.5% per annum as of December 31, 2003 with maturity in July 2004 (a)	----- 1,50 =====
Total long-term banks and other loans carried forward		55,99

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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		Interest rate and final maturity	
		-----	-----
			200
			-----
			RM
Total long-term banks and other loans carried forward			55,99
CORPORATE BONDS			
Renminbi denominated	Fixed interest rate at 4.61% per annum as of December 31, 2004 with maturity in February 2014 (b)		-
LONG-TERM BANK LOANS OF JOINTLY CONTROLLED ENTITIES			
Renminbi denominated	Floating rate at 90% of PBOC's base lending rate per annum as of December 31, 2004 with maturities through 2021		70
US Dollar denominated	Floating rate at London Interbank Offer Rate plus 0.7% per annum as of December 31, 2004 with maturities through 2021		74
			-----
			1,45
			=====
TOTAL THIRD PARTIES' LONG-TERM DEBTS			57,44
Less: Current portion			(9,19)
			-----
			48,25
			=====
LONG-TERM LOANS FROM SINOPEC GROUP COMPANY AND ITS AFFILIATES			
Renminbi denominated	Interest free with maturity in 2020		35,56
Renminbi denominated	Interest rates ranging from interest free to 5.2% per annum as of December 31, 2004 with maturities through 2009		4,28
US Dollar denominated	Floating rates at London Interbank Offer Rate plus 1.4% per annum as of December 31, 2003 with maturities through 2005; paid off as of December 31, 2004		1
			-----
			39,85
			-----
Less: Current portion			(81
			39,03
			-----
			87,29
			=====

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- (a) Convertible bonds amounting to RMB 1,500 were issued by a subsidiary on July 28, 1999. Pursuant to the subsidiary's shareholders' approval at the Annual General Meeting held on March 23, 2004, the subsidiary decided not to undergo an initial public offering. The bonds were repaid in July 2004.
- (b) The Company issued ten years corporate bonds of RMB 3,500 to PRC citizens as well as PRC legal and non-legal persons on February 24, 2004, guaranteed by Sinopec Group Company, with a fixed interest rate at 4.61% per annum.

Third parties' loans of RMB 103 and RMB 40 as of December 31, 2003 and 2004, respectively, 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 519 and RMB 123 as of December 31, 2003 and 2004, respectively.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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The aggregate maturities of long-term debts and loans from Sinopec Group Company and its affiliates subsequent to December 31, 2004 are as follows:

	RMB
2005.....	14,298
2006.....	15,886
2007.....	21,233
2008.....	7,832
2009.....	6,976
Thereafter.....	45,660
	111,885

23. TRADE ACCOUNTS PAYABLE

Trade accounts payable are analyzed as follows:

	December 31,	
	2003	2004
	-----	-----
	RMB	RMB
Third parties.....	22,122	22,265
Sinopec Group Company and its affiliates.....	1,153	1,527
Associates.....	44	--
	-----	-----
	23,319	23,792
	=====	=====

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

24. ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables represent:

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	December 31,	
	2003	2004
	RMB	RMB
Amounts due to Sinopec Group Company and its affiliates....	15,072	10,897
Accrued expenditures.....	12,208	17,213
Taxes other than income tax.....	4,327	3,717
Receipts in advance.....	5,509	7,387
Advances from third parties.....	979	1,009
Others.....	5,466	5,053
	-----	-----
	43,561	45,276
	=====	=====

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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25. SHARE CAPITAL

	December 31,	
	2003	2004
	RMB	RMB
REGISTERED, ISSUED AND FULLY PAID		
67,121,951,000 domestic state-owned A shares of RMB 1.00 each.....	67,122	67,122
16,780,488,000 overseas listed H shares of RMB 1.00 each.....	16,780	16,780
2,800,000,000 domestic listed A shares of RMB 1.00 each.....	2,800	2,800
	-----	-----
	86,702	86,702
	=====	=====

The Company was established on February 25, 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 related to the Predecessor Operations transferred to the Company (Note 1).

Pursuant to the resolutions passed at an Extraordinary General Meeting held on July 25, 2000 and approvals from relevant government authorities, the Company is authorized 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 authorized 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

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into H shares.

In October 2000, the Company issued 15,102,439,000 H shares with a par value of RMB 1.00 each, representing 12,521,864,000 H shares and 25,805,750 American Depositary Shares ("ADSs", each representing 100 H shares), at prices of HK\$ 1.59 per H share and US\$ 20.645 per ADS, respectively, by way of a global initial public offering to Hong Kong and overseas investors. As part of the global initial public offering, 1,678,049,000 domestic state-owned ordinary shares of RMB 1.00 each owned by Sinopec Group Company were converted into H shares and sold to Hong Kong and overseas investors.

In July 2001, the Company issued 2.8 billion domestic listed A shares with a par value of RMB 1.00 each at RMB 4.22 by way of a public offering to natural persons and institutional investors in the PRC.

All A shares and H shares rank pari passu in all material aspects.

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### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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#### 26. RESERVES

		Dec
		2003
		RMB
REVALUATION RESERVE		
At January 1.....		31,641
Revaluation surplus realized.....		(1,316)
Revaluation surplus of Refining Assets.....		16
Revaluation surplus of Petrochemical and Catalyst Assets.....		--
Impairment losses on revalued assets (Note 7).....		--
		30,341
CAPITAL RESERVE (Note (a))		
At January 1.....		(18,878)
Transfer from other reserves.....		(82)
		(18,960)
SHARE PREMIUM (Note (b))		
At January 1 and December 31.....		18,072
STATUTORY SURPLUS RESERVE (Note (c))		
At January 1.....		4,429
Appropriation of net income.....		1,901

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At December 31.....	6,330
-----	
STATUTORY PUBLIC WELFARE FUND (Note (d))	
At January 1.....	4,429
Appropriation of net income.....	1,901
-----	
At December 31.....	6,330
-----	
DISCRETIONARY SURPLUS RESERVE (Note (e))	
At January 1 and at December 31.....	7,000
-----	
OTHER RESERVES	
At January 1.....	12,533
Deferred tax effect of surplus on land use rights (Note (f) and Note 20).....	16
Realization of deferred tax on land use rights (Note (f)).....	(5)
Transfer from retained earnings.....	1,157
Revaluation surplus of Refining Assets.....	82
Revaluation surplus of Petrochemical and Catalyst Assets.....	--
Consideration for Acquisitions of Ethylene Assets and Refining Assets (Note 1) ..	(3,652)
Consideration for Acquisition of Petrochemical and Catalyst Assets (Note 1).....	--
Net assets distributed to Sinopec Group Company (Note (g)).....	(6,263)
-----	
At December 31.....	3,868
-----	

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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	December 31,	
	2003	2004
	RMB	RMB
RETAINED EARNINGS (Note (h))		
At January 1.....	20,849	31,832
Final dividend in respect of the previous financial years, approved and paid during the year (Note (i)).....	(5,202)	(5,202)
Interim dividend (Note (j)).....	(2,601)	(3,468)
Net income.....	22,424	36,019
Transfer to statutory surplus reserve.....	(1,901)	(3,228)
Proposed transfer to statutory public welfare fund.....	(1,901)	(3,228)
Revaluation surplus realized.....	1,316	1,891
Realization of deferred tax on land use rights.....	5	5
Transfer to other reserves.....	(1,157)	(1,499)
		-----
At December 31.....	31,832	53,122
		-----
		84,813
		106,338
		=====
		=====

Notes:

- (a) 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 Reorganization 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.
- (b) The application of the share premium account is governed by Sections 178 and 179 of the PRC Company Law.
- (c) According to the Company's Articles of Association, the Company is required to transfer 10% of its net income, as determined in accordance with the PRC Accounting Rules and Regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital. During the years ended December 31, 2003 and 2004, the Company transferred RMB 1,901 and RMB 3,228, respectively, being 10% of the current year's net income determined in accordance with the PRC Accounting Rules and Regulations, to this reserve.

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

Pursuant to the shareholders' approval at the Annual General Meeting on May 18, 2004, the Board of Directors was authorized to determine the amount of the transfer for the six-month period ended June 30, 2004. The directors authorized the transfer of RMB 1,504, being 10% of the net income for the six-month period ended June 30, 2004 determined in accordance with the PRC Accounting Rules and Regulations, to this fund.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

The directors authorized the transfer of RMB 1,724, subject to shareholders' approval, being 10% of the net income for the six-month period ended December 31, 2004 determined in accordance with the PRC Accounting Rules and Regulations, to this fund. The transfer to this fund



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for the years ended December 31, 2003 and 2004 were RMB 1,901 and RMB 3,228, respectively.

- (e) The usage of the discretionary surplus reserve is similar to that of statutory surplus reserve.
- (f) Effective January 1, 2002, land use rights which are included in lease prepayments are carried at historical cost. Accordingly, the surplus on the revaluation of land use rights credited to revaluation reserve previously, net of minority interests, was eliminated during the year. The effect of this change did not have a material impact on the Group's financial condition and results of operations in the periods prior to the change. As a result of the tax deductibility of the revaluation surplus, a deferred tax asset, net of minority interests, is created with a corresponding increase in other reserves.
- (g) These represent net assets contributed from and distributed to Sinopec Group Company for no monetary consideration. The net assets distributed to Sinopec Group Company during the year ended December 31, 2003 primarily represent certain assets retained by Sinopec Group Company in connection with the Acquisition of Ethylene Assets and the Acquisition of Refining Assets. The net assets distributed to Sinopec Group Company during the year ended December 31, 2004 primarily represent certain assets retained by Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets. These transactions were recorded at historical cost and were reflected as changes in other reserves in the year the acquisitions occurred.
- (h) According to the Company's Articles of Association, the amount of retained earnings available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IFRS. As of December 31, 2003 and 2004, the amounts of retained earnings available for distribution were RMB 19,732 and RMB 37,124, respectively, being the amount determined in accordance with the PRC Accounting Rules and Regulations. Pursuant to a resolution passed at the Directors' meeting on March 25, 2005, a final dividend in respect of the year ended December 31, 2004 of RMB 0.08 per share totaling RMB 6,936 was proposed for shareholders' approval at the Annual General Meeting. Final dividend of RMB 6,936 in respect of the year ended December 31, 2004 has not been not recognized as a liability as of the balance sheet date.

Subject to the relevant provisions of the PRC Company Law and the Company's Articles of Association, Sinopec Group Company may seek to influence the Company's determination of dividends with a view to satisfying Sinopec Group Company's cash flow requirements.

- (i) Pursuant to the shareholders' approval at the Annual General Meeting on June 10, 2003, a final dividend of RMB 0.06 per share totaling RMB 5,202 in respect of the year ended December 31, 2002 was declared and paid on June 30, 2003.  
  
Pursuant to the shareholders' approval at the Annual General Meeting on May 18, 2004, a final dividend of RMB 0.06 per share totaling RMB 5,202 in respect of the year ended December 31, 2003 was declared and paid on June 28, 2004.
- (j) Pursuant to the shareholders' approval at the Annual General Meeting on June 10, 2003, the Board of Directors was authorized to declare the interim dividends for the year ended December 31, 2003. According to the resolution passed at the Directors' meeting on August 22, 2003, an interim dividend of RMB 0.03 per share totaling RMB 2,601 was declared.

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Pursuant to the shareholders' approval at the Annual General Meeting on May 18, 2004, the Board of Directors was authorized to declare the interim dividends for the year ended December 31, 2004. According to the resolution passed at the Directors' meeting on August 27, 2004, an interim dividend of RMB 0.04 per share totaling RMB 3,468 was declared.

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### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

#### 27. 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.

As of December 31, 2004, the future minimum lease payments under operating leases are as follows:

	RMB
2005.....	3,452
2006.....	3,343
2007.....	3,278
2008.....	3,245
2009.....	3,225
Thereafter.....	97,527
	-----
Total minimum lease payments.....	114,070
	=====

The Group's leasing arrangement impose no restrictions on dividends, additional debt and/or further leasing.

##### Capital commitments

As of December 31, 2004, the Group had capital commitments as follows:

	RMB
The Group	
Authorized and contracted for.....	43,001
Authorized but not contracted for.....	60,173
	-----
	103,174
	=====
Jointly controlled entities	
Authorized and contracted for.....	3,157
Authorized but not contracted for.....	2,088
	-----
	5,245
	=====

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

### Exploration and production licenses

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

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### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions of Renminbi, except share data)

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 65, RMB 97 and RMB 189 for the years ended December 31, 2002, 2003 and 2004, respectively.

Estimated future annual payments as of December 31, 2004 are as follows:

	RMB
2005.....	90
2006.....	120
2007.....	75
2008.....	67
2009.....	74
Thereafter.....	279
	-----
Total payments.....	705
	=====

### 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 Reorganization, 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 Reorganization.

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

RMB

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Associates..... 4,828  
=====

As of December 31, 2004, the Company's guarantees were primarily provided to BASF-YPC Company Limited ("BASF-YPC"), an associate. BASF-YPC signed domestic and foreign currencies denominated loan agreements equivalent to RMB 11,700 in March 2003. To enhance the credit standing of BASF-YPC, the Company guarantees the interest payments as well as the repayment of the loans to an amount of RMB 4,680. Payments are due if the Company is notified that BASF-YPC is not able to fulfill its obligations at the maturity date. No collateral secures BASF-YPC's obligation or the Company's guarantee. As of December 31, 2004, it is not probable that the Company will be required to make payments under the guarantee. Thus no liability has been accrued for a loss related to the Company's obligation under this guarantee arrangement.

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### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(All amounts in millions of Renminbi, except share data)

#### 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 287, RMB 245 and RMB 248 for the years ended December 31, 2002, 2003 and 2004, respectively.

#### 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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### 28. CONCENTRATION OF RISKS

#### Credit risk

The carrying amounts of cash and cash equivalents, time deposits with financial institutions, trade accounts and bills receivables, and other current assets, except for prepayments, represent the Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Group's trade accounts receivable relate to sales of petroleum and chemical products to related parties and third parties operating in the petroleum and chemical industries. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade accounts receivable. The Group maintains an allowance for doubtful accounts and actual losses have been within management's expectations. No single customer accounted for greater than 10% of total revenues during the years ended December 31, 2002, 2003 and 2004.

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

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#### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

#### Concentration of economic risk

The Group's operations may be adversely affected by significant political, economic, and social uncertainties in the PRC. In addition, the ability to negotiate and implement specific projects in a timely and favorable manner may be impacted by political considerations unrelated to or beyond the control of the Group. Although the PRC government has been pursuing economic reform policies for the past two decades, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered. There is also no guarantee that the PRC government's pursuit of economic reforms will be consistent or effective and as a result, changes in the rate or method of taxation, reduction in tariff protection and other import restrictions, and changes in state policies affecting the industries to which the Group sells its products, may have a negative effect on its operating results and financial conditions.

#### 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 January 1, 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 authorized 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,

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shipping documents and signed contracts.

### Business risk

The Group conducts its principal operations in China and accordingly is subject to special considerations and significant risks not typically associated with investments in equity securities of the United States and Western European companies. These include risks associated with, among others, the political, economic and legal environment, influence of the State Council over substantially all aspects of its operations and competition in the oil and gas industry.

### Interest rate risk

The interest rates and terms of repayment of short-term and long-term debts of the Group are disclosed in Note 22.

### Supply risk

The Group's largest domestic supplier of crude oil is PetroChina Company Limited. Negotiating another contract with a key supplier at similar terms and costs could have a severe and significant impact on the Group's results of operations.

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## CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

### 29. RELATED PARTY TRANSACTIONS

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

The Group is part of a larger group of companies under Sinopec Group Company and has significant transactions and relationships with members of the Sinopec Group. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties. Sinopec Group Company itself is owned by the PRC government. There are also many other enterprises directly or indirectly owned or controlled by the PRC government ("state-owned enterprises"). Under IFRS, state-owned enterprises, other than Sinopec Group Company and its affiliates, are not considered related parties. Related parties refer to enterprises over which Sinopec Group Company is able to exercise significant influence.

The Group conducts business with state-owned enterprises. Furthermore, the PRC government itself represents a significant customer of the Group both directly through its numerous authorities and indirectly through its numerous affiliates and other organizations. Sales of certain products to PRC government authorities and affiliates and other state-owned enterprises may be at regulated prices, which differ from market prices. The Group considers that these sales are activities in the ordinary course of business in the PRC and

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has not disclosed such sales as related party transactions.

The principal related party transactions with Sinopec Group Company, which were carried out in the ordinary course of business, are as follows:

	Note	Years ended December 31		
		2002	2003	2004
		RMB	RMB	RMB
Sales of goods.....	(i)	28,563	32,134	63,000
Purchases.....	(ii)	25,269	31,964	36,000
Transportation and storage.....	(iii)	1,269	1,572	2,000
Exploration and development services.....	(iv)	10,310	13,699	14,000
Production related services.....	(v)	7,094	8,421	9,000
Ancillary and social services.....	(vi)	1,870	1,783	1,000
Operating lease charges.....	(vii)	2,523	2,924	3,000
Agency commission income.....	(viii)	37	41	
Intellectual property licence fee paid.....	(ix)	10	10	
Interest received.....	(x)	117	114	
Interest paid.....	(xi)	636	583	
Net deposits (withdrawn from)/placed with related parties.....	(xii)	(1,758)	(1,634)	
Net loans obtained from/(repaid to) related parties.....	(xiii)	1,390	(24)	1,000

The amounts set out in the table above in respect of each of the years in the three-year period ended December 31, 2004 represent the relevant costs to the Group as determined by the corresponding contracts with the related parties.

There were no guarantees given to banks by the Group in respect of banking facilities to Sinopec Group Company and its affiliates as of December 31, 2003 and 2004.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions, and this has been confirmed by the independent non-executive directors.

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### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions of Renminbi, except share data)

Notes:

- (i) Sales of goods represent the sale of crude oil, intermediate petrochemical products, petroleum products and ancillary materials.
- (ii) Purchases represent the purchase of material and utility supplies directly related to the Group's operations such as the procurement of raw and ancillary materials and related services, supply of water,

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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 material for certain entities owned by Sinopec Group Company.
- (ix) Intellectual property license fee represents reimbursement paid to Sinopec Group Company for fees required to maintain the validity of licenses, 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 as of December 31, 2003 and 2004 were RMB 4,331 and RMB 4,671, respectively.
- (xi) Interest paid represents interest charges on the loans and advances obtained from Sinopec Group Company and Sinopec Finance Company Limited.
- (xii) Deposits were withdrawn from/placed with Sinopec Finance Company Limited.
- (xiii) The Group obtained/repaid loans from/to Sinopec Group Company and Sinopec Finance Company Limited.

In connection with the Reorganization, 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 summarized as follows:



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

- (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 January 1, 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:
- 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
- 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 January 1, 2000 in which Sinopec Group Company has agreed to provide the Group with certain cultural, educational, health care and community services on the same pricing terms and termination conditions as agreed to in the above Mutual Provision Agreement.
- (c) The Company has entered into a series of lease agreements with Sinopec Group Company to lease certain land and buildings at a rental of approximately RMB 2,447 and RMB 567, 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 January 1, 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 January 1, 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

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sales agent.

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

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### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(All amounts in millions of Renminbi, except share data)

On December 19, 2002, the Company and Sinopec Group Company entered into an asset swap agreement whereby the Company transferred to Sinopec Group Company certain individual assets and liabilities, consisting principally of, water plants, inspection, maintenance, geology and geophysical assets and related liabilities. The carrying amount of the net assets transferred to Sinopec Group Company approximated the net appraised amount of RMB 1,021. In return, Sinopec Group Company transferred to the Company certain gas stations and oil depot assets. The carrying and appraised amounts of such assets transferred to the Company were RMB 462 and RMB 1,040, respectively. The difference between the appraised amounts of the assets exchanged of RMB 19 was paid in cash by the Company.

As discussed in Note 1, the Group acquired the equity interest of Sinopec Maoming from Sinopec Group Company for a consideration of RMB 3.3 billion. As of the valuation date, the carrying amount of the net asset acquired approximated the net appraised amount of RMB 3.3 billion.

As discussed in Note 1, the Group acquired the equity interest of Tahe Petrochemical and Xi'an Petrochemical from Sinopec Group Company for a consideration of RMB 356. As of the valuation date, the carrying amount of the net asset acquired approximated the net appraised amount of RMB 356.

In December 2003, Sinopec Group Company repaid a bank loan of RMB 962 on behalf of a subsidiary of the Group in exchange for a receivable from that subsidiary.

As discussed in Note 1, pursuant to the resolutions passed at the Extraordinary General Meeting held on December 21, 2004, the Group acquired the equity interests of Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical, Guangzhou Petrochemical and Catalyst Plants from Sinopec Group Company for a total consideration payable of RMB 3,128. In addition, the Group acquired certain individual assets and liabilities from Sinopec Group Company for a total consideration payable of RMB 2,232. In connection with these acquisitions, the Group disposed of certain property, plant and equipment, with net book value of RMB 1,857, and certain other assets and liabilities, related to its oilfield downhole operation (the "Downhole Assets") to Sinopec Group Company for a consideration receivable of RMB 1,712, which approximated the net carrying value of the assets and liabilities, resulting in a net cash consideration of RMB 3,648 payable to Sinopec Group Company.

### 30. EMPLOYEE BENEFITS PLAN

As stipulated by the regulations of the PRC, the Group participates in

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various defined contribution retirement plans organized by municipal and provincial governments for its staff. The Group is required to make contributions to the retirement plans at rates ranging from 17.0% to 30.0% of the salaries, bonuses and certain allowances of its staff. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the years ended December 31, 2002, 2003 and 2004 were RMB 1,726, RMB 1,882 and RMB 2,242, respectively.

The Company implemented a plan of share appreciation rights for members of its senior management in order to provide further incentives to these employees. Under this plan, share appreciation rights were granted in units with each unit representing one H share. No shares will be issued under the share appreciation rights plan.

Under the plan, all share appreciation rights have an exercise period of five years. A recipient of share appreciation rights may not exercise the rights in the first three years after the date of grant. As of 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.

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### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions of Renminbi, except share data)

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 recognizes compensation expense of the share appreciation rights over the applicable vesting period. For the year ended December 31, 2004, compensation expense recognized was RMB 150.

#### 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

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external customers.

- (iii) Marketing and distribution, which owns and operates oil depots and service stations in the PRC, and distributes and sells refined petroleum products (mainly gasoline and diesel) in the PRC through wholesale and retail sales networks.
- (iv) Chemicals, which manufactures and sells petrochemical products, derivative petrochemical products and other chemical products mainly to external customers.
- (v) Corporate and others, which largely comprise the trading activities of the import and export companies of the Group and research and development undertaken by other subsidiaries.

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

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

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### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

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

	Years ended December 31,		
	2002	2003	2004
	RMB	RMB	RMB
SALES OF GOODS			
Exploration and production			
External sales.....	10,920	14,936	15,970
Inter-segment sales.....	39,407	47,287	60,053
	-----	-----	-----
Refining	50,327	62,223	76,023

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External sales.....	41,639	51,445	63,388
Inter-segment sales.....	168,615	217,755	289,699
	-----	-----	-----
	210,254	269,200	353,087
Marketing and distribution			
External sales.....	184,378	238,210	342,840
Inter-segment sales.....	2,329	2,602	2,831
	-----	-----	-----
	186,707	240,812	345,671
Chemicals			
External sales.....	72,154	91,964	126,013
Inter-segment sales.....	7,878	7,415	12,510
	-----	-----	-----
	80,032	99,379	138,523
Corporate and others			
External sales.....	24,782	33,394	48,986
Inter-segment sales.....	20,355	30,371	32,046
	-----	-----	-----
	45,137	63,765	81,032
Elimination of inter-segment sales.....	(238,584)	(305,430)	(397,139)
Total sales of goods.....	333,873	429,949	597,197
	-----	-----	-----
OTHER OPERATING REVENUES			
Exploration and production.....	7,305	8,039	9,283
Refining.....	3,074	4,573	5,186
Marketing and distribution.....	342	548	755
Chemicals.....	4,293	4,461	6,170
Corporate and others.....	1,191	1,431	1,192
	-----	-----	-----
Total other operating revenues.....	16,205	19,052	22,586
	-----	-----	-----
Total operating revenues.....	350,078	449,001	619,783
	=====	=====	=====

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

RESULT	Years ended December 31,		
	2002	2003	2004
	----- RMB	----- RMB	----- RMB
OPERATING INCOME BY SEGMENT			
- Exploration and production.....	14,787	19,160	25,614
- Refining.....	6,024	6,073	5,943
- Marketing and distribution.....	8,401	11,943	14,716
- Chemicals.....	1,088	3,543	18,721
- Corporate and others.....	(999)	(1,836)	(1,925)
	-----	-----	-----
Total operating income.....	29,301	38,883	63,069

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INCOME/(LOSS) FROM ASSOCIATES			
- Exploration and production.....	152	293	447
- Refining.....	1	(1)	58
- Marketing and distribution.....	63	43	302
- Chemicals.....	24	(41)	(164)
- Corporate and others.....	84	102	154
Aggregate income from associates .....	324	396	797
FINANCE COSTS			
Interest expense.....	(4,932)	(4,365)	(4,583)
Interest income.....	351	322	374
Foreign exchange losses.....	(427)	(450)	(223)
Foreign exchange gains.....	60	30	61
NET FINANCE COSTS.....	(4,948)	(4,463)	(4,371)
Gain from issuance of shares by a subsidiary.....	--	136	--
Investment income.....	239	89	111
INCOME BEFORE INCOME TAX AND MINORITY INTERESTS.....	24,916	35,041	59,606
Income tax.....	(7,491)	(10,645)	(17,815)
INCOME BEFORE MINORITY INTERESTS.....	17,425	24,396	41,791
Minority interests.....	(1,129)	(1,972)	(5,772)
NET INCOME.....	16,296	22,424	36,019

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities. Assets which benefit more than one segment or are considered to be corporate assets are not allocated. "Unallocated assets" consists primarily of cash and cash equivalents, time deposits with financial institutions, investments and deferred tax assets. "Unallocated liabilities" consists primarily of short-term and long-term debts, loans from Sinopec Group Company and its affiliates, income tax payable, deferred tax liabilities and other liabilities.

Interests in and income from associates are included in the segments in which the associates operate. Information on associates is included in Note 18. Additions to long-lived assets by operating segment are included in Notes 15 and 16.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

December 31,		
2002	2003	2004

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	RMB	RMB	RMB
ASSETS			
Segment assets			
- Exploration and production.....	90,983	101,303	110,509
- Refining.....	90,704	96,839	111,878
- Marketing and distribution.....	71,516	73,942	93,722
- Chemicals.....	101,667	101,130	105,032
- Corporate and others.....	18,610	14,445	17,574
	-----	-----	-----
TOTAL SEGMENT ASSETS.....	373,480	387,659	438,715
	-----	-----	-----
Interests in associates			
- Exploration and production.....	1,583	1,233	1,396
- Refining.....	147	136	314
- Marketing and distribution.....	1,435	1,815	2,410
- Chemicals.....	3,624	3,517	4,315
- Corporate and others.....	1,275	1,420	1,787
	-----	-----	-----
AGGREGATE INTERESTS IN ASSOCIATES.....	8,064	8,121	10,222
	-----	-----	-----
Unallocated assets.....	25,734	24,404	25,657
	-----	-----	-----
TOTAL ASSETS.....	407,278	420,184	474,594
	=====	=====	=====
LIABILITIES			
Segment liabilities			
- Exploration and production.....	16,126	15,733	16,241
- Refining.....	22,235	25,729	28,130
- Marketing and distribution.....	19,472	21,091	23,419
- Chemicals.....	15,458	18,951	16,528
- Corporate and others.....	9,046	10,022	15,547
	-----	-----	-----
TOTAL SEGMENT LIABILITIES.....	82,337	91,526	99,865
	-----	-----	-----
Unallocated liabilities.....	135,015	131,092	150,643
	-----	-----	-----
TOTAL LIABILITIES.....	217,352	222,618	250,508
	=====	=====	=====

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

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

Years ended Decemb  
-----  
2002                      2003

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	----- RMB	----- RMB
CAPITAL EXPENDITURE		
Exploration and production.....	20,228	20,628
Refining.....	6,698	9,788
Marketing and distribution.....	6,982	6,826
Chemicals.....	7,769	7,680
Corporate and others.....	816	518
	-----	-----
	42,493	45,440
	=====	=====
CAPITAL EXPENDITURE OF JOINTLY CONTROLLED ENTITIES		
Exploration and production.....	--	1,200
Chemicals.....	--	2,993
	-----	-----
	--	4,193
	-----	-----
DEPRECIATION, DEPLETION AND AMORTIZATION		
Exploration and production.....	9,033	9,413
Refining.....	6,097	6,434
Marketing and distribution.....	1,968	2,431
Chemicals.....	9,030	9,149
Corporate and others.....	364	524
	-----	-----
	26,492	27,951
	=====	=====
IMPAIRMENT LOSSES ON LONG-LIVED ASSETS RECOGNIZED IN STATEMENT OF INCOME		
Exploration and production.....	--	310
Refining.....	--	114
Marketing and distribution.....	--	--
Chemicals.....	--	453
	-----	-----
	--	877
	=====	=====
IMPAIRMENT LOSSES ON LONG-LIVED ASSETS RECOGNIZED IN SHAREHOLDERS' EQUITY		
Chemicals.....	--	--
	=====	=====

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

PRINCIPAL SUBSIDIARIES

Details of the Group's principle subsidiaries are as follows:

Name of company -----	Particulars of issued capital -----	Type of legal entity -----	Percentage of equity held by the Company -----	of equity held by Subsidiary -----	Principal a -----
--------------------------	--	-------------------------------------	---	---	----------------------



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			%	%	
China Petrochemical International Company Limited	RMB1,400	Limited company	100.00	--	Trading of petrochemi
Sinopec Beijing Yanhua Petrochemical Company Limited	RMB 3,374	Limited company	70.01	--	Manufactur
Sinopec Sales Company Limited	RMB 1,700	Limited company	100.00	--	Marketing petroleum
Sinopec Shengli Oilfield Company Limited	RMB 29,000	Limited company	100.00	--	Exploratio oil and na
Sinopec Fujian Petrochemical Company Limited (i)	RMB 2,253	Limited company	50.00	--	Manufactur intermedia and petrol
Sinopec Qilu Petrochemical Company Limited	RMB 1,950	Limited company	82.05	--	Manufactur petrochemi products
Sinopec Shanghai Petrochemical Company Limited	RMB 7,200	Limited company	55.56	--	Manufactur resin and petrochemi products
Sinopec Shijiazhuang Refining-Chemical Company Limited	RMB 1,154	Limited company	79.73	--	Manufactur petrochemi products
Sinopec Kantonnes Holdings Limited	HK\$ 104	Limited company	--	72.40	Trading of products
Sinopec Wuhan Petroleum Group Company Limited (i)	RMB 147	Limited company	46.25	--	Marketing petroleum
Sinopec Wuhan Phoenix Company Limited (i)	RMB 519	Limited company	40.72	--	Manufactur products a
Sinopec Yangzi Petrochemical Company Limited	RMB 2,330	Limited company	84.98	--	Manufactur petrochemi products
Sinopec Yizheng Chemical Fiber Company Limited (i)	RMB 4,000	Limited company	42.00	--	Production chips and
Sinopec Zhenhai Refining and Chemical Company Limited	RMB 2,524	Limited company	71.32	--	Manufactur petrochemi products
Sinopec Zhongyuan Petroleum Company Limited	RMB 875	Limited company	70.85	--	Exploratio oil and na
Zhongyuan Petrochemical Company Limited	RMB 2,400	Limited company	93.51	--	Manufactur
Sinopec Shell (Jiangsu) Petrochemical Marketing Company Limited	RMB 455	Limited company	60.00	--	Marketing petroleum
BP Sinopec (Zhejiang) Petrochemical Company Limited	RMB 647	Limited company	60.00	--	Marketing petroleum

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Except for Sinopec Kantons Holdings Limited, which is incorporated in Bermuda, all of the above principal subsidiaries are incorporated in the PRC.

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

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### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(All amounts in millions of Renminbi, except share data)

### 33. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, time deposits, investments, trade accounts receivable, bills receivable, amounts due from Sinopec Group Company and its affiliates, 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 its affiliates, trade accounts payable, bills payable, amounts due to Sinopec Group Company and its affiliates, receipts in advance, and advances from third parties. The Group has no derivative instruments that are designated and qualified as hedging instruments as of December 31, 2003 and 2004.

The disclosures of the fair value estimates, methods and assumptions, set forth below for the Group's financial instruments, are made to comply with the requirements of IAS 32 and IAS 39 and should be read in conjunction with the Group's consolidated financial statements and related notes. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Group has not developed an internal valuation model necessary to make the estimate of the fair value of loans from Sinopec Group Company and its affiliates as it is not considered practicable to estimate their fair value because the cost of obtaining discount and borrowing rates for comparable borrowings would be excessive based on the Reorganization 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 its affiliates as of December 31, 2003 and 2004:

	December 31,	
	2003	2004
	RMB	RMB
Carrying amount.....	57,448	73,120

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Fair value..... 57,546 73,263

The fair value of long-term indebtedness is estimated by discounting future cash flows thereon using current market interest rates offered to the Group for debts with substantially the same characteristics and maturities.

Investments are unquoted equity interests, and are individually and in the aggregate not material to the Group's financial condition or results of operations for all periods presented. There are no quoted market prices for such interests in the PRC and, accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

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

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### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions of Renminbi, except share data)

#### 34. SIGNIFICANT DIFFERENCES BETWEEN IFRS AND US GAAP

The Group's accounting policies conform with IFRS which differ in certain significant respects from US GAAP. Information relating to the nature and effect of such differences are set out below.

##### (a) Foreign exchange gains and losses

In accordance with IFRS, foreign exchange differences on funds borrowed for construction are capitalized 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 amortization effect of such originating adjustments described above.

##### (b) Capitalization of property, plant and equipment

In the years prior to those presented herein, certain adjustments arose between IFRS and US GAAP with regard to the capitalization of interest and pre-production results under IFRS that were reversed and expensed under US GAAP. For the years presented herein, there were no adjustments related to the capitalization of interest and pre-production results. Accordingly, the US GAAP adjustments represent the amortization 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 Reorganization, the property, plant and equipment of the Group were revalued as of September 30, 1999. In addition, the property, plant and equipment of Sinopec National Star, Sinopec Maoming, Refining Assets, and Petrochemical and Catalyst Assets were revalued as of December 31, 2000, June 30, 2003, October 31, 2003 and June 30, 2004, respectively, in connection with the Acquisitions of Sinopec National Star, Sinopec Maoming, Refining Assets, and Petrochemical and Catalyst Assets. Under IFRS, such revaluations result in an increase in shareholders' equity with respect to the increase in carrying amount of certain property, plant and equipment above their historical cost bases and a charge to

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income with respect to the reduction in carrying amount of certain property, plant and equipment below their historical cost bases.

Under US GAAP, property, plant and equipment are stated at their historical cost less accumulated depreciation. However, as a result of the tax deductibility of the net revaluation surplus, a deferred tax asset related to the reversal of the revaluation surplus is created under US GAAP with a corresponding increase in shareholders' equity.

Under IFRS, effective January 1, 2002, land use rights, which were previously carried at revalued amount, are carried at cost under IFRS. The effect of this change resulted in a decrease to revaluation reserve net of minority interests of RMB 840 as of January 1, 2002. This revaluation reserve was previously included as part of the revaluation reserve of property, plant and equipment. This change under IFRS eliminated the US GAAP difference relating to the revaluation of land use rights. However, as a result of the tax deductibility of the revalued land use rights, the reversal of the revaluation reserve resulted in a deferred tax asset.

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.

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### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

#### (d) Exchange of assets

As described in Note 29, the Company and Sinopec Group Company entered into an asset swap transaction on December 19, 2002. 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 amortization effect of such originating adjustments described above.

#### (e) Impairment of long-lived assets

Under IFRS, impairment charges are recognized 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 recognized. 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 statements of income to the extent

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that an impairment loss on the same asset was previously recognized 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 recognized 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) Capitalized interest on investment in associates

Under IFRS, investment accounted for by the equity method is not considered a qualifying asset for which interest is capitalized. 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 capitalized.

### (g) Goodwill amortization

Under IFRS, goodwill and negative goodwill are amortized on a systematic basis over their useful lives.

Under US GAAP, with reference to Statement of Financial Accounting Standards No.142, "Goodwill and Other Intangible Assets" ("SFAS No.142"), goodwill is no longer amortized beginning January 1, 2002. Instead, goodwill is reviewed for impairment upon adoption of SFAS No.142 and annually thereafter.

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## CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(All amounts in millions of Renminbi, except share data)

### (h) Companies included in consolidation

Under IFRS, the Group consolidates less than majority owned entities in which the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities, and proportionately consolidates jointly controlled entities in which the Group has joint control with other venturers. However, US GAAP requires that any entity of which the Group owns 20% to 50% of total outstanding voting stock not be consolidated nor proportionately consolidated, but rather be accounted for under the equity method. Accordingly, certain of the Group's subsidiaries, of which the Group owns between 40.72% to 50% of the outstanding voting stock, and the Group's jointly controlled entities are not consolidated nor proportionately consolidated under US GAAP and instead accounted for under the equity method. This exclusion does not affect the net income or shareholders' equity reconciliations between IFRS and US GAAP.

Presented below is summarized financial information prepared in accordance with US GAAP of such subsidiaries and jointly controlled entities.

Years ended December 31,		
-----		
2002	2003	2004

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	----	----	----
	RMB	RMB	RMB
Revenues.....	16,719	21,735	28,004
Income before income tax.....	666	1,329	1,373
Net income.....	468	1,090	969

	Years ended December 31,		
	-----	-----	-----
	2002	2003	2004
	----	----	----
	RMB	RMB	RMB
Current assets.....	5,169	4,986	7,084
Total assets.....	17,463	27,607	41,213
Current liabilities.....	4,612	5,902	7,222
Total liabilities.....	4,992	9,238	16,452
Total equity.....	12,471	18,369	24,761

(i) Related party transactions

Under IFRS, transactions of state-controlled enterprises with other state-controlled enterprises are not required to be disclosed as related party transactions. Furthermore, government departments and agencies are deemed not to be related parties to the extent that such dealings are in the normal course of business. Therefore, related party transactions as disclosed in Note 29 only refers to transactions with enterprises over which Sinopec Group Company is able to exercise significant influence.

Under US GAAP, there are no similar exemptions. Although the majority of the Group's activities are with PRC government authorities and affiliates and other PRC state-owned enterprises, the Group believes that it has provided meaningful disclosure of related party transactions in Note 29.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

(j) Recently issued accounting standards

SFAS No. 123R

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-based payment". SFAS No. 123R addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123R requires an entity to recognize the grant-date fair-value of stock options and other equity-based compensation issued to employees in the income statement. The revised statement generally requires that an entity account for those transactions using the fair-value-based method, and eliminates an entity's ability to account for share-based compensation transactions using the intrinsic value method of accounting, which was permitted under Statement 123, as originally issued. For

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the Group, SFAS No. 123R is effective for fiscal years beginning after June 15, 2005. Currently, the Group does not expect the initial application of this statement will have a material impact on its consolidated financial statements.

SFAS No. 151

In November 2004, the FASB issued SFAS No. 151, "Inventory costs". SFAS No. 151 clarifies accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). The statement requires that those items be recognized as current period charges. Additionally, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion based on normal capacity of the production facilities. For the Group, SFAS No. 151 is effective for fiscal years beginning after June 15, 2005. Currently, the Group does not expect the initial application of this statement will have a material impact on its consolidated financial statements.

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### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(All amounts in millions of Renminbi, except share data)

#### Reconciliation to US GAAP

The effect on net income of significant differences between IFRS and US GAAP for the years ended December 31, 2002, 2003 and 2004 is as follows:

	Reference in note above -----	Years ended D	
		2002	2003
		----- RMB	----- RMB
Net income under IFRS.....		16,296	22,424
US GAAP adjustments:			
Foreign exchange gains and losses.....	(a)	76	76
Capitalization of property, plant and equipment.....	(b)	12	12
Reversal of deficit on revaluation of property, plant and.. equipment, net of depreciation effect.....	(c)	--	86
Depreciation on revalued property, plant and equipment....	(c)	4,126	3,998
Disposal of property, plant and equipment.....	(c)	544	1,316
Exchange of assets.....	(d)	--	23
Reversal of impairment of long-lived assets, net of depreciation effect.....	(e)	59	47
Capitalized interest on investment in associates.....	(f)	110	141
Goodwill amortization for the year.....	(g)	6	--
Cumulative effect of adopting SFAS No.142.....	(g)	11	--
Deferred tax effect of US GAAP adjustments.....		(1,509)	(1,715)
Net income under US GAAP.....		19,731	26,408
		=====	=====
Basic earnings per share under US GAAP.....		0.23	0.30
		=====	=====
Basic earnings per ADS under US GAAP*.....		22.76	30.46
		=====	=====

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\* Basic net income per ADS is calculated on the basis that one ADS is equivalent to 100 shares.

The effect on shareholders' equity of significant differences between IFRS and US GAAP as of December 31, 2003 and 2004 is as follows:

	Reference in note above -----	Years ended ----- 2003 ----- RMB
Shareholders' equity under IFRS.....		171,515
US GAAP adjustments:		
Foreign exchange gains and losses.....	(a)	(352)
Capitalization of property, plant and equipment.....	(b)	(12)
Revaluation of property, plant and equipment.....	(c)	(12,943)
Deferred tax adjustments on revaluation.....	(c)	4,004
Exchange of assets.....	(d)	(555)
Reversal of impairment of long-lived assets.....	(e)	(561)
Capitalized interest on investment in associates.....	(f)	321
Goodwill.....	(g)	17
Deferred tax effect of US GAAP adjustments.....		398
Shareholders' equity under US GAAP.....		161,832 =====

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### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(All amounts in millions of Renminbi, except share data)

#### 35. SUBSEQUENT EVENT

On December 29, 2004, the Group announced its proposal to privatise Sinopec Beijing Yanhua Petrochemical Company Limited ("Beijing Yanhua"), a non-wholly owned subsidiaries in which the Group holds approximately 70% of the equity interests. According to the proposal, the Group will acquire the entire 1,012,000,000 H shares, representing approximately 30% of the issued share capital of Beijing Yanhua at HK\$ 3.80 per share. The total consideration required to be paid by the Group was approximately HK\$ 3,846 which will be settled in cash.

Pursuant to the resolution passed in the Special General Meeting of Beijing Yanhua on March 4, 2005, the shareholders of the H shares in Beijing Yanhua agreed to dispose of and sell their shares in Beijing Yanhua to the Group at the above mentioned price, subject to the approval from the relevant PRC governmental and regulatory bodies.

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## CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

### SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED) (All currency amounts in millions of Renminbi)

In accordance with the United States Statement of Financial Accounting Standards No. 69, "Disclosures about Oil and Gas Producing Activities" ("SFAS No. 69"), this section provides supplemental information on oil and gas exploration and producing activities of the Group as of December 31, 2002, 2003 and 2004, and for each of the years in the three-year period ended December 31, 2004 in the following six separate tables. Tables I through III provide historical cost information under US GAAP pertaining to capitalized costs related to oil and gas producing activities; costs incurred in exploration and development; and results of operations related to oil and gas producing activities. Tables IV through VI present information on the Group's estimated net proved reserve quantities; standardized measure of discounted future net cash flows; and changes in the standardized measure of discounted future net cash flows.

Table I: Capitalized costs related to oil and gas producing activities

	Years ended December	
	2002	2003
	RMB	RMB
Property cost	--	--
Wells and related equipment and facilities.....	125,790	143,492
Supporting equipment and facilities.....	10,809	13,140
Uncompleted wells, equipment and facilities.....	4,526	5,535
	-----	-----
Total capitalized costs.....	141,125	162,167
Accumulated depreciation, depletion, amortization and impairment allowances.....	(62,397)	(70,726)
	-----	-----
Net capitalized costs.....	78,728	91,441
	=====	=====

Table II: Cost incurred in exploration and development

	Years ended December	
	2002	2003
	RMB	RMB
Exploration.....	5,798	8,109
Development.....	18,793	19,852
	-----	-----
Total cost incurred.....	24,591	27,961
	=====	=====

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Table III: Results of operations for oil and gas producing activities

	Years ended December	
	2002	2003
	RMB	RMB
Revenues		
Sales.....	8,687	11,850
Transfers.....	39,407	47,287
	-----	-----
Production costs excluding taxes.....	48,094	59,137
Exploration expenses.....	(15,174)	(16,187)
Depreciation, depletion, amortization and impairment provisions.....	(4,363)	(6,133)
Taxes other than income tax.....	(8,133)	(8,684)
	-----	-----
Income before income tax.....	(860)	(970)
Income tax expense.....	19,564	27,163
	-----	-----
Income tax expense.....	(6,456)	(8,964)
	-----	-----
Results of operations from producing activities.....	13,108	18,199
	=====	=====

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION ON OIL AND GAS  
PRODUCING ACTIVITIES (UNAUDITED) - (Continued)  
(All currency amounts in millions of Renminbi)

The results of operations for producing activities for the years ended December 31, 2002, 2003 and 2004 are shown above. Revenues include sales to unaffiliated parties and transfers (essentially at third-party sales prices) to other segments of the Group. All revenues reported in this table do not include royalties to others as there were none. In accordance with SFAS No. 69, income taxes are based on statutory tax rates, reflecting allowable deductions and tax credits. General corporate overhead and interest income and expense are excluded from the results of operations.

Table IV: Reserve quantities information

The Group's estimated net proved underground oil and gas reserves and changes thereto for the years ended December 31, 2002, 2003 and 2004 are shown in the following table.

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change as additional information becomes available.

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Proved reserves do not include additional quantities recoverable beyond the term of the relevant production licenses, or that may result from extensions of currently proved areas, or from application of improved recovery processes not yet tested and determined to be economical. The Group's estimated proved reserves do not include any quantities that are recoverable through application of tertiary recovery techniques.

Proved developed reserves are the quantities expected to be recovered through existing wells with existing equipment and operating methods.

"Net" reserves exclude royalties and interests owned by others and reflect contractual arrangements in effect at the time of the estimate.

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### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

#### SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED) - (Continued) (All currency amounts in millions of Renminbi)

	Years ended December	
	2002	2003
<b>PROVED DEVELOPED AND UNDEVELOPED RESERVES (OIL) (MILLION BARRELS)</b>		
Beginning of year.....	3,215	3,320
Revisions of previous estimates.....	119	(81)
Improved recovery.....	126	143
Extensions and discoveries.....	130	146
Production.....	(270)	(271)
	-----	-----
End of year.....	3,320	3,257
	=====	=====
<b>PROVED DEVELOPED RESERVES</b>		
Beginning of year.....	2,444	2,732
	=====	=====
End of year.....	2,732	2,786
	=====	=====
<b>PROVED DEVELOPED AND UNDEVELOPED RESERVES (GAS) (billion cubic feet)</b>		
Beginning of year.....	3,488	3,329
Revisions of previous estimates.....	(133)	(649)
Extensions and discoveries.....	153	396
Production.....	(179)	(188)
	-----	-----
End of year.....	3,329	2,888
	=====	=====
<b>PROVED DEVELOPED RESERVES</b>		
Beginning of year.....	1,183	1,056
	=====	=====
End of year.....	1,056	1,249

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Table V: Standardized measure of discounted future net cash flows

The standardized measure of discounted future net cash flows, related to the above proved oil and gas reserves, is calculated in accordance with the requirements of SFAS No. 69. Estimated future cash inflows from production are computed by applying year-end prices for oil and gas to year-end quantities of estimated net proved reserves. Future price changes are limited to those provided by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates to estimated future pre-tax net cash flows, less the tax basis of related assets. Discounted future net cash flows are calculated using 10% midperiod discount factors. This discounting requires a year-by-year estimate of when the future expenditure will be incurred and when the reserves will be produced.

The information provided does not represent management's estimate of the Group's expected future cash flows or value of proved oil and gas reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The arbitrary valuation prescribed under SFAS No. 69 requires assumptions as to the timing and amount of future development and production costs. The calculations are made for the years ended December 31, 2002, 2003 and 2004 and should not be relied upon as an indication of the Group's future cash flows or value of its oil and gas reserves.

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## CHINA PETROLEUM &amp; CHEMICAL CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION ON OIL AND GAS  
 PRODUCING ACTIVITIES (UNAUDITED) - (Continued)  
 (All currency amounts in millions of Renminbi)

	Years ended December	
	2002	2003
	RMB	RMB
Future cash flows.....	760,468	799,658
Future production costs.....	(287,887)	(311,568)
Future development costs.....	(26,852)	(23,838)
Future income tax expenses.....	(126,440)	(130,224)
Undiscounted future net cash flows.....	319,289	334,028
10% annual discount for estimated timing of cash flows.....	(142,450)	(146,726)
Standardized measure of discounted future net cash flows.....	176,839	187,302

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Table VI: Changes in the standardized measure of discounted future net cash flows

	Years ended December	
	2002	2003
	RMB	RMB
RSales and transfers of oil and gas produced, net of production costs.	(26,740)	(41,802)
Net changes in prices and production costs.....	63,625	11,923
Net change due to extensions, discoveries and improved recoveries....	23,319	27,721
Revisions of previous quantity estimates.....	8,253	(5,951)
Previously estimated development costs incurred during the year.....	6,935	6,865
Accretion of discount.....	10,323	15,242
Net change in income taxes.....	(27,793)	(2,992)
Others.....	164	(543)
Net change for the year.....	58,086	10,463

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SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

China Petroleum & Chemical Corporation

By /s/ Chen Ge

Name: Chen Ge

Title: Secretary to the Board of Directors

Date: June 27, 2005

List of Subsidiaries

A list of China Petroleum & Chemical Corporation's principal subsidiaries is provide in Note 32 to the consolidated financial statements included in this annual report following Item 19.