1 PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION

Principal activities

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

Organisation

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

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

Basis of presentation

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

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

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

Pursuant to the resolutions passed at the Extraordinary General Meeting held on 21 December 2004, the Group acquired the equity interest of Sinopec Group Tianjin Petrochemical Company ("Tianjin Petrochemical"), Sinopec Group Luoyang Petrochemical General Plant ("Luoyang Petrochemical"), Zhongyuan Petrochemical Company Limited. ("Zhongyuan Petrochemical"), Sinopec Group Guangzhou Petrochemical General Plant ("Guangzhou Petrochemical") and certain catalyst plants ("Catalyst Plants") from Sinopec Group Company for a total consideration of RMB 3,128 million (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' funds. The considerations for these acquisitions were treated as equity transactions.

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

	The Group without the Acquired Group RMB millions	The Acquired Group RMB millions	Combined RMB millions
Results of operations:			
Operating revenue	443,136	5,865	449,001
Net income	21,593	831	22,424
Basic earnings per share (RMB)	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
Net assets	167,899	3,616	171,515

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

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

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

The accompanying financial statements are prepared on the historical cost basis as modified by the revaluation of certain property, plant and equipment (Note 17). 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 and revised IFRS and IAS ("new IFRS") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new IFRS in the financial statements for the year ended 31 December 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 the financial statements in accordance with IFRS 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.

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 income statement 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 profit from ordinary activities after taxation. All significant inter-company balances and transactions and any unrealised gains arising from inter-company transactions are eliminated on consolidation.

The particulars of the Group's principal subsidiaries are set out in Note 36.

(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 PBOC rates at the balance sheet date.

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

(c) Cash and cash equivalents

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

(d) Trade accounts receivable

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

(e) Inventories

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

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Property, plant and equipment

An item of property, plant and equipment is initially recorded at cost, less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Subsequent to the revaluation (Note 17), 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 capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is charged to the income statement 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 recognised as income or expense in the income statement on the date of retirement or disposal. On disposal of a revalued asset, the related revaluation surplus is transferred from the revaluation reserve to retained earnings.

Depreciation is provided to write off the cost/revalued amount of each 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, oil depots and others	4 to 18 years
Service stations	25 years

(g) Oil and gas properties

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

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

(h) Lease prepayments

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

(i) Construction in progress

Construction in progress represents buildings, oil and gas properties, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses. 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.

(k) Interests in associates

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

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

(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 proportionate share of the jointly controlled entity's turnover and expenses with each major turnover and expenses caption of the Group's income statement and combines its proportionate share of the jointly controlled entity's assets and liabilities with each major asset and liability caption of the Group's balance sheet.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Provisions

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

(n) Revenue recognition

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

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

(o) Borrowing costs

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

(p) Repairs and maintenance expenditure

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

(q) Environmental expenditures

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

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

(r) Research and development costs

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

(s) Operating leases

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

(t) Retirement benefits

The contributions payable under the Group's retirement plans are charged to the income statement as incurred and according to the contribution determined by the plans. Further information is set out in Note 34.

(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 recognised as an expense in the income statement unless the asset is carried at revalued amount for which an impairment loss is recognised directly against any related revaluation reserve to the extent that the impairment loss does not exceed the amount held in the revaluation reserve for that same asset.

The Group assesses at each balance sheet date whether there is any indication that an impairment loss recognised for an asset in prior years may no longer exist. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down or write-off cease to exist, is recognised as income unless the asset is carried at revalued amount. Reversal of an impairment loss on a revalued asset is credited to the revaluation reserve except for impairment loss which was previously recognised as an expense in the income statement; a reversal of such impairment loss is recognised as income. The reversal is reduced by the amount that would have been recognised 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 realised or the liability is settled.

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

(w) Dividends

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

(x) Segmental reporting

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

3 TURNOVER

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

4 OTHER OPERATING REVENUES

	The Group	
	2004	2003
	RMB millions	RMB millions
Sale of materials, service and others	22,213	18,653
Rental income	373	399
	22,586	**19,052**

5 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

	The Group	
	2004	2003
	RMB millions	RMB millions
Research and development costs	1,518	2,122
Operating lease charges	4,288	3,601
Auditors' remuneration		
– audit services	80	92
– other services	—	3

6 PERSONNEL EXPENSES

	The Group	
	2004	2003
	RMB millions	RMB millions
Wages and salaries	13,589	12,468
Staff welfare	1,772	1,624
Contributions to retirement schemes	2,242	1,882
Social security contributions	1,031	998
	18,634	**16,972**

7 EMPLOYEE REDUCTION EXPENSES

During the year ended 31 December 2004, in accordance with the Group's voluntary employee reduction plan, and in connection with the Acquisition of Petrochemical and Catalyst Assets from and Disposal of Downhole Assets to Sinopec Group Company, the Group recorded employee reduction expenses of RMB 919 million (2003: RMB 1,040 million) relating to the reduction of approximately 24,000 employees (2003: 21,500 employees).

8 TAXES OTHER THAN INCOME TAX

	The Group	
	2004	2003
	RMB millions	RMB millions
Consumption tax	11,920	9,898
City construction tax	2,533	2,078
Education surcharge	1,255	995
Resources tax	452	434
Business tax	164	176
	16,324	**13,581**

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

9 OTHER OPERATING EXPENSES, NET

	The Group	
	2004	2003
	RMB millions	RMB millions
Fines, penalties and compensations	277	165
Donations	290	152
Loss on disposal of property, plant and equipment, net	1,686	2,238
Impairment losses on long-lived assets (Note)	3,919	877
Others	494	543
	6,666	**3,975**

Note:

Impairment losses recognised on long-lived assets of the refining and chemicals segment of RMB 14 million (2003: RMB 114 million) and RMB 2,747 million (2003: RMB 453 million) for the year ended 31 December 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. An amount of RMB 2,052 million (2003: RMB 567 million) was charged to the income statement with the remaining amount of RMB 709 million (2003: RMB nil) in the chemicals segment recognised directly against the related revaluation reserve in respect of those assets that were carried at revalued amount. The primary factor resulting in the impairment losses of the chemicals segment was due to higher operating and production costs caused by the increase in the prices of raw materials that are not expected to be recovered through an increase in selling price.

Impairment losses recognised on long-lived assets of the marketing and distribution segment of RMB 1,769 million (2003: RMB nil) for the year ended 31 December 2004 primarily relate to certain service stations that were closed during the year. In measuring the amounts of impairment charges, the carrying amounts of these assets were compared to the present value of the expected future cash flows of the assets, as well as information about sales and purchases of similar properties in the same geographic area.

The factors resulting in the exploration and production ("E&P") segment impairment losses of RMB 98 million for the year ended 31 December 2004 (2003: RMB 310 million) were unsuccessful development drilling and high operating and development costs for certain small oil fields. The carrying values of these E&P properties were written down to a recoverable 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.

10 INTEREST EXPENSE

	The Group	
	2004	2003
	RMB millions	RMB millions
Interest expense incurred	5,491	5,316
Less: Interest expense capitalised*	(908)	(951)
	4,583	**4,365**
* Interest rates per annum at which borrowing costs were capitalised for construction in progress	**3.1% to 6.0%**	**3.1% to 6.1%**

11 TAXATION

Taxation in the consolidated income statement represents:

	The Group	
	2004	2003
	RMB millions	RMB millions
Provision for PRC income tax		
– the Group	18,195	10,868
– associates	340	148
Deferred taxation (Note 27)	(720)	(371)
	17,815	**10,645**

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

	The Group	
	2004	2003
	RMB millions	RMB millions
Profit from ordinary activities before taxation	59,606	35,041
Expected PRC income tax expense at a statutory tax rate of 33%	19,670	11,564
Non-deductible expenses	812	639
Non-taxable income	(216)	(231)
Differential tax rate on subsidiaries' income (Note)	(2,408)	(1,232)
Tax losses not recognised for deferred tax	409	248
Under-provision in prior years	94	79
Other	(546)	(422)
	17,815	**10,645**

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

Note:

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

12 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Directors' and supervisors' emoluments are as follows:

	2004 RMB'000	2003 RMB'000
Fees	147	165
Salaries and other emoluments	3,850	2,875
Retirement scheme contributions	202	178
	4,199	**3,218**

Included in the directors' and supervisors' emoluments were fees of RMB 141,000 (2003: RMB 165,000) paid to the independent non-executive directors and the independent supervisors during the year ended 31 December 2004.

An analysis of directors' and supervisors' emoluments by number of directors and supervisors and emolument range is as follows:

	2004 Number	2003 Number
Nil to HK$ 1,000,000	**26**	**25**

13 SENIOR MANAGEMENT'S EMOLUMENTS

For the year ended 31 December 2004, of the five highest paid individuals, one is a director whose emoluments are disclosed in Note 12. The aggregate of the emoluments in respect of the five highest paid individuals are as follows:

	2004 RMB'000	2003 RMB'000
Salaries and other emoluments	1,622	1,428
Retirement scheme contributions	65	89
	1,687	**1,517**

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

	2004 Number	2003 Number
Nil to HK$ 1,000,000	**5**	**5**

14 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of RMB 36,019 million (2003: RMB 22,424 million) which has been dealt with in the financial statements of the Company.

15 BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2004 is based on the profit attributable to shareholders of RMB 36,019 million (2003: RMB 22,424 million) divided by the weighted average number of shares of 86,702,439,000 (2003: 86,702,439,000) during the year.

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

16 DIVIDENDS

Dividends attributable to the year represent:

	2004 RMB millions	2003 RMB millions
Dividends declared and paid during the year of RMB 0.04 per share (2003: RMB 0.03 per share)	3,468	2,601
Dividends proposed after the balance sheet date of RMB 0.08 per share (2003: RMB 0.06 per share)	6,936	5,202
	10,404	**7,803**

Pursuant to the shareholders' approval at the Annual General Meeting on 18 May 2004, the Board of Directors was authorised to declare the interim dividends for the year ended 31 December 2004. According to the resolution passed at the Directors' meeting on 27 August 2004, an interim dividend of RMB 0.04 (2003: RMB 0.03) per share totalling RMB 3,468 million (2003: RMB 2,601 million) was declared and paid on 30 September 2004.

Pursuant to a resolution passed at the Directors' meeting on 25 March 2005, a final dividend in respect of the year ended 31 December 2004 of RMB 0.08 (2003: RMB 0.06) per share totalling RMB 6,936 million (2003: RMB 5,202 million) was proposed for shareholders' approval at the Annual General Meeting. Final dividend of RMB 6,936 million (2003: RMB 5,202 million) proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

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

	2004 RMB millions	2003 RMB millions
Final dividends in respect of the previous financial year, approved and paid during the year of RMB 0.06 per share (2003: RMB 0.06 per share)	**5,202**	**5,202**

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

Pursuant to the shareholders' approval at the Annual General Meeting on 10 June 2003, a final dividend of RMB 0.06 per share totalling RMB 5,202 million in respect of the year ended 31 December 2002 was declared and paid on 30 June 2003.

17 PROPERTY, PLANT AND EQUIPMENT

The Group - by segment:

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Corporate and others RMB millions	Total RMB millions
Cost/valuation:						
Balance at 1 January 2004	177,962	105,237	54,482	160,289	3,788	501,758
Additions	1,402	793	1,555	314	169	4,233
Transferred from construction in progress	17,428	13,489	9,283	9,460	304	49,964
Acquired from Sinopec Group Company (Note 33)	—	805	1,536	—	—	2,341
Revaluation	—	35	—	206	16	257
Disposals	(1,085)	(3,354)	(1,511)	(4,253)	(179)	(10,382)
Disposed to Sinopec Group Company (Note 33)	(3,631)	—	—	—	—	(3,631)
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets	—	(95)	—	(2,794)	(6)	(2,895)
Balance at 31 December 2004	**192,076**	**116,910**	**65,345**	**163,222**	**4,092**	**541,645**
Accumulated depreciation:						
Balance at 1 January 2004	84,604	50,901	10,014	84,285	1,223	231,027
Depreciation charge for the year	12,042	7,594	2,624	9,156	289	31,705
Impairment losses for the year	98	14	1,769	2,747	—	4,628
Acquired from Sinopec Group Company (Note 33)	—	458	—	—	—	458
Written back on disposals	(942)	(2,323)	(942)	(3,157)	(103)	(7,467)
Disposed to Sinopec Group Company (Note 33)	(1,774)	—	—	—	—	(1,774)
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets	—	(64)	—	(989)	(2)	(1,055)
Balance at 31 December 2004	**94,028**	**56,580**	**13,465**	**92,042**	**1,407**	**257,522**
Net book value:						
At 31 December 2004	**98,048**	**60,330**	**51,880**	**71,180**	**2,685**	**284,123**
At 31 December 2003	**93,358**	**54,336**	**44,468**	**76,004**	**2,565**	**270,731**

The Company - by segment:

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Corporate and others RMB millions	Total RMB millions
Cost/valuation:						
Balance at 1 January 2004	62,555	72,523	52,999	61,488	2,807	252,372
Additions	437	706	459	55	72	1,729
Transferred from construction in progress	9,056	11,035	8,320	2,205	304	30,920
Acquired from Sinopec Group Company (Note 33)	—	805	1,536	—	—	2,341
Transferred from a subsidiary	—	5,158	—	—	—	5,158
Revaluation	—	35	—	206	16	257
Disposals	(361)	(2,101)	(1,331)	(1,301)	(123)	(5,217)
Disposed to Sinopec Group Company (Note 33)	(2,103)	—	—	—	—	(2,103)
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets	—	(95)	—	(2,794)	(6)	(2,895)
Balance at 31 December 2004	**69,584**	**88,066**	**61,983**	**59,859**	**3,070**	**282,562**
Accumulated depreciation:						
Balance at 1 January 2004	28,732	36,633	9,640	33,139	954	109,098
Depreciation charge for the year	4,707	4,728	2,320	2,724	188	14,667
Impairment losses for the year	98	14	1,737	1,568	—	3,417
Acquired from Sinopec Group Company (Note 33)	—	458	—	—	—	458
Transferred from a subsidiary	—	2,682	—	—	—	2,682
Written back on disposals	(355)	(1,662)	(805)	(748)	(83)	(3,653)
Disposed to Sinopec Group Company (Note 33)	(1,063)	—	—	—	—	(1,063)
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets	—	(64)	—	(989)	(2)	(1,055)
Balance at 31 December 2004	**32,119**	**42,789**	**12,892**	**35,694**	**1,057**	**124,551**
Net book value:						
At 31 December 2004	**37,465**	**45,277**	**49,091**	**24,165**	**2,013**	**158,011**
At 31 December 2003	**33,823**	**35,890**	**43,359**	**28,349**	**1,853**	**143,274**

17 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group - by asset class:

	Buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
Cost/valuation:					
Balance at 1 January 2004	44,728	158,634	46,337	252,059	501,758
Additions	342	450	1,301	2,140	4,233
Transferred from construction in progress	2,357	17,428	12,461	17,718	49,964
Acquired from Sinopec Group Company (Note 33)	—	—	1,533	808	2,341
Revaluation	1	—	—	256	257
Disposals	(927)	(586)	(1,099)	(7,770)	(10,382)
Disposed to Sinopec Group Company (Note 33)	(97)	(2,362)	—	(1,172)	(3,631)
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets	(1,550)	—	—	(1,345)	(2,895)
Balance at 31 December 2004	**44,854**	**173,564**	**60,533**	**262,694**	**541,645**
Accumulated depreciation:					
Balance at 1 January 2004	18,975	77,582	8,785	125,685	231,027
Depreciation charge for the year	1,768	9,211	2,332	18,394	31,705
Impairment losses for the year	325	98	1,249	2,956	4,628
Acquired from Sinopec Group Company (Note 33)	—	—	—	458	458
Written back on disposals	(428)	(541)	(585)	(5,913)	(7,467)
Disposed to Sinopec Group Company (Note 33)	(22)	(1,207)	—	(545)	(1,774)
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets	(310)	—	—	(745)	(1,055)
Balance at 31 December 2004	**20,308**	**85,143**	**11,781**	**140,290**	**257,522**
Net book value:					
At 31 December 2004	**24,546**	**88,421**	**48,752**	**122,404**	**284,123**
At 31 December 2003	**25,753**	**81,052**	**37,552**	**126,374**	**270,731**

The Company - by asset class:

	Buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
Cost/valuation:					
Balance at 1 January 2004	26,487	54,288	44,974	126,623	252,372
Additions	253	43	248	1,185	1,729
Transferred from construction in progress	1,248	8,854	11,715	9,103	30,920
Acquired from Sinopec Group Company (Note 33)	—	—	1,533	808	2,341
Transferred from a subsidiary	216	—	—	4,942	5,158
Revaluation	1	—	—	256	257
Disposals	(742)	(238)	(1,075)	(3,162)	(5,217)
Disposed to Sinopec Group Company (Note 33)	(75)	(1,081)	—	(947)	(2,103)
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets	(1,550)	—	—	(1,345)	(2,895)
Balance at 31 December 2004	**25,838**	**61,866**	**57,395**	**137,463**	**282,562**
Accumulated depreciation:					
Balance at 1 January 2004	9,905	26,711	8,518	63,964	109,098
Depreciation charge for the year	1,028	3,941	2,218	7,480	14,667
Impairment losses for the year	186	98	1,249	1,884	3,417
Acquired from Sinopec Group Company (Note 33)	—	—	—	458	458
Transferred from a subsidiary	101	—	—	2,581	2,682
Written back on disposals	(356)	(238)	(582)	(2,477)	(3,653)
Disposed to Sinopec Group Company (Note 33)	(17)	(578)	—	(468)	(1,063)
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets	(310)	—	—	(745)	(1,055)
Balance at 31 December 2004	**10,537**	**29,934**	**11,403**	**72,677**	**124,551**
Net book value:					
At 31 December 2004	**15,301**	**31,932**	**45,992**	**64,786**	**158,011**
At 31 December 2003	**16,582**	**27,577**	**36,456**	**62,659**	**143,274**

17 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

In connection with the Acquisition of Sinopec National Star, the property, plant and equipment of Sinopec National Star were revalued at 31 December 2000, by a firm of independent valuers and approved by the Ministry of Finance. The value of property, plant and equipment of Sinopec National Star pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB 4,373 million, resulting in a surplus on revaluation of RMB 1,136 million, net of amounts allocated to minority interest.

In connection with the Acquisition of Ethylene Assets, the property, plant and equipment of Sinopec Maoming were revalued at 31 December 2003, by a firm of independent valuers in accordance with the relevant rules and regulations. The value of property, plant and equipment of Sinopec Maoming pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB 5,100 million, which approximated the net historical carrying value of the assets.

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

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

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

18 CONSTRUCTION IN PROGRESS

The Group:

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Corporate and others RMB millions	Total RMB millions
Balance at 1 January 2004	5,535	8,470	7,941	6,957	451	29,354
Additions	22,808	13,479	15,123	10,711	1,381	63,502
Additions of jointly controlled entities	1,323	—	—	5,178	—	6,501
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets	—	(1)	—	(216)	(15)	(232)
Dry hole costs written off	(2,976)	—	—	—	—	(2,976)
Transferred to property, plant and equipment	(17,428)	(13,489)	(9,283)	(9,460)	(304)	(49,964)
Balance at 31 December 2004	**9,262**	**8,459**	**13,781**	**13,170**	**1,513**	**46,185**

The Group's proportionate share of the jointly controlled entities' construction in progress at 31 December 2004 in the E&P and the chemicals segments reflected in the above table were RMB 2,053 million (2003: RMB 3,812 million) and RMB 8,171 million (2003: RMB 2,993 million), respectively.

The Company:

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Corporate and others RMB millions	Total RMB millions
Balance at 1 January 2004	4,501	7,424	6,680	1,594	432	20,631
Additions	13,346	10,497	11,911	4,442	1,381	41,577
Transferred from a subsidiary	—	76	—	—	—	76
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets	—	(1)	—	(216)	(15)	(232)
Dry hole costs written off	(2,184)	—	—	—	—	(2,184)
Transferred to property, plant and equipment	(9,056)	(11,035)	(8,320)	(2,205)	(304)	(30,920)
Balance at 31 December 2004	**6,607**	**6,961**	**10,271**	**3,615**	**1,494**	**28,948**

19 INTERESTS IN SUBSIDIARIES

	The Company	
	2004	2003
	RMB millions	RMB millions
Share of net assets	**118,451**	**96,707**

Details of the Company's principal subsidiaries at 31 December 2004 are set out in Note 36.

20 INVESTMENTS

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB millions	RMB millions	**RMB millions**	RMB millions
Unlisted investments, at cost	2,891	3,041	313	826
Less: Provision for impairment losses	(353)	(332)	(155)	(221)
	2,538	**2,709**	**158**	**605**

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.

21 INTERESTS IN ASSOCIATES

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB millions	RMB millions	**RMB millions**	RMB millions
Share of net assets	**10,222**	**8,121**	**7,540**	**5,983**

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

Name of company	Form of business structure	Particulars of issued and paid up capital	Percentage of equity held by the Company %	Percentage of equity held by the Company's subsidiaries %	Principal activities
Shengli Oil Field Dynamic Company Limited ("Dynamic")*	Incorporated	364,027,608 ordinary shares of RMB 1.00 each	26.33	—	Exploration of crude oil and distribution of petrochemical products
Sinopec Shandong Taishan Petroleum Company Limited ("Taishan")*	Incorporated	480,793,320 ordinary shares of RMB 1.00 each	38.68	—	Trading of petroleum products and decoration of service gas stations
Sinopec Finance Company Limited	Incorporated	Registered capital RMB 2,500,000,000	32.00	8.22	Provision of non-banking financial services
Shanghai Petroleum National Gas Corporation	Incorporated	Registered capital RMB 900,000,000	30.00	—	Exploration and production of crude oil and natural gas
BASF-YPC Company Limited	Incorporated	Registered capital RMB 8,793,000,000	30.00	10.00	Manufacturing and distribution of petrochemical products
Shanghai Chemical Industry Park Development Company Limited	Incorporated	Registered capital RMB 2,372,439,000	—	38.26	Planning, development and operation of the Chemical Industry Park in Shanghai, the PRC
China Shipping & Sinopec Suppliers Company Limited	Incorporated	Registered capital RMB 876,660,000	—	50.00	Transportation of petroleum products

* Shares of Dynamic and Taishan are listed on the Shenzhen Stock Exchange. Shares held by the Company are domestic state-owned A shares which are not admitted for trading in any stock exchange in the PRC. The market value of the Company's investments in Dynamic and Taishan based on the quoted market price are RMB 479 million (2003: RMB 783 million) and RMB 1,516 million (2003: RMB 1,971 million) respectively at 31 December 2004.

22 INTERESTS IN JOINTLY CONTROLLED ENTITIES

	The Company	
	2004	2003
	RMB millions	RMB millions
Share of net assets	**3,568**	**1,043**

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 %	Principal activities
Shanghai Secco Petrochemical Company Limited	Incorporated	Registered capital USD 901,440,964	30.00	20.00	Manufacturing and distribution of petrochemical products
Yueyang Sinopec and Shell Coal Gasification Company Limited	Incorporated	Registered capital USD 45,588,700	50.00	—	Manufacturing and distribution of industrial gas
Block A Oil Field in the Western Area Chengda in Bohai Bay	Unincorporated	—	—	43.00	Exploration and production of crude oil and natural gas

The Group's proportionate share of the jointly controlled entities' current and non-current assets, current and non-current liabilities, and turnover and expenses is not material to the Group's financial condition or results of operations for all years presented.

23 LONG-TERM PREPAYMENTS AND OTHER ASSETS

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

24 TRADE ACCOUNTS AND BILLS RECEIVABLES

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB millions	RMB millions	**RMB millions**	RMB millions
Third parties	10,989	9,820	5,179	5,074
Subsidiaries	—	—	5,026	2,956
Sinopec Group Company and fellow subsidiaries	2,349	2,928	858	1,712
Associates	89	81	19	23
	13,427	**12,829**	**11,082**	**9,765**
Less: Allowance for doubtful accounts	(3,671)	(3,350)	(2,837)	(2,454)
	9,756	**9,479**	**8,245**	**7,311**
Bills receivable	7,812	6,283	1,597	1,612
	17,568	**15,762**	**9,842**	**8,923**

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

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB millions	RMB millions	**RMB millions**	RMB millions
Within one year	16,968	14,641	9,425	8,264
Between one and two years	225	463	127	237
Between two and three years	166	251	83	171
Over three years	209	407	207	251
	17,568	**15,762**	**9,842**	**8,923**

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

25 INVENTORIES

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB millions	RMB millions	**RMB millions**	RMB millions
Crude oil and other raw materials	32,562	24,295	14,544	10,894
Work in progress	8,341	7,040	3,605	3,534
Finished goods	20,804	12,877	15,163	9,334
Spare parts and consumables	3,528	4,305	1,126	1,265
	65,235	**48,517**	**34,438**	**25,027**
Less: Allowance for diminution in value of inventories	(906)	(601)	(394)	(291)
	64,329	**47,916**	**34,044**	**24,736**

At 31 December 2004, the carrying amount of the Group's and the Company's inventories carried at net realisable value amounted to RMB 1,624 million (2003: RMB 1,551 million) and 504 million (2003: RMB 878 million), respectively.

The cost of inventories recognised as an expense in the consolidated income statement amounted to RMB 474,961 million for the year ended 31 December 2004 (2003: RMB 341,115 million).

26 PREPAID EXPENSES AND OTHER CURRENT ASSETS

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB millions	RMB millions	**RMB millions**	RMB millions
Advances to third parties	1,600	2,726	740	1,342
Amounts due from Sinopec Group Company and fellow subsidiaries	5,585	9,409	5,002	8,476
Amounts due from subsidiaries	—	—	11,908	13,669
Other receivables	2,161	1,830	1,223	1,179
Purchase deposits	2,547	2,588	2,059	1,429
Prepayments in connection with construction work and equipment purchases	4,727	2,675	2,679	2,475
Prepaid value-added tax and customs duty	3,166	1,355	2,600	506
Amounts due from associates	308	331	260	331
	20,094	**20,914**	**26,471**	**29,407**

27 DEFERRED TAX ASSETS AND LIABILITIES

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

The Group

	Assets		Liabilities		Net balance	
	2004	2003	**2004**	2003	**2004**	2003
	RMB millions	RMB millions	**RMB millions**	RMB millions	**RMB millions**	RMB millions
Current						
Provisions, primarily for receivables and inventories	2,528	1,446	—	—	2,528	1,446
Non-current						
Property, plant and equipment	1,566	272	(1,704)	(981)	(138)	(709)
Accelerated depreciation	—	—	(3,932)	(3,618)	(3,932)	(3,618)
Tax value of losses carried forward, net of valuation allowance	66	923	—	—	66	923
Lease prepayments	366	373	—	—	366	373
Others	32	53	—	—	32	53
Deferred tax assets/(liabilities)	**4,558**	**3,067**	**(5,636)**	**(4,599)**	**(1,078)**	**(1,532)**

The Company

	Assets		Liabilities		Net balance	
	2004	2003	**2004**	2003	**2004**	2003
	RMB millions	RMB millions	**RMB millions**	RMB millions	**RMB millions**	RMB millions
Current						
Provisions, primarily for receivables and inventories	2,245	1,249	—	—	2,245	1,249
Non-current						
Property, plant and equipment	1,457	226	(983)	(439)	474	(213)
Accelerated depreciation	—	—	(1,042)	(986)	(1,042)	(986)
Tax value of losses carried forward, net of valuation allowance	—	670	—	—	—	670
Lease prepayments	16	16	—	—	16	16
Others	6	35	—	—	6	35
Deferred tax assets/(liabilities)	**3,724**	**2,196**	**(2,025)**	**(1,425)**	**1,699**	**771**

A valuation allowance on deferred tax assets is recorded if it is more likely than not that some portion or all of the deferred tax assets will not be realised through the recovery of taxes previously paid and/or future taxable income. The allowance is subject to ongoing adjustments based on changes in circumstances that affect the Group's assessment of the realisability of the deferred tax assets. The Group has reviewed its deferred tax assets at the balance sheet date. Based on this review, valuation allowances of RMB 409 million (2003: RMB 248 million) were provided for the year ended 31 December 2004. The Group determined the valuation allowance based on management's assessment of the probability that taxable profit will be available over the period which the deferred tax assets can be realised or utilised. In assessing the probability, both positive and negative evidence was considered, including whether it is more likely than not that the operations will have future taxable profits over the periods which the deferred tax assets are deductible or utilised and whether the tax losses result from identifiable causes which are unlikely to recur. Based on this assessment, a valuation allowance was provided to reduce the deferred tax asset to the amount that is more likely than not to be realised.

27 DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

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

The Group

	Balance at 1 January 2003 RMB millions	Recognised in other reserves RMB millions	Recognised in consolidated income statement RMB millions	Balance at 31 December 2003 RMB millions
Current				
Provisions, primarily for receivables and inventories	275	—	1,171	1,446
Non-current				
Property, plant and equipment	(580)	—	(129)	(709)
Accelerated depreciation	(2,958)	—	(660)	(3,618)
Tax value of losses carried forward, net of valuation allowance	978	—	(55)	923
Lease prepayments	364	16	(7)	373
Others	2	—	51	53
Net deferred tax (liabilities)/assets	**(1,919)**	**16**	**371**	**(1,532)**

The Group

	Balance at 1 January 2004 RMB millions	Recognised in other reserves RMB millions	Recognised in consolidated income statement RMB millions	Balance at 31 December 2004 RMB millions
Current				
Provisions, primarily for receivables and inventories	1,446	—	1,082	2,528
Non-current				
Property, plant and equipment	(709)	—	571	(138)
Accelerated depreciation	(3,618)	—	(314)	(3,932)
Tax value of losses carried forward, net of valuation allowance (Note)	923	(266)	(591)	66
Lease prepayments	373	—	(7)	366
Others	53	—	(21)	32
Net deferred tax (liabilities)/assets	**(1,532)**	**(266)**	**720**	**(1,078)**

The Company

	Balance at 1 January 2003 RMB millions	Recognised in other reserves RMB millions	Recognised in income statement RMB millions	Balance at 31 December 2003 RMB millions
Current				
Provisions, primarily for receivables and inventories	57	—	1,192	1,249
Non-current				
Property, plant and equipment	(204)	—	(9)	(213)
Accelerated depreciation	(799)	—	(187)	(986)
Tax value of losses carried forward, net of valuation allowance	677	—	(7)	670
Lease prepayments	—	16	—	16
Others	12	—	23	35
Net deferred tax (liabilities)/assets	**(257)**	**16**	**1,012**	**771**

The Company

	Balance at 1 January 2004 RMB millions	Recognised in other reserves RMB millions	Recognised in income statement RMB millions	Balance at 31 December 2004 RMB millions
Current				
Provisions, primarily for receivables and inventories	1,249	—	996	2,245
Non-current				
Property, plant and equipment	(213)	—	687	474
Accelerated depreciation	(986)	—	(56)	(1,042)
Tax value of losses carried forward, net of valuation allowance (Note)	670	(266)	(404)	—
Lease prepayments	16	—	—	16
Others	35	—	(29)	6
Net deferred tax (liabilities)/assets	**771**	**(266)**	**1,194**	**1,699**

Note:

At 31 December 2004, deferred tax assets of RMB 266 million were distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets.

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

Short-term debts represent:

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB millions	RMB millions	**RMB millions**	RMB millions
Third parties' debts				
Short-term bank loans	20,009	19,961	10,527	9,838
Short-term other loans	—	29	—	25
	20,009	**19,990**	**10,527**	**9,863**
Current portion of long-term bank loans	12,177	7,359	9,414	4,943
Current portion of long-term other loans	121	332	92	265
Current portion of convertible bonds	—	1,500	—	—
	12,298	**9,191**	**9,506**	**5,208**
	32,307	**29,181**	**20,033**	**15,071**
Loans from Sinopec Group Company and fellow subsidiaries				
Short-term loans	6,714	4,046	5,727	2,446
Current portion of long-term loans	2,000	819	2,000	819
	8,714	**4,865**	**7,727**	**3,265**
	41,021	**34,046**	**27,760**	**18,336**

The Group's and the Company's weighted average interest rates on short-term loans were 3.9% (2003: 3.2%) and 4.0% at 31 December 2004 (2003: 3.1%) respectively.

Long-term debts comprise:

		The Group		The Company	
	Interest rate and final maturity	**2004**	2003	**2004**	2003
		RMB millions	RMB millions	**RMB millions**	RMB millions
Third parties' debts					
Long-term bank loans					
Renminbi denominated	Interest rates ranging from interest free to 6.2% per annum at 31 December 2004 with maturities through 2013	52,227	40,955	45,233	31,669
Japanese Yen denominated	Interest rates ranging from 2.6% to 5.8% per annum at 31 December 2004 with maturities through 2024	4,562	4,841	4,556	4,798
US Dollar denominated	Interest rates ranging from interest free to 7.4% per annum at 31 December 2004 with maturities through 2031	7,729	7,563	5,278	4,988
Euro denominated	Fixed interest rate at 6.7% per annum at 31 December 2004 with maturities through 2010	165	547	165	547
Hong Kong Dollar denominated	Floating rate at Hong Kong Prime Rate plus 0.3% per annum at 31 December 2004 with maturities through 2006	5	7	—	—
		64,688	**53,913**	**55,232**	**42,002**
Long-term other loans					
Renminbi denominated	Interest rates ranging from interest free to 5.0% per annum at 31 December 2004 with maturities through 2008	359	413	200	236
US Dollar denominated	Interest rates ranging from interest free to 4% per annum at 31 December 2004 with maturities through 2015	110	151	89	118
Euro denominated	Interest rates ranging from 1.8% to 8.1% per annum at 31 December 2003 with maturities through 2025; paid off as at 31 December 2004	—	21	—	21
		469	**585**	**289**	**375**

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

	Interest rate and final maturity	The Group 2004 RMB millions	The Group 2003 RMB millions	The Company 2004 RMB millions	The Company 2003 RMB millions
Convertible bonds					
Renminbi denominated	Interest rate at 2.5% per annum at 31 December 2003 with maturity in July 2004 (a)	—	1,500	—	—
		65,157	**55,998**	**55,521**	**42,377**
Corporate bonds					
Renminbi denominated	Fixed interest rate at 4.61% per annum at 31 December 2004 with maturity in February 2014 (b)	**3,500**	—	**3,500**	—
Long-term bank loans of jointly controlled entities					
Renminbi denominated	Floating rate at 90% of PBOC's base lending rate per annum at 31 December 2004 with maturities through 2021	2,415	705	—	—
US Dollar denominated	Floating rate at London Interbank Offer Rate plus 0.7% per annum at 31 December 2004 with maturities through 202	2,048	745	—	—
		4,463	**1,450**	**—**	**—**
Total third parties' long-term debts		**73,120**	**57,448**	**59,021**	**42,377**
Less: Current portion		(12,298)	(9,191)	(9,506)	(5,208)
		60,822	**48,257**	**49,515**	**37,169**
Long-term loans from Sinopec Group Company and fellow subsidiaries					
Renminbi denominated	Interest free with maturity in 2020	35,561	35,561	35,561	35,561
Renminbi denominated	Interest rates ranging from interest free to 5.2% per annum at 31 December 2004 with maturities through 2009	3,204	4,285	2,756	4,200
US Dollar denominated	Floating rate at London Interbank Offer Rate plus 1.4% per annum at 31 December 2003 with maturities through 2005; paid off as at 31 December 2004	—	12	—	12
		38,765	**39,858**	**38,317**	**39,773**
Less: Current portion		(2,000)	(819)	(2,000)	(819)
		36,765	**39,039**	**36,317**	**38,954**
		97,587	**87,296**	**85,832**	**76,123**

(a) Convertible bonds amounting to RMB 1,500 million were issued by a subsidiary on 28 July 1999. Pursuant to the subsidiary's shareholders' approval at the Annual General Meeting held on 23 March 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 3.5 billion to PRC citizens as well as PRC legal and non-legal persons on 24 February 2004, guaranteed by Sinopec Group Company, with a fixed interest rate at 4.61% per annum.

Third parties' loans of RMB 40 million of the Group at 31 December 2004 (2003: RMB 103 million) were secured by certain of the Group's property, plant and equipment. The net book value of property, plant and equipment of the Group pledged as security amounted to RMB 123 million at 31 December 2004 (2003: RMB 519 million).

Third parties' loans of RMB 9 million of the Company at 31 December 2004 (2003: RMB 9 million) were secured by certain of the Company's property, plant and equipment. The net book value of property, plant and equipment of the Company pledged as security amounted to RMB 10 million at 31 December 2004 (2003: RMB 14 million).

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

	The Group 2004 RMB millions	The Group 2003 RMB millions	The Company 2004 RMB millions	The Company 2003 RMB millions
Within one year	14,298	10,010	11,506	6,027
Between one and two years	15,886	14,479	12,363	10,480
Between two and five year	36,041	30,334	31,279	24,794
After five years	45,660	42,483	42,190	40,849
	111,885	**97,306**	**97,338**	**82,150**

29 TRADE ACCOUNTS AND BILLS PAYABLES

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB millions	RMB millions	**RMB millions**	RMB millions
Third parties	22,265	22,122	10,435	4,042
Subsidiaries	—	—	9,876	13,825
Sinopec Group Company and its fellow subsidiaries	1,527	1,153	826	735
Associates	—	44	—	44
	23,792	**23,319**	**21,137**	**18,646**
Bills payable	30,797	24,267	21,589	18,170
	54,589	**47,586**	**42,726**	**36,816**

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

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

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB millions	RMB millions	**RMB millions**	RMB millions
Due within 1 month or on demand	25,444	21,540	21,839	18,430
Due after 1 month but within 6 months	28,877	25,792	20,807	17,931
Due after 6 months	268	254	80	455
	54,589	**47,586**	**42,726**	**36,816**

30 ACCRUED EXPENSES AND OTHER PAYABLES

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB millions	RMB millions	**RMB millions**	RMB millions
Amounts due to Sinopec Group Company and its fellow subsidiaries	10,897	15,072	7,336	8,504
Amounts due to subsidiaries	—	—	15,010	10,157
Accrued expenditures	17,213	12,208	11,801	5,689
Taxes other than income tax	3,717	4,327	2,079	2,182
Receipts in advance	7,387	5,509	5,013	3,685
Advances from third parties	1,009	979	961	864
Others	5,053	5,466	3,365	4,256
	45,276	**43,561**	**45,565**	**35,337**

31 SHARE CAPITAL

	The Group and the Company	
	2004	2003
	RMB millions	RMB millions
Registered, issued and fully paid		
67,121,951,000 domestic state-owned A shares of RMB 1.00 each	67,122	67,122
16,780,488,000 overseas listed H shares of RMB 1.00 each	16,780	16,780
2,800,000,000 domestic listed A shares of RMB 1.00 each	2,800	2,800
	86,702	**86,702**

The Company was established on 25 February 2000 with a registered capital of 68.8 billion domestic state-owned shares with a par value of RMB 1.00 each. Such shares were issued to Sinopec Group Company in consideration for the assets and liabilities of the Predecessor Operations transferred to the Company (Note 1).

Pursuant to the resolutions passed at an Extraordinary General Meeting held on 25 July 2000 and approvals from relevant government authorities, the Company is authorised to increase its share capital to a maximum of 88.3 billion shares with a par value of RMB 1.00 each and offer not more than 19.5 billion shares with a par value of RMB 1.00 each to investors outside the PRC. Sinopec Group Company is authorised to offer not more than 3.5 billion shares of its shareholdings in the Company to investors outside the PRC. The shares sold by Sinopec Group Company to investors outside the PRC would be converted into H shares.

In October 2000, the Company issued 15,102,439,000 H shares with a par value of RMB 1.00 each, representing 12,521,864,000 H shares and 25,805,750 American Depositary Shares ("ADSs", each representing 100 H shares), at prices of HK$ 1.59 per H share and US$ 20.645 per ADS, respectively, by way of a global initial public offering to Hong Kong and overseas investors. As part of the global initial public offering, 1,678,049,000 domestic state-owned ordinary shares of RMB 1.00 each owned by Sinopec Group Company were converted into H shares and sold to Hong Kong and overseas investors.

In July 2001, the Company issued 2.8 billion domestic listed A shares with a par value of RMB 1.00 each at RMB 4.22 by way of a public offering to natural persons and institutional investors in the PRC.

All A shares and H shares rank pari passu in all material aspects.

32 COMMITMENTS AND CONTINGENT LIABILITIES

Operating lease commitments

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

At 31 December 2004 and 2003, the future minimum lease payments under operating leases are as follows:

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB millions	RMB millions	**RMB millions**	RMB millions
Within one year	3,452	3,276	3,272	3,175
Between one and two years	3,343	3,229	3,237	3,133
Between two and three years	3,278	3,200	3,213	3,114
Between three and four years	3,245	3,175	3,188	3,095
Between four and five years	3,225	3,162	3,170	3,087
Thereafter	97,527	99,619	95,968	98,253
	114,070	**115,661**	**112,048**	**113,857**

Capital commitments

At 31 December 2004 and 2003, capital commitments are as follows:

	2004	2003
	RMB millions	RMB millions
The Group		
Authorised and contracted for	43,001	48,175
Authorised but not contracted for	60,173	48,130
	103,174	**96,305**
Jointly controlled entities		
Authorised and contracted for	3,157	6,923
Authorised but not contracted for	2,088	3,432
	5,245	**10,355**
The Company		
Authorised and contracted for	28,143	32,228
Authorised but not contracted for	37,619	36,403
	65,762	**68,631**

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

Exploration and production licenses

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

The Group is required to make payments of exploration license fees and production right usage fees to the Ministry of Land and Resources annually which are expensed as incurred. Payments incurred were approximately RMB 189 million for the year ended 31 December 2004 (2003: RMB 97 million).

Estimated future annual payments are as follows:

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB millions	RMB millions	**RMB millions**	RMB millions
Within one year	90	87	60	69
Between one and two years	120	117	85	88
Between two and three years	75	87	47	54
Between three and four years	67	72	55	42
Between four and five years	74	65	64	52
Thereafter	279	361	143	212
Total payments	**705**	**789**	**454**	**517**

32 COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

Contingent liabilities

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

(b) At 31 December 2004 and 2003, guarantees given to banks in respect of banking facilities granted to the parties below were as follows:

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB millions	RMB millions	**RMB millions**	RMB millions
Subsidiaries	—	—	2,656	173
Associates and jointly controlled entities	4,828	4,955	12,059	12,084
Third parties	—	118	—	118
	4,828	**5,073**	**14,715**	**12,375**

The Group monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognise any such losses under guarantees when those losses are estimable. At 31 December 2004 and 2003, it is not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued relating to the Group's obligation under these guarantee arrangements.

Environmental contingencies

To date, the Group has not incurred any significant expenditures for environmental remediation, is currently not involved in any environmental remediation, and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved, and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include i) the exact nature and extent of the contamination at various sites including, but not limited to refineries, oil fields, service stations, terminals and land development areas, whether operating, closed or sold, ii) the extent of required cleanup efforts, iii) varying costs of alternative remediation strategies, iv) changes in environmental remediation requirements, and v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. The Group paid normal routine pollutant discharge fees of approximately RMB 248 million for the year ended 31 December 2004 (2003: RMB 245 million).

Legal contingencies

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

33 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 the Sinopec Group Company and fellow subsidiaries. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties. 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 fellow subsidiaries, 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 organisations. 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 has not disclosed such sales as related party transactions.

33 RELATED PARTY TRANSACTIONS *(Continued)*

The principal related party transactions with Sinopec Group Company, which were carried out in the ordinary course of business, are as follows:

	Note	**2004 RMB millions**	2003 RMB millions
Sales of goods	(i)	63,507	32,134
Purchases	(ii)	36,828	31,964
Transportation and storage	(iii)	2,003	1,572
Exploration and development services	(iv)	14,446	13,699
Production related services	(v)	9,036	8,421
Ancillary and social services	(vi)	1,740	1,783
Operating lease charges	(vii)	3,297	2,924
Agency commission income	(viii)	41	41
Intellectual property license fee paid	(ix)	10	10
Interest received	(x)	59	114
Interest paid	(xi)	622	583
Net deposits placed with/(withdrawn from) related parties	(xii)	340	(1,634)
Net loans obtained from/(paid to) related parties	(xiii)	1,575	(24)

The amounts set out in the table above in respect of the years ended 31 December 2004 and 2003 represent the relevant costs to the Group as determined by the corresponding contracts with the related parties.

At 31 December 2004 and 2003, there were no guarantees given to banks by the Group in respect of banking facilities to Sinopec Group Company and fellow subsidiaries.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions, and this has been confirmed by the independent non-executive directors.

Notes:

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

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

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

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

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

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

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

(viii) Agency commission income represents commission earned for acting as an agent in respect of sales of products 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 for trademarks, patents, technology and computer software.

(x) Interest received represents interest received from deposits placed with Sinopec Finance Company Limited, a finance company controlled by Sinopec Group Company. The applicable interest rate is determined in accordance with the prevailing saving deposit rate. The balance of deposits at 31 December 2004 was RMB 4,671 million (2003: RMB 4,331 million).

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

(xii) Deposits were placed with/withdrawn from Sinopec Finance Company Limited.

(xiii) The Group obtained/repaid loans from/to Sinopec Group Company and Sinopec Finance Company Limited.

33 RELATED PARTY TRANSACTIONS *(Continued)*

In connection with the Reorganisation, the Company and Sinopec Group Company entered into a number of agreements under which 1) Sinopec Group Company will provide goods and products and a range of ancillary, social and supporting services to the Group and 2) the Group will sell certain goods to Sinopec Group Company. The terms of these agreements are summarised as follows:

(a) The Company has entered into a non-exclusive Agreement for Mutual Provision of Products and Ancillary Services ("Mutual Provision Agreement") with Sinopec Group Company effective from 1 January 2000 under which Sinopec Group Company has agreed to provide the Group with certain ancillary production services, construction services, information advisory services, supply services and other services and products. While each of Sinopec Group Company and the Company is permitted to terminate the Mutual Provision Agreement upon at least six months notice, Sinopec Group Company has agreed not to terminate the agreement if the Group is unable to obtain comparable services from a third party. The pricing policy for these services and products provided by Sinopec Group Company to the Group is as follows:

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

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

(c) The Company has entered into a series of lease agreements with Sinopec Group Company to lease certain land and buildings at a rental of approximately RMB 2,447 million and RMB 567 million, respectively, per annum. The Company and Sinopec Group Company can renegotiate the rental amount every three years for land and every year for buildings, such amount not to exceed the market price as determined by an independent third party. The Group has the option to terminate these leases upon six months notice to Sinopec Group Company.

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

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

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

As discussed in Note 1, pursuant to the resolutions passed at the Extraordinary General Meeting held on 21 December 2004, the Group acquired the equity interests of Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical, Guangzhou Petrochemical and Catalyst Plants from Sinopec Group Company for a total consideration payable of RMB 3,128 million. In addition, the Group acquired certain individual assets and liabilities from Sinopec Group Company for a total consideration payable of RMB 2,232 million. In connection with these acquisitions, the Group disposed of certain property, plant and equipment, with net book value of RMB1,857 million, 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 million, which approximated the net carrying value of the assets and liabilities, resulting in a net cash consideration of RMB 3,648 million payable to Sinopec Group Company.

34 EMPLOYEE BENEFITS PLAN

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The Group is required to make contributions to the retirement plans at rates ranging from 17.0% to 30.0% of the salaries, bonuses and certain allowances of its staff. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the year ended 31 December 2004 were RMB 2,242 million (2003: RMB 1,882 million).

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 at each of the third, fourth and fifth anniversary of the date of grant, the total number of share appreciation rights exercisable may not in aggregate exceed 30%, 70% and 100%, respectively, of the total share appreciation rights granted to such person.

During 2003, the Company granted 258.6 million share appreciation right units to eligible employees.

The exercise price of share appreciation rights initially granted is the initial public offering price of the Company's H shares. Upon exercise of the share appreciation rights, a recipient will receive, subject to any applicable withholding tax, a cash payment in RMB, translated from the Hong Kong dollar amount equal to the product of the number of share appreciation rights exercised and the difference between the exercise price and average market price of the Company's H shares for the exercise period based on the applicable exchange rate between RMB and Hong Kong dollar at the date of the exercise.

The Company recognises compensation expense of the share appreciation rights over the applicable vesting period. For the year ended 31 December 2004, compensation expense recognised was RMB 150 million (2003: RMB 120 million).

35 SEGMENTAL REPORTING

The Group has five operating segments as follows:

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

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

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

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

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

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

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

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

	2004 RMB millions	2003 RMB millions
Turnover		
Exploration and production		
External sales	15,970	14,936
Inter-segment sales	60,053	47,287
	76,023	**62,223**
Refining		
External sales	63,388	51,445
Inter-segment sales	289,699	217,755
	353,087	**269,200**
Marketing and distribution		
External sales	342,840	238,210
Inter-segment sales	2,831	2,602
	345,671	**240,812**
Chemicals		
External sales	126,013	91,964
Inter-segment sales	12,510	7,415
	138,523	**99,379**
Corporate and others		
External sales	48,986	33,394
Inter-segment sales	32,046	30,371
	81,032	**63,765**
Elimination of inter-segment sales	(397,139)	(305,430)
Turnover	**597,197**	**429,949**
Other operating revenues		
Exploration and production	9,283	8,039
Refining	5,186	4,573
Marketing and distribution	755	548
Chemicals	6,170	4,461
Corporate and others	1,192	1,431
Other operating revenues	**22,586**	**19,052**
Turnover and other operating revenues	**619,783**	**449,001**

35 SEGMENTAL REPORTING *(Continued)*

	2004 RMB millions	2003 RMB millions
Result		
Operating profit		
By segment		
— Exploration and production	25,614	19,160
— Refining	5,943	6,073
— Marketing and distribution	14,716	11,943
— Chemicals	18,721	3,543
— Corporate and others	(1,925)	(1,836)
Total operating profit	**63,069**	**38,883**
Share of profits less losses from associates		
— Exploration and production	447	293
— Refining	58	(1)
— Marketing and distribution	302	43
— Chemicals	(164)	(41)
— Corporate and others	154	102
Aggregate share of profits less losses from associates	**797**	**396**
Finance costs		
Interest expense	(4,583)	(4,365)
Interest income	374	322
Foreign exchange losses	(223)	(450)
Foreign exchange gains	61	30
Net finance costs	**(4,371)**	**(4,463)**
Gain from issuance of shares by a subsidiary	—	136
Investment income	111	89
Profit from ordinary activities before taxation	**59,606**	**35,041**
Taxation	(17,815)	(10,645)
Profit from ordinary activities after taxation	**41,791**	**24,396**
Minority interests	(5,772)	(1,972)
Profit attributable to shareholders	**36,019**	**22,424**

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities. Assets which benefit more than one segment or are considered to be corporate assets are not allocated. ''Unallocated assets'' consists primarily of cash and cash equivalents, time deposits with financial institutions, investments and deferred tax assets. ''Unallocated liabilities'' consists primarily of short-term and long-term debts, loans from Sinopec Group Company and fellow subsidiaries, income tax payable, deferred tax liabilities and other liabilities.

Interests in and earnings from associates are included in the segments in which the associates operate. Information on associates is included in Note 21. Additions to long-lived assets by operating segment are included in Notes 17 and 18.

	2004 RMB millions	2003 RMB millions
Assets		
Segment assets		
— Exploration and production	110,509	101,303
— Refining	111,878	96,839
— Marketing and distribution	93,722	73,942
— Chemicals	105,032	101,130
— Corporate and others	17,574	14,445
Total segment assets	**438,715**	**387,659**
Interests in associates		
— Exploration and production	1,396	1,233
— Refining	314	136
— Marketing and distribution	2,410	1,815
— Chemicals	4,315	3,517
— Corporate and others	1,787	1,420
Aggregate interests in associates	**10,222**	**8,121**
Unallocated assets	**25,657**	**24,404**
Total assets	**474,594**	**420,184**
Liabilities		
Segment liabilities		
— Exploration and production	16,241	15,733
— Refining	28,130	25,729
— Marketing and distribution	23,419	21,091
— Chemicals	16,528	18,951
— Corporate and others	15,547	10,022
Total segment liabilities	**99,865**	**91,526**
Unallocated liabilities	**150,643**	**131,092**
Total liabilities	**250,508**	**222,618**

35 SEGMENTAL REPORTING *(Continued)*

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.

	2004 RMB millions	2003 RMB millions
Capital expenditure		
Exploration and production	21,234	20,628
Refining	14,272	9,788
Marketing and distribution	16,678	6,826
Chemicals	11,025	7,680
Corporate and others	1,550	518
	64,759	**45,440**
Capital expenditure of jointly controlled entities		
Exploration and production	1,323	1,200
Chemicals	5,178	2,993
	6,501	**4,193**
Depreciation, depletion and amortisation		
Exploration and production	12,066	9,413
Refining	7,730	6,434
Marketing and distribution	2,759	2,431
Chemicals	9,325	9,149
Corporate and others	462	524
	32,342	**27,951**
Impairment losses on long-lived assets recognised in income statement		
Exploration and production	98	310
Refining	14	114
Marketing and distribution	1,769	—
Chemicals	2,038	453
	3,919	**877**
Impairment losses on long-lived assets recognised in shareholders' funds		
Chemicals	**709**	—

36 PRINCIPAL SUBSIDIARIES

At 31 December 2004, the following list contains the particulars of subsidiaries which principally affected the results or assets of the Group.

Name of company	Particulars of issued capital (millions)	Type of legal entity	Percentage of equity held by the Company %	Percentage of equity held by Subsidiary %	Principal activities
China Petrochemical International Company Limited	RMB 1,400	Limited company	100.00	—	Trading of crude oil and petrochemical products
Sinopec Beijing Yanhua Petrochemical Company Limited	RMB 3,374	Limited company	70.01	—	Manufacturing of chemical products
Sinopec Sales Company Limited	RMB 1,700	Limited company	100.00	—	Marketing and distribution of refined petroleum products
Sinopec Shengli Oilfield Company Limited	RMB 29,000	Limited company	100.00	—	Exploration and production of crude oil and natural gas
Sinopec Fujian Petrochemical Company Limited (i)	RMB 2,253	Limited company	50.00	—	Manufacturing of plastics, intermediate petrochemical products and petroleum products
Sinopec Qilu Petrochemical Company Limited	RMB 1,950	Limited company	82.05	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Shanghai Petrochemical Company Limited	RMB 7,200	Limited company	55.56	—	Manufacturing of synthetic fibres, resin and plastics, intermediate petrochemical products and petroleum products
Sinopec Shijiazhuang Refining-Chemical Company Limited	RMB 1,154	Limited company	79.73	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Kantons Holdings Limited	HK$104	Limited company	—	72.40	Trading of crude oil and petroleum products
Sinopec Wuhan Petroleum Group Company Limited (i)	RMB 147	Limited company	46.25	—	Marketing and distribution of refined petroleum products
Sinopec Wuhan Phoenix Company Limited (i)	RMB 519	Limited company	40.72	—	Manufacturing of petrochemical products and petroleum products
Sinopec Yangzi Petrochemical Company Limited	RMB 2,330	Limited company	84.98	—	Manufacturing of intermediate petrochemical products and petroleum products

36 PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Particulars of issued capital (millions)	Type of legal entity	Percentage of equity held by the Company %	Percentage of equity held by Subsidiary %	Principal activities
Sinopec Yizheng Chemical Fibre Company Limited (i)	RMB 4,000	Limited company	42.00	—	Production and sale of polyester chips and polyester fibres
Sinopec Zhenhai Refining and Chemical Company Limited	RMB 2,524	Limited company	71.32	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Zhongyuan Petroleum Company Limited	RMB 875	Limited company	70.85	—	Exploration and production of crude oil and natural gas
Zhongyuan Petrochemical Company Limited	RMB 2,400	Limited company	93.51	—	Manufacturing of chemical products
Sinopec Shell (Jiangsu) Petroleum Marketing Company Limited	RMB 455	Limited company	60.00	—	Marketing and distribution of refined petroleum products
BP Sinopec (Zhejiang) Petroleum Company Limited	RMB 647	Limited company	60.00	—	Marketing and distribution of refined petroleum products

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.

37 FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, time deposits with financial institutions, investments, trade accounts receivable, bills receivable, amounts due from Sinopec Group Company and fellow subsidiaries, advances to third parties, amounts due from associates, and other receivables. Financial liabilities of the Group include bank and other loans, loans from Sinopec Group Company and fellow subsidiaries, trade accounts payable, bills payable, amounts due to Sinopec Group Company and fellow subsidiaries, receipts in advance, and advances from third parties. The Group has no derivative instruments that are designated and qualified as hedging instruments at 31 December 2004 and 2003.

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.

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

Currency risk

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

Interest rate risk

The interest rates and terms of repayment of short-term and long-term debts of the Group are disclosed in Note 28.

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 realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Group has not developed an internal valuation model necessary to make the estimate of the fair value of loans from Sinopec Group Company and fellow subsidiaries as it is not considered practicable to estimate their fair value because the cost of obtaining discount and borrowing rates for comparable borrowings would be excessive based on the Reorganisation of the Group, its existing capital structure, and the terms of the borrowings.

37 FINANCIAL INSTRUMENTS *(Continued)*

The following table presents the carrying amount and fair value of the Group's long-term indebtedness other than loans from Sinopec Group Company and fellow subsidiaries at 31 December 2004 and 2003:

	2004 RMB millions	2003 RMB millions
Carrying amount	73,120	57,448
Fair value	73,263	57,546

The fair value of long-term indebtedness is estimated by discounting future cash flows thereon using current market interest rates offered to the Group for debts with substantially the same characteristics and maturities.

Investments in unlisted equity securities have no quoted market prices in the PRC. Accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

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

38 POST BALANCE SHEET EVENT

On 29 December 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 million which will be settled in cash.

Pursuant to the resolution passed in the Special General Meeting of Beijing Yanhua on 4 March 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.

39 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Group at 31 December 2004 to be Sinopec Group Company, a state-owned enterprise established in the PRC.