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.

On 25 February 2000, in connection with the Reorganisation, certain of Sinopec Group Company's core oil and gas and chemical operations and businesses together with the related assets and liabilities were transferred to the Company. 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").

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

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

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

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

Basis of presentation

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

The accompanying financial statements have been prepared in accordance with IFRS promulgated by the International Accounting Standards Board ("IASB"). IFRS includes International Accounting Standards ("IAS") and related interpretations. These 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. A summary of the principal accounting policies adopted by the Group and the Company is set out in Note 2. These accounting policies have been consistently applied by the Group and the Company, except those disclosed in Note 43.

The IASB has issued a number of new and revised IFRS that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised IFRS for the current and prior accounting periods reflected in these financial statements is provided in Note 43.

The accompanying financial statements are prepared on the historical cost basis as modified by the revaluation of certain property, plant and equipment (Note 18).

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

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

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

Key assumptions and estimation made by management in the application of IFRS that have significant effect on the financial statements and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next year are disclosed in Note 41.

2 PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

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

(i) Subsidiaries

Subsidiaries are those entities controlled by the 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 financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

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

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment losses (Note 2(k)).

The particulars of the Group's principal subsidiaries are set out in Note 38.

(ii) Interest in associates

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

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

In the Company's balance sheet, investments in associates are stated at cost less impairment losses (Note 2(k)).

(iii) Jointly controlled entities

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

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

In the Company's balance sheet, investments in jointly controlled entities are stated at cost less impairment losses (Note 2(k)).

(iv) Transactions eliminated on consolidation

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

(b) Translation of foreign currencies

The presentation currency of the Group is Renminbi. Foreign currency transactions during the 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.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Cash and cash equivalents

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

(d) Trade accounts and other receivables

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

(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.

(f) Property, plant and equipment

An item of property, plant and equipment is initially recorded at cost, less accumulated depreciation and impairment losses (Note 2(k)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use. Subsequent to the revaluation (Note 18), which was based on depreciated replacement costs, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluations are performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other expenditure is recognised as an expense in the income statement in the year in which it is incurred.

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

Depreciation is provided to write off the cost/revalued amount of items of property, plant and equipment, other than oil and gas properties, 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, staroge tanks and others	4 to 18 years
Service stations	25 years

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

(g) Oil and gas properties

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

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

(h) Lease prepayments

Lease prepayments represent land use rights paid to the relevant government authorities. Land use rights are carried at cost less accumulated amortisation and impairment losses (Note 2(k)). Amortisation is provided to write off the cost of lease prepayments on a straight-line basis over the respective periods of the rights.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Construction in progress

Construction in progress represents buildings, oil and gas properties, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses (Note 2(k)). 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 equity securities, other than investments in subsidiaries, associates and jointly controlled entities, that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (Note 2(k)).

(k) Impairment of assets

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

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

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

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

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

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

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

(l) Trade accounts and other payables

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

(m)Interest-bearing borrowings

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Provisions and contingent liability

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

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

(o) Revenue recognition

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

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

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

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

(p) 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.

(q) Repairs and maintenance expenditure

Repairs and maintenance expenditure is expensed as incurred.

(r) 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.

(s) Research and development costs

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

(t) Operating leases

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

(u) Retirement benefits

The contributions payable under the Group's retirement plans are recognised as expenses in the income statement as incurred and according to the contribution determined by the plans. Further information is set out in Note 36.

(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.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(y) Goodwill

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

Goodwill is stated at cost less impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (Note 2(k)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in associates.

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	
	2005	2004
	RMB millions	RMB millions
Sale of materials, service and others	23,615	22,213
Rental income	387	373
	24,002	**22,586**

5 OTHER INCOME

The Group received a cash government grant from the Ministry of Finance of the PRC of RMB 9,415 million (2004: RMB nil) as a compensation of loss incurred due to the distortion of the correlation of domestic refined petroleum product prices and the crude oil prices during the year ended 31 December 2005. There are no unfilled conditions and other contingencies attached to the receipt of this government grant. There is no assurance that the Group will continue to receive such grant in the future.

6 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

	The Group	
	2005	2004
	RMB millions	RMB millions
Research and development costs	2,243	1,518
Operating lease charges	5,514	4,288
Auditors' remuneration – audit services	75	80

7 PERSONNEL EXPENSES

	The Group	
	2005	2004
	RMB millions	RMB millions
Wages and salaries	13,601	13,589
Staff welfare	1,788	1,772
Contributions to retirement schemes	2,269	2,242
Social security contributions	825	1,031
	18,483	**18,634**

8 EMPLOYEE REDUCTION EXPENSES

During the year ended 31 December 2005, in accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 369 million in respect of the voluntary termination of approximately 7,000 employees.

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 relating to the reduction of approximately 24,000 employees.

9 TAXES OTHER THAN INCOME TAX

	The Group	
	2005	2004
	RMB millions	RMB millions
Consumption tax	12,430	11,920
City construction tax	2,575	2,533
Education surcharge	1,305	1,255
Resources tax	634	452
Business tax	208	164
	17,152	**16,324**

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

10 OTHER OPERATING EXPENSES, NET

	The Group	
	2005	2004
	RMB millions	RMB millions
Fines, penalties and compensations	155	277
Donations	203	290
Loss on disposal of property, plant and equipment, net	2,095	1,686
Impairment losses on long-lived assets (Note)	1,851	3,919
Others	821	494
	5,125	**6,666**

Note:

Impairment losses recognised on long-lived assets of the refining segment were RMB nil (2004: RMB 14 million) for the year ended 31 December 2005. Impairment losses recognised on long-lived assets of the chemicals segment were RMB 1,425 million (2004: RMB 2,747 million) for the year ended 31 December 2005. These impairment losses relate to certain refining and chemical production facilities that are held for use. The carrying values of these facilities were written down to their recoverable amounts that were determined based either on the asset held for use model using the present value of estimated future cash flows or on the appraised values of the production facilities. An amount of RMB 1,425 million (2004: RMB 2,052 million) was charged to the income statement. An amount of RMB 709 million for the year ended 31 December 2004 was charged directly against the related revaluation reserve in respect of those assets that were carried at revalued amount. The primary factor resulting in the impairment losses on long-lived assets of the refining and chemicals segments was due to higher operating and production costs caused by the increase in the prices of raw materials that are not expected to be recovered through an increase in selling price.

Impairment losses recognised on long-lived assets of the marketing and distribution segment of RMB 366 million (2004: RMB 1,769 million) for the year ended 31 December 2005 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 60 million for the year ended 31 December 2005 (2004: RMB 98 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 amount which was determined based on the present values of the expected future cash flows of the assets. The oil and gas pricing was a factor used in the determination of the present values of the expected future cash flows of the assets and had an impact on the recognition of the asset impairment.

11 INTEREST EXPENSE

	The Group	
	2005	2004
	RMB millions	RMB millions
Interest expense incurred	7,166	5,491
Less: Interest expense capitalised*	(1,246)	(908)
Interest expense	**5,920**	**4,583**
* Interest rates per annum at which borrowing costs were capitalised for construction in progress	**3.3% to 6.6%**	**3.1% to 6.0%**

12 TAXATION

Taxation in the consolidated income statement represents:

	The Group	
	2005	2004
	RMB millions	RMB millions
Current tax		
– Provision for the year	20,159	18,441
– Under-provision in prior years	477	94
Deferred taxation	(1,248)	(720)
	19,388	**17,815**

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

	The Group	
	2005	2004
	RMB millions	RMB millions
Profit before taxation	63,228	59,606
Expected PRC income tax expense at a statutory tax rate of 33%	20,865	19,670
Tax effect of non-deductible expenses	450	812
Tax effect of non-taxable income	(567)	(216)
Tax effect of differential tax rate on subsidiaries' income (Note)	(2,010)	(2,408)
Tax effect of tax losses not recognised for deferred tax	381	409
Under-provision in prior years	477	94
Tax credit for domestic equipment purchases	(208)	(546)
Actual tax expense	**19,388**	**17,815**

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%.

13 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Directors' and supervisors' emoluments are as follows:

Name	Directors' fee RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	2005 Total RMB'000
Executive directors					
Chen Tonghai	—	—	—	—	—
Wang Jiming	—	239	225	16	480
Mou Shuling	—	219	212	11	442
Zhang Jiaren	—	227	212	16	455
Cao Xianghong	—	227	212	16	455
Liu Genyuan	—	—	—	—	—
Gao Jian	—	—	—	—	—
Fan Yifei	—	—	—	—	—
Cao Yaofeng	—	133	134	12	279
Independent non-executive directors					
Chen Qingtai	27	—	—	—	27
Ho Tsu Kwok					
Charles	21	—	—	—	21
Shi Wanpeng	24	—	—	—	24
Zhang Youcai	21	—	—	—	21
Supervisors					
Wang Zuoran	—	—	—	—	—
Zhang Chongqing	—	—	—	—	—
Wang Peijun	—	—	—	—	—
Wang Xianwen	—	—	—	—	—
Zhang Baojian	—	—	—	—	—
Kang Xianzhang	—	—	—	—	—
Su Wensheng	—	164	22	16	202
Cui Guoqi	—	105	42	7	154
Zhang Xianglin	—	82	88	11	181
Zhang Haichao	—	89	95	10	194
Independent supervisors					
Cui Jianming	24	—	—	—	24
Li Yonggui	24	—	—	—	24
Total	**141**	**1,485**	**1,242**	**115**	**2,983**
2004	**147**	**1,495**	**2,355**	**202**	**4,199**

Executive directors and supervisors also participate in the Group's share appreciation rights plan (Note 36).

14 SENIOR MANAGEMENT'S EMOLUMENTS

For the year ended 31 December 2005, of the five highest paid individuals, four (2004: one) are directors whose emoluments are disclosed in Note 13. The aggregate of the emoluments in respect of the five highest paid individuals are as follows:

	2005 RMB'000	2004 RMB'000
Salaries and other emoluments	2,269	1,622
Retirement scheme contributions	77	65
	2,346	**1,687**

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

	2005 Number	2004 Number
Nil to HK$ 1,000,000	**5**	**5**

15 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB 26,668 million (2004 (restated): RMB 4,758 million) which has been dealt with in the financial statements of the Company.

16 DIVIDENDS

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

	2005 RMB millions	2004 RMB millions
Dividends declared and paid during the year of RMB 0.04 per share (2004: RMB 0.04 per share)	3,468	3,468
Dividends declared after the balance sheet date of RMB 0.09 per share (2004: RMB 0.08 per share)	7,803	6,936
	11,271	**10,404**

Pursuant to the Company's Articles of Association and a resolution passed at the Directors' meeting on 26 August 2005, the directors authorised to declare an interim dividends for the year ended 31 December 2005 of RMB 0.04 (2004: RMB 0.04) per share totalling RMB 3,468 million (2004: RMB 3,468 million), which was paid on 30 September 2005 (2004: 30 September 2004).

16 DIVIDENDS *(Continued)*

Pursuant to a resolution passed at the Directors' meeting on 31 March 2006, a final dividend in respect of the year ended 31 December 2005 of RMB 0.09 (2004: RMB 0.08) per share totalling RMB 7,803 million (2004: RMB 6,936 million) was proposed for shareholders' approval at the Annual General Meeting. Final dividend of RMB 7,803 million (2004: RMB 6,936 million) proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

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

	2005 RMB millions	2004 RMB millions
Final dividends in respect of the previous financial year, approved and paid during the year of RMB 0.08 per share (2004: RMB 0.06 per share)	**6,936**	5,202

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

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

17 BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2005 is based on the profit attributable to equity shareholders of the Company of RMB 40,920 million (2004: RMB 36,019 million) and the weighted average number of shares of 86,702,439,000 (2004: 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.

18 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 35)	—	805	1,536	—	—	2,341
Revaluation in connection with the Acquisition of Petrochemical and Catalyst Assets	—	35	—	206	16	257
Disposals	(1,085)	(3,354)	(1,511)	(4,253)	(179)	(10,382)
Disposals to Sinopec Group Company (Note 35)	(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**
Balance at 1 January 2005	192,076	116,910	65,345	163,222	4,092	541,645
Additions	151	126	382	271	150	1,080
Transferred from construction in progress	22,094	8,121	14,017	18,457	381	63,070
Proportionate share of a jointly controlled entity	—	—	—	1,028	—	1,028
Reclassification	(157)	(432)	204	289	96	—
Disposals	(3,052)	(2,859)	(2,927)	(3,164)	(245)	(12,247)
Balance at 31 December 2005	**211,112**	**121,866**	**77,021**	**180,103**	**4,474**	**594,576**
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 35)	—	458	—	—	—	458
Written back on disposals	(942)	(2,323)	(942)	(3,157)	(103)	(7,467)
Disposals to Sinopec Group Company (Note 35)	(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**
Balance at 1 January 2005	94,028	56,580	13,465	92,042	1,407	257,522
Depreciation charge for the year	10,887	6,972	3,013	9,392	282	30,546
Impairment losses for the year	60	—	366	1,425	—	1,851
Reclassification	(78)	(214)	78	160	54	—
Written back on disposals	(2,687)	(2,206)	(2,110)	(2,719)	(194)	(9,916)
Balance at 31 December 2005	**102,210**	**61,132**	**14,812**	**100,300**	**1,549**	**280,003**
Net book value:						
At 1 January 2004	93,358	54,336	44,468	76,004	2,565	270,731
At 31 December 2004	**98,048**	**60,330**	**51,880**	**71,180**	**2,685**	**284,123**
At 31 December 2005	**108,902**	**60,734**	**62,209**	**79,803**	**2,925**	**314,573**

18 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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 35)	—	805	1,536	—	—	2,341
Transferred from a subsidiary	—	5,158	—	—	—	5,158
Revaluation in connection with the Acquisition of Petrochemical and Catalyst Assets	—	35	—	206	16	257
Disposals	(361)	(2,101)	(1,331)	(1,301)	(123)	(5,217)
Disposals to Sinopec Group Company (Note 35)	(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**
Balance at 1 January 2005	69,584	88,066	61,983	59,859	3,070	282,562
Additions	151	113	267	38	120	689
Transferred from construction in progress	13,213	5,772	9,363	2,069	371	30,788
Transferred to subsidiaries	—	—	(577)	—	—	(577)
Reclassification	(130)	(176)	276	(2)	32	—
Disposals	(1,415)	(1,546)	(2,864)	(978)	(213)	(7,016)
Balance at 31 December 2005	**81,403**	**92,229**	**68,448**	**60,986**	**3,380**	**306,446**
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 35)	—	458	—	—	—	458
Transferred from a subsidiary	—	2,682	—	—	—	2,682
Written back on disposals	(355)	(1,662)	(805)	(748)	(83)	(3,653)
Disposals to Sinopec Group Company (Note 35)	(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**
Balance at 1 January 2005	32,119	42,789	12,892	35,694	1,057	124,551
Depreciation charge for the year	5,048	4,742	2,920	2,892	180	15,782
Impairment losses for the year	60	—	351	671	—	1,082
Transferred to subsidiaries	—	—	(66)	—	—	(66)
Reclassification	(65)	(49)	99	(1)	16	—
Written back on disposals	(1,371)	(1,183)	(2,061)	(814)	(185)	(5,614)
Balance at 31 December 2005	**35,791**	**46,299**	**14,135**	**38,442**	**1,068**	**135,735**
Net book value:						
At 1 January 2004	33,823	35,890	43,359	28,349	1,853	143,274
At 31 December 2004	**37,465**	**45,277**	**49,091**	**24,165**	**2,013**	**158,011**
At 31 December 2005	**45,612**	**45,930**	**54,313**	**22,544**	**2,312**	**170,711**

18 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 35)	—	—	1,533	808	2,341
Revaluation in connection with the Acquisition of Petrochemical and Catalyst Assets	1	—	—	256	257
Disposals	(927)	(586)	(1,099)	(7,770)	(10,382)
Disposals to Sinopec Group Company (Note 35)	(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**
Balance at 1 January 2005	44,854	173,564	60,533	262,694	541,645
Additions	96	64	228	692	1,080
Transferred from construction in progress	2,462	20,985	13,851	25,772	63,070
Proportionate share of a jointly controlled entity	182	—	—	846	1,028
Reclassification	(406)	(802)	650	558	—
Disposals	(1,034)	(1,884)	(2,145)	(7,184)	(12,247)
Balance at 31 December 2005	**46,154**	**191,927**	**73,117**	**283,378**	**594,576**
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 35)	—	—	—	458	458
Written back on disposals	(428)	(541)	(585)	(5,913)	(7,467)
Disposals to Sinopec Group Company (Note 35)	(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**
Balance at 1 January 2005	20,308	85,143	11,781	140,290	257,522
Depreciation charge for the year	1,712	10,263	2,914	15,657	30,546
Impairment losses for the year	79	60	261	1,451	1,851
Reclassification	(98)	(430)	153	375	—
Written back on disposals	(597)	(1,672)	(1,379)	(6,268)	(9,916)
Balance at 31 December 2005	**21,404**	**93,364**	**13,730**	**151,505**	**280,003**
Net book value:					
At 1 January 2004	25,753	81,052	37,552	126,374	270,731
At 31 December 2004	**24,546**	**88,421**	**48,752**	**122,404**	**284,123**
At 31 December 2005	**24,750**	**98,563**	**59,387**	**131,873**	**314,573**

18 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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 35)	—	—	1,533	808	2,341
Transferred from a subsidiary	216	—	—	4,942	5,158
Revaluation in connection with the Acquisition of Petrochemical and Catalyst Assets	1	—	—	256	257
Disposals	(742)	(238)	(1,075)	(3,162)	(5,217)
Disposals to Sinopec Group Company (Note 35)	(75)	(1,081)	—	(947)	(2,103)
Less: Amount distributed to Sinopec Group Company in connection with 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**
Balance at 1 January 2005	25,838	61,866	57,395	137,463	282,562
Additions	132	64	174	319	689
Transferred from construction in progress	989	12,266	9,363	8,170	30,788
Transferred to subsidiaries	(9)	—	(529)	(39)	(577)
Reclassification	(469)	(551)	651	369	—
Disposals	(552)	(578)	(2,097)	(3,789)	(7,016)
Balance at 31 December 2005	**25,929**	**73,067**	**64,957**	**142,493**	**306,446**
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 35)	—	—	—	458	458
Transferred from a subsidiary	101	—	—	2,581	2,682
Written back on disposals	(356)	(238)	(582)	(2,477)	(3,653)
Disposals to Sinopec Group Company (Note 35)	(17)	(578)	—	(468)	(1,063)
Less: Amount distributed to Sinopec Group Company in connection with 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**
Balance at 1 January 2005	10,537	29,934	11,403	72,677	124,551
Depreciation charge for the year	1,046	4,682	2,524	7,530	15,782
Impairment losses for the year	21	60	261	740	1,082
Transferred to subsidiaries	(3)	—	(41)	(22)	(66)
Reclassification	(111)	(309)	154	266	—
Written back on disposals	(326)	(565)	(1,349)	(3,374)	(5,614)
Balance at 31 December 2005	**11,164**	**33,802**	**12,952**	**77,817**	**135,735**
Net book value:					
At 1 January 2004	16,582	27,577	36,456	62,659	143,274
At 31 December 2004	**15,301**	**31,932**	**45,992**	**64,786**	**158,011**
At 31 December 2005	**14,765**	**39,265**	**52,005**	**64,676**	**170,711**

The Group's proportionate share of the jointly controlled entities' net book value of property, plant and equipment at 31 December 2005 in the exploration and production and the chemicals segments were RMB 398 million (2004: RMB 412 million) and RMB 14,889 million (2004: RMB 17 million), respectively.

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

In connection with the Acquisition of Sinopec National Star, the property, plant and equipment of Sinopec National Star were revalued at 31 December 2000, by a firm of independent valuers and approved by the MOF. 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.

18 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

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

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

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

19 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 by jointly controlled entities	1,323	—	—	5,178	—	6,501
Less: Amount distributed to Sinopec Group Company in connection with 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**
Balance at 1 January 2005	9,262	8,459	13,781	13,170	1,513	46,185
Additions	25,894	14,001	10,572	9,115	1,014	60,596
Additions by jointly controlled entities	814	—	—	1,830	—	2,644
Proportionate share of a jointly controlled entity	—	—	—	5,461	—	5,461
Dry hole costs written off	(2,992)	—	—	—	—	(2,992)
Transferred to property, plant and equipment and other assets	(22,094)	(8,121)	(14,017)	(19,014)	(381)	(63,627)
Balance at 31 December 2005	**10,884**	**14,339**	**10,336**	**10,562**	**2,146**	**48,267**

The Group's proportionate share of the jointly controlled entities' construction in progress at 31 December 2005 in the E&P and the chemicals segments were RMB 2,888 million (2004: RMB 2,053 million) and RMB 504 million (2004: RMB 8,171 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 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**
Balance at 1 January 2005	6,607	6,961	10,271	3,615	1,494	28,948
Additions	16,528	12,084	7,825	5,845	915	43,197
Dry hole costs written off	(2,271)	—	—	—	—	(2,271)
Transferred to property, plant and equipment	(13,213)	(5,772)	(9,363)	(2,069)	(371)	(30,788)
Balance at 31 December 2005	**7,651**	**13,273**	**8,733**	**7,391**	**2,038**	**39,086**

20 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2005	2004
	RMB millions	RMB millions *(Restated)*
Investments in subsidiaries, at cost	**75,579**	**66,930**

Details of the Company's principal subsidiaries at 31 December 2005 are set out in Note 38.

21 INVESTMENTS

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB millions	RMB millions	**RMB millions**	RMB millions
Unlisted investments, at cost	3,253	2,891	1,140	313
Less: Impairment losses	(327)	(353)	(103)	(155)
	2,926	**2,538**	**1,037**	**158**

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.

The impairment losses relating to investments for the year ended 31 December 2005 amounted to RMB 77 million (2004: RMB 96 million).

22 INTEREST IN ASSOCIATES

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB millions	RMB millions	**RMB millions**	RMB millions *(Restated)*
Investments in associates, at cost	—	—	5,933	6,424
Share of net assets	9,217	10,222	—	—
	9,217	**10,222**	**5,933**	**6,424**

The Group's investments in associates are with companies primarily engaged in the oil and gas and chemical operations in the PRC. These investments are individually and in the aggregate not material to the Group's financial condition or results of operations for all periods presented. The share of associates' taxation for the year ended 31 December 2005 was RMB 420 million (2004: RMB 340 million). The principal investments in associates, all of which are incorporated in the PRC, are as follows:

Name of company	Form of business structure	Particulars of issued and paid up capital	Percentage of equity held by the Company %	Percentage of equity held by the Company's subsidiaries %	Principal activities
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	38.22	2.00	Provision of non-banking financial services
Shanghai Petroleum National Gas Corporation	Incorporated	Registered capital RMB 900,000,000	30.00	—	Exploration and production of crude oil and natural gas
Shanghai Chemical Industry Park Development Company Limited	Incorporated	Registered capital RMB 2,372,439,000	—	38.26	Planning, development and operation of the Chemical Industry Park in Shanghai, the PRC
China Shipping & Sinopec Suppliers Company Limited	Incorporated	Registered capital RMB 876,660,000	—	50.00	Transportation of petroleum products
China Aviation Oil Supply Company Limited	Incorporated	Registered capital RMB 3,800,000,000	—	29.00	Marketing and distribution of refined petroleum products

* 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 772 million (2004: RMB 479 million) and RMB 547 million (2004: RMB 1,516 million) respectively at 31 December 2005.

23 INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Company	
	2005	2004
	RMB millions	RMB millions *(Restated)*
Investments in jointly controlled entities, at cost	**7,280**	**3,763**

The Group's investments in jointly controlled entities are primarily engaged in the oil and gas and chemical operations in the PRC, principal interests in jointly controlled entities are as follows:

Name of company	Form of business structure	Particulars of issued and paid up capital	Percentage of equity held by the Company %	Percentage of equity held by the Company's subsidiaries %	Principal activities
Shanghai Secco Petrochemical Company Limited	Incorporated	Registered capital USD 901,440,964	30.00	20.00	Manufacturing and distribution of petrochemical products
BASF-YPC Company Limited	Incorporated	Registered capital RMB 8,793,000,000	30.00	10.00	Manufacturing and distribution of petrochemical products
Yueyang Sinopec and Shell Coal Gasification Company Limited	Incorporated	Registered capital USD 45,588,700	50.00	—	Manufacturing and distribution of industrial gas
Block A Oil Field in the Western Area Chengdao in Bohai Bay	Unincorporated	—	—	43.00	Exploration and production of crude oil and natural gas

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

	2005	2004
	RMB millions	RMB millions
Results of operations:		
Operating revenue	10,082	313
Expenses	9,773	450
Net profit/(loss)	309	(137)

	2005	2004
	RMB millions	RMB millions
Financial condition:		
Current assets	2,631	520
Non-current assets	19,522	10,913
Current liabilities	2,543	1,699
Non-current liabilities	10,177	4,463
Net assets	9,433	5,271

	2005	2004
	RMB millions	RMB millions
Cash flows:		
Net cash (used in)/generated from operating activities	(1,434)	233
Net cash used in investing activities	(2,474)	(6,035)
Net cash generated from financing activities	4,011	5,909

24 LONG-TERM PREPAYMENTS AND OTHER ASSETS

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

25 TRADE ACCOUNTS AND BILLS RECEIVABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB millions	RMB millions	**RMB millions**	RMB millions
Amounts due from third parties	13,546	10,989	4,136	5,179
Amounts due from subsidiaries	—	—	6,252	5,026
Amounts due from Sinopec Group Company and fellow subsidiaries	3,049	2,349	518	858
Amounts due from associates	572	89	10	19
Amounts due from jointly controlled entities	505	—	229	—
	17,672	**13,427**	**11,145**	**11,082**
Less: Impairment losses for bad and doubtful debts	(3,140)	(3,671)	(2,319)	(2,837)
	14,532	**9,756**	**8,826**	**8,245**
Bills receivable	7,143	7,812	1,334	1,597
	21,675	**17,568**	**10,160**	**9,842**

25 TRADE ACCOUNTS AND BILLS RECEIVABLES *(Continued)*

The ageing analysis of trade accounts and bills receivables (net of impairment losses for bad and doubtful debts) is as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB millions	RMB millions	**RMB millions**	RMB millions
Within one year	21,414	16,968	10,010	9,425
Between one and two years	178	225	112	127
Between two and three years	43	166	25	83
Over three years	40	209	13	207
	21,675	**17,568**	**10,160**	**9,842**

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. The impairment losses for bad and doubtful debts of trade accounts and bills receivables for the year ended 31 December 2005 amounted to RMB 328 million (2004: RMB 935 million).

26 INVENTORIES

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB millions	RMB millions	**RMB millions**	RMB millions
Crude oil and other raw materials	53,333	32,562	25,471	14,544
Work in progress	9,422	8,341	4,659	3,605
Finished goods	23,163	20,804	17,980	15,163
Spare parts and consumables	4,448	3,528	2,616	1,126
	90,366	**65,235**	**50,726**	**34,438**
Less: Allowance for diminution in value of inventories	(892)	(906)	(309)	(394)
	89,474	**64,329**	**50,417**	**34,044**

The cost of inventories recognised as an expense in the consolidated income statement amounted to RMB 683,902 million for the year ended 31 December 2005 (2004: RMB 474,961 million), including the write-down of inventories amounted to RMB 262 million (2004: RMB 648 million) and the reversal of write-down of inventories made in prior years amounted to RMB 276 million (2004: RMB 261 million) mainly arising from the sales of inventories.

27 PREPAID EXPENSES AND OTHER CURRENT ASSETS

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB millions	RMB millions	**RMB millions**	RMB millions
Advances to third parties	1,754	1,600	909	740
Amounts due from Sinopec Group Company and fellow subsidiaries	2,954	5,585	2,559	5,002
Amounts due from subsidiaries	—	—	2,964	11,908
Other receivables	1,781	2,161	742	1,223
Purchase deposits	2,496	2,547	1,106	2,059
Prepayments in connection with construction work and equipment purchases	5,583	4,727	4,584	2,679
Prepaid value-added tax and customs duty	4,288	3,166	2,184	2,600
Amounts due from associates	539	308	508	260
	19,395	**20,094**	**15,556**	**26,471**

28 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	
	2005	2004	**2005**	2004	**2005**	2004
	RMB millions	RMB millions	**RMB millions**	RMB millions	**RMB millions**	RMB millions
Current						
Receivables and inventories	3,904	2,528	—	—	3,904	2,528
Non-current						
Property, plant and equipment	1,642	1,566	(1,619)	(1,704)	23	(138)
Accelerated depreciation	—	—	(4,217)	(3,932)	(4,217)	(3,932)
Tax value of losses carried forward, net of valuation allowances	128	66	—	—	128	66
Lease prepayments	359	366	—	—	359	366
Others	39	32	(66)	—	(27)	32
Deferred tax assets/(liabilities)	**6,072**	**4,558**	**(5,902)**	**(5,636)**	**170**	**(1,078)**

The Company:

	Assets		Liabilities		Net balance	
	2005	2004	**2005**	2004	**2005**	2004
	RMB millions	RMB millions	**RMB millions**	RMB millions	**RMB millions**	RMB millions
Current						
Receivables and inventories	1,635	2,245	—	—	1,635	2,245
Non-current						
Property, plant and equipment	1,553	1,457	(1,083)	(983)	470	474
Accelerated depreciation	—	—	(1,066)	(1,042)	(1,066)	(1,042)
Lease prepayments	17	16	—	—	17	16
Others	15	6	(67)	—	(52)	6
Deferred tax assets/(liabilities)	**3,220**	**3,724**	**(2,216)**	**(2,025)**	**1,004**	**1,699**

A valuation allowance on deferred tax assets is recorded if it is probable that some portion or all of the deferred tax assets will not be realised through the recovery of taxes previously paid and/or future taxable income. The allowance is subject to ongoing adjustments based on changes in circumstances that affect the Group's assessment on the realisability of the deferred tax assets. The Group has reviewed its deferred tax assets at the balance sheet date. Based on this review, valuation allowances of RMB 381 million (2004: RMB 409 million) were provided for the year ended 31 December 2005. The Group determined the valuation allowance based on management's assessment of the probability that taxable profit will be available over the period which the deferred tax assets can be realised or utilised. In assessing the probability, both positive and negative evidence was considered, including whether it is probable that the operations will have future taxable profits over the periods which the deferred tax assets are deductible or utilised and whether the tax losses result from identifiable causes which are unlikely to recur. Based on this assessment, a valuation allowance was provided to reduce the deferred tax asset to the amount that is probable to be realised.

As at 31 December 2005, certain subsidiaries of the Company had tax value of losses carried forward for PRC income tax purpose, provided for valuation allowance, of RMB 4,072 million which were available to offset future PRC taxable income of respective subsidiaries, if any. RMB 503 million, RMB 425 million, RMB 751 million, RMB 1,239 million and RMB 1,154 million expire in 2006, 2007, 2008, 2009 and 2010, respectively.

28 DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

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

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				
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)**

	Balance at 1 January 2005 RMB millions	Recognised in other reserves RMB millions	Recognised in consolidated income statement RMB millions	Balance at 31 December 2005 RMB millions
Current				
Receivables and inventories	2,528	—	1,376	3,904
Non-current				
Property, plant and equipment	(138)	—	161	23
Accelerated depreciation	(3,932)	—	(285)	(4,217)
Tax value of losses carried forward, net of valuation allowance	66	—	62	128
Lease prepayments	366	—	(7)	359
Others	32	—	(59)	(27)
Net deferred tax (liabilities)/assets	**(1,078)**	**—**	**1,248**	**170**

The Company

	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				
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 assets/(liabilities)	**771**	**(266)**	**1,194**	**1,699**

	Balance at 1 January 2005 RMB millions	Recognised in other reserves RMB millions	Recognised in consolidated income statement RMB millions	Balance at 31 December 2005 RMB millions
Current				
Receivables and inventories	2,245	—	(610)	1,635
Non-current				
Property, plant and equipment	474	—	(4)	470
Accelerated depreciation	(1,042)	—	(24)	(1,066)
Lease prepayments	16	—	1	17
Others	6	—	(58)	(52)
Net deferred tax assets/(liabilities)	**1,699**	**—**	**(695)**	**1,004**

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.

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

Short-term debts represent:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB millions	RMB millions	**RMB millions**	RMB millions
Third parties' debts				
Short-term bank loans	**15,392**	**20,009**	**3,094**	**10,527**
Current portion of long-term bank loans	14,879	12,177	12,043	9,414
Current portion of long-term other loans	26	121	1	92
Current portion of long-term bank loans of jointly controlled entities	193	—	—	—
	15,098	**12,298**	**12,044**	**9,506**
Corporate bonds (a)	**9,921**	**—**	**9,921**	**—**
	40,411	**32,307**	**25,059**	**20,033**
Loans from Sinopec Group Company and fellow subsidiaries				
Short-term loans				
	732	6,714	3,846	5,727
Current portion of long-term loans	100	2,000	100	2,000
	832	**8,714**	**3,946**	**7,727**
	41,243	**41,021**	**29,005**	**27,760**

The Group's and the Company's weighted average interest rates on short-term loans were 4.0% (2004: 3.9%) and 3.2% (2004: 4.0%) at 31 December 2005, respectively.

Long-term debts comprise:

	Interest rate and final maturity	The Group		The Company	
		2005	2004	**2005**	2004
		RMB millions	RMB millions	**RMB millions**	RMB millions
Third parties' debts					
Long-term bank loans					
Renminbi denominated	Interest rates ranging from interest free to 5.8% per annum at 31 December 2005 with maturities through 2013	59,769	52,227	54,792	45,233
Japanese Yen denominated	Interest rates ranging from 2.6% to 5.8% per annum at 31 December 2005 with maturities through 2024	3,394	4,562	3,394	4,556
US Dollar denominated	Interest rates ranging from interest free to 7.4% per annum at 31 December 2005 with maturities through 2031	5,056	7,729	3,571	5,278
Euro denominated	Fixed interest rate at 6.7% per annum at 31 December 2005 with maturities through 2010	117	165	117	165
Hong Kong Dollar denominated	Floating rate at Hong Kong Prime Rate plus 0.8% to 1.1% per annum at 31 December 2005 with maturities through 2007	94	5	—	—
		68,430	**64,688**	**61,874**	**55,232**
Long-term other loans					
Renminbi denominated	Interest rates ranging from interest free to 5.0% per annum at 31 December 2005 with maturities through 2008	170	359	37	200
US Dollar denominated	Interest rates ranging from interest free to 2.0% per annum at 31 December 2005 with maturities through 2015	51	110	34	89
		221	**469**	**71**	**289**
Corporate bonds					
Renminbi denominated	Fixed interest rate at 4.61% per annum at 31 December 2005 with maturity in February 2014 (b)	**3,500**	**3,500**	**3,500**	**3,500**
		72,151	**68,657**	**65,445**	**59,021**

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

	Interest rate and final maturity	The Group 2005 RMB millions	The Group 2004 RMB millions	The Company 2005 RMB millions	The Company 2004 RMB millions
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 2005 with maturities through 2021	5,710	2,415	—	—
US Dollar denominated	Floating rate at London Interbank Offer Rate plus 0.4% to 0.7% per annum at 31 December 2005 with maturities through 2021	4,296	2,048	—	—
		10,006	**4,463**	**—**	**—**
Total third parties' long-term debts		**82,157**	**73,120**	**65,445**	**59,021**
Less: Current portion		(15,098)	(12,298)	(12,044)	(9,506)
		67,059	**60,822**	**53,401**	**49,515**
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 5.0% to 5.2% per annum at 31 December 2005 with maturities through 2009	4,401	3,204	3,751	2,756
Long-term loans of jointly controlled entities from Sinopec Group Company and fellow subsidiaries					
Renminbi denominated	Floating rate at 90% of PBOC's base lending rate applicable to three-year tenor loan per annum at 31 December 2005 with maturities through 2021	71	—	—	—
Less: Current portion		(100)	(2,000)	(100)	(2,000)
		39,933	**36,765**	**39,212**	**36,317**
		106,992	**97,587**	**92,613**	**85,832**

(a) The Company issued six-month corporate bonds of face value at RMB 10 billion to corporate investors in PRC debenture market on 24 October 2005, at a discounted value of RMB 98.75 per RMB 100 par value, with an effective yield at 2.54% per annum with maturity in April 2006.

(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 with a fixed interest rate at 4.61% per annum.

Third parties' loans of RMB 35 million of the Group at 31 December 2005 (2004: RMB 40 million) were secured by certain of the Group's property, plant and equipment. The net book value of property, plant and equipment of the Group pledged as security amounted to RMB 83 million at 31 December 2005 (2004: RMB 123 million).

Third parties' loans of RMB 13 million of the Company at 31 December 2005 (2004: 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 2005 (2004: RMB 10 million).

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

	The Group 2005 RMB millions	The Group 2004 RMB millions	The Company 2005 RMB millions	The Company 2004 RMB millions
Within one year	15,198	14,298	12,144	11,506
Between one and two years	18,787	15,886	16,420	12,363
Between two and five years	39,142	36,041	34,771	31,279
After five years	49,063	45,660	41,422	42,190
	122,190	**111,885**	**104,757**	**97,338**

Included in short-term and long-term debts and loans from Sinopec Group Company and fellow subsidiaries of the Group are the follow amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2005 millions	2004 millions
US Dollar	USD2,158	USD2,494
Japanese Yen	JPY50,507	JPY60,889
Euro	EUR12	EUR15
Hong Kong Dollar	HKD128	HKD732

30 TRADE ACCOUNTS AND BILLS PAYABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB millions	RMB millions	**RMB millions**	RMB millions
Amounts due to third parties	49,962	22,265	12,032	10,435
Amounts due to subsidiaries	—	—	15,805	9,876
Amounts due to Sinopec Group Company and fellow subsidiaries	2,304	1,527	996	826
Amounts due to jointly controlled entities	650	—	—	—
Amounts due to associates	51	—	—	—
	52,967	**23,792**	**28,833**	**21,137**
Bills payable	23,243	30,797	19,077	21,589
	76,210	**54,589**	**47,910**	**42,726**

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

The maturities of trade accounts and bills payables are as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB millions	RMB millions	**RMB millions**	RMB millions
Due within 1 month or on demand	44,194	25,444	23,251	21,839
Due after 1 month but within 6 months	31,704	28,877	24,353	20,807
Due after 6 months	312	268	306	80
	76,210	**54,589**	**47,910**	**42,726**

31 ACCRUED EXPENSES AND OTHER PAYABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB millions	RMB millions	**RMB millions**	RMB millions
Amounts due to Sinopec Group Company and fellow subsidiaries	7,144	10,897	4,538	7,336
Amounts due to subsidiaries	—	—	7,032	15,010
Accrued expenditures	19,566	17,213	13,984	11,801
Taxes other than income tax	3,090	3,717	1,415	2,079
Receipts in advance	12,368	7,387	9,133	5,013
Advances from third parties	1,226	1,009	1,100	961
Others	4,773	5,053	3,357	3,365
	48,167	**45,276**	**40,559**	**45,565**

32 SHARE CAPITAL

	The Group and the Company	
	2005	2004
	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.

33 RESERVES

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB millions	RMB millions	**RMB millions**	RMB millions *(Restated)*
Capital reserve				
At 1 January	(19,217)	(18,960)	13,672	13,672
Revaluation surplus of Petrochemical and Catalyst Assets	—	(257)	—	—
At 31 December	**(19,217)**	**(19,217)**	**13,672**	**13,672**
Share premium				
At 1 January/31 December	**18,072**	**18,072**	**18,072**	**18,072**
Revaluation reserve				
At 1 January	27,998	30,341	—	—
Revaluation surplus of Petrochemical and Catalyst Assets	—	257	—	—
Impairment losses on revalued assets	—	(709)	—	—
Revaluation surplus realised	(1,656)	(1,891)	—	—
At 31 December	**26,342**	**27,998**	**—**	**—**
Statutory surplus reserve				
At 1 January	9,558	6,330	9,558	6,330
Appropriation	3,956	3,228	3,956	3,228
At 31 December	**13,514**	**9,558**	**13,514**	**9,558**
Statutory public welfare fund				
At 1 January	9,558	6,330	9,558	6,330
Appropriation	3,956	3,228	3,956	3,228
At 31 December	**13,514**	**9,558**	**13,514**	**9,558**
Discretionary surplus reserve				
At 1 January/31 December	**7,000**	**7,000**	**7,000**	**7,000**
Other reserves				
At 1 January	247	3,868	247	3,868
Revaluation surplus of Petrochemical and Catalyst Assets	—	257	—	257
Realisation of deferred tax on land use rights	(5)	(5)	(5)	(5)
Transfer from retained earnings to other reserves	—	1,499	—	1,499
Net assets distributed to Sinopec Group Company	—	(2,244)	—	(2,244)
Consideration for Acquisition of Petrochemical and Catalyst Assets	—	(3,128)	—	(3,128)
At 31 December	**242**	**247**	**242**	**247**
Retained earnings				
At 1 January	53,122	31,832	(4,211)	1,511
Profit for the year attributable to equity shareholders of the Company	40,920	36,019	43,113	10,898
Final dividend for 2003 (Note 16)	—	(5,202)	—	(5,202)
Interim dividend for 2004 (Note 16)	—	(3,468)	—	(3,468)
Final dividend for 2004 (Note 16)	(6,936)	—	(6,936)	—
Interim dividend for 2005 (Note 16)	(3,468)	—	(3,468)	—
Appropriation	(7,912)	(6,456)	(7,912)	(6,456)
Revaluation surplus realised	1,656	1,891	—	—
Realisation of deferred tax on land use rights	5	5	5	5
Transfer from retained earnings to other reserves	—	(1,499)	—	(1,499)
At 31 December	**77,387**	**53,122**	**20,591**	**(4,211)**
	136,854	**106,338**	**86,605**	**53,896**

34 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 2005 and 2004, the future minimum lease payments under operating leases are as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB millions	RMB millions	**RMB millions**	RMB millions
Within one year	3,593	3,452	3,424	3,272
Between one and two years	3,442	3,343	3,363	3,237
Between two and three years	3,388	3,278	3,319	3,213
Between three and four years	3,357	3,245	3,292	3,188
Between four and five years	3,353	3,225	3,290	3,170
Thereafter	95,176	97,527	93,601	95,968
	112,309	**114,070**	**110,289**	**112,048**

34 COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

Capital commitments

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

	2005 RMB millions	2004 RMB millions
The Group		
Authorised and contracted for	71,666	43,001
Authorised but not contracted for	84,213	60,173
	155,879	**103,174**
Jointly controlled entities		
Authorised and contracted for	2,160	3,157
Authorised but not contracted for	60	2,088
	2,220	**5,245**
The Company		
Authorised and contracted for	55,496	28,143
Authorised but not contracted for	45,938	37,619
	101,434	**65,762**

These capital commitments relate to oil and gas exploration and development, refining and petrochemical production capacity expansion projects, the construction of service stations and oil depots, and capital contributions to the Group's investments and interest 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 RMB 208 million for the year ended 31 December 2005 (2004: RMB 189 million).

Estimated future annual payments are as follows:

	The Group		The Company	
	2005 RMB millions	2004 RMB millions	**2005 RMB millions**	2004 RMB millions
Within one year	107	90	74	60
Between one and two years	112	120	81	85
Between two and three years	59	75	49	47
Between three and four years	67	67	58	55
Between four and five years	56	74	49	64
Thereafter	239	279	108	143
	640	**705**	**419**	**454**

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 2005 and 2004, guarantees given to banks in respect of banking facilities granted to the parties below were as follows:

	The Group		The Company	
	2005 RMB millions	2004 RMB millions	**2005 RMB millions**	2004 RMB millions
Subsidiaries	—	—	2,583	2,656
Associates and jointly controlled entities	79	4,828	11,986	12,059
	79	**4,828**	**14,569**	**14,715**

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 2005 and 2004, it is not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Group's obligation under these guarantee arrangements.

34 COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

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 493 million for the year ended 31 December 2005 (2004: RMB 248 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.

35 RELATED PARTY TRANSACTIONS

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the group or of any entity that is a related party of the Group.

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

The Group is part of a larger group of companies under Sinopec Group Company, which is owned by the PRC government, and has significant transactions and relationships with Sinopec Group Company and fellow subsidiaries. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among unrelated parties.

The principal related party transactions with Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities, which were carried out in the ordinary course of business, are as follows:

	Note	**2005 RMB millions**	2004 RMB millions
Sales of goods	(i)	95,123	63,507
Purchases	(ii)	48,454	36,828
Transportation and storage	(iii)	1,959	2,003
Exploration and development services	(iv)	17,001	14,446
Production related services	(v)	10,653	9,036
Ancillary and social services	(vi)	1,790	1,740
Operating lease charges	(vii)	3,213	3,297
Agency commission income	(viii)	48	41
Intellectual property license fee paid	(ix)	9	10
Interest received	(x)	52	59
Interest paid	(xi)	994	622
Net deposits (withdrawn from)/placed with related parties	(xii)	(82)	340
Net loans (repaid to)/obtained from related parties	(xiii)	(4,714)	1,575

The amounts set out in the table above in respect of the years ended 31 December 2005 and 2004 represent the relevant costs to the Group as determined by the corresponding contracts with the related parties.

At 31 December 2005 and 2004, there were no guarantees given to banks by the Group in respect of banking facilities to Sinopec Group Company and fellow subsidiaries. Guarantees given to banks by the Group in respect of banking facilities to associates are disclosed in Note 34.

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 materials and utility supplies directly related to the Group's operations such as the procurement of raw and ancillary materials and related services, supply of water, electricity and gas.

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

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

35 RELATED PARTY TRANSACTIONS *(Continued)*

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

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

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

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

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

(ix) Intellectual property license fee represents reimbursement paid to Sinopec Group Company for fees required to maintain the validity of certain licenses, trademarks, patents, technology and computer software.

(x) Interest received represents interest received from deposits placed with Sinopec Finance Company Limited, a finance company controlled by Sinopec Group Company. The applicable interest rate is determined in accordance with the prevailing saving deposit rate. The balance of deposits at 31 December 2005 was RMB 4,589 million (2004: RMB 4,671 million).

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

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

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

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

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

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

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

(c) The Company has entered into a series of lease agreements with Sinopec Group Company to lease certain land and buildings at a rental of approximately RMB 2,557 million and RMB 568 million, respectively, per annum. The Company and Sinopec Group Company can renegotiate the rental amount every three years for land and every year for buildings and the amount should not 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 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, including certain property, plant and equipment with net book value of RMB 1,883 million, 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 RMB 1,857 million, and certain other assets and liabilities, related to its oilfield downhole operation (the "Downhole Assets") to Sinopec Group Company for a total 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. The consideration was fully paid during the year ended 31 December 2005.

35 RELATED PARTY TRANSACTIONS *(Continued)*

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

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

	2005 RMB millions	2004 RMB millions
Trade accounts receivable	4,126	2,438
Prepaid expenses and other current assets	3,493	5,893
Total amounts due from Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities	**7,619**	**8,331**
Trade accounts payable	3,005	1,527
Accrued expenses and other payables	7,144	10,897
Short-term loans and current portion of long-term loans from Sinopec Group Company and fellow subsidiaries	832	8,714
Long-term loans excluding current portion from Sinopec Group Company and fellow subsidiaries	39,933	36,765
Total amounts due to Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities	**50,914**	**57,903**

Amounts due from/to Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities, other than short-term loans and long-term loans, bear no interest, are unsecured and are repayable in accordance with normal commercial terms. The terms and conditions associated with short-term loans and long-term loans payable to Sinopec Group Company and fellow subsidiaries are set out in Note 29.

As at and for the year ended 31 December 2005, no impairment losses for bad and doubtful debts were recorded in respect of amounts due from Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities.

(b) Key management personnel emoluments

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

	2005 RMB '000	2004 RMB '000
Short-term employee benefits	2,868	3,997
Retirement scheme contributions	115	202
	2,983	**4,199**

Total emoluments are included in “personnel expenses” as disclosed in Note 7.

Key management personnel also participate in the Group’s share appreciation rights plan (Note 36).

(c) Contributions to defined contribution retirement plans

The Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The details of the Group’s employee benefits plan are disclosed in Note 36. As at 31 December 2005, there was no material outstanding contribution to post-employment benefit plans.

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

The Group is a state-owned entity and operates in an economic regime currently predominated by state-owned entities. Apart from transactions with Sinopec Group Company and fellow subsidiaries, the Group conducts a majority of its business activities with entities directly or indirectly owned or controlled by the PRC government and numerous government authorities and agencies (collectively referred to as “state-owned entities”) in the ordinary course of business. These transactions, which include sales and purchase of goods and ancillary materials, rendering and receiving services, lease of assets, purchase of property, plant and equipment and obtaining finance, are carried out at terms similar to those that would be entered into with non-state-owned entities and have been reflected in the financial statements. The Group believes that it has provided meaningful disclosure of related party transactions as summarised above.

36 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 2005 were RMB 2,269 million (2004: RMB 2,242 million).

The Company implemented a share appreciation rights plan for members of its management, including the key management personnel, in order to provide further incentives to these employees. Under this plan, share appreciation rights were granted in units with each unit representing one H share. No shares will be issued under the share appreciation rights plan.

Under the plan, all share appreciation rights have an exercise period of five years. A recipient of share appreciation rights may not exercise the rights in the first 3 years after the date of grant. As at each of the third, fourth and fifth anniversary of the date of grant, the total number of share appreciation rights exercisable may not in aggregate exceed 30%, 70% and 100%, respectively, of the total share appreciation rights granted to such person.

During the year ended 31 December 2003, the Company granted 258.6 million share appreciation right units to eligible employees accordingly. No share appreciation rights were granted during the years ended 31 December 2004 and 2005.

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 2005, compensation expense recognised was RMB 19 million (2004: RMB 150 million). As at 31 December 2005, the carrying amount of liability arising from share appreciation rights was RMB 289 million (2004: RMB 270 million).

37 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 (Note 2). Corporate administrative costs and assets are not allocated to the operating segments; instead, operating segments are charged for direct corporate services. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by the Group's policy.

37 SEGMENTAL REPORTING *(Continued)*

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

	2005 RMB millions	2004 RMB millions
Turnover		
Exploration and production		
External sales	19,862	15,970
Inter-segment sales	84,423	60,053
	104,285	**76,023**
Refining		
External sales	82,810	63,388
Inter-segment sales	386,456	289,699
	469,266	**353,087**
Marketing and distribution		
External sales	459,292	342,840
Inter-segment sales	3,172	2,831
	462,464	**345,671**
Chemicals		
External sales	160,783	126,013
Inter-segment sales	12,199	12,510
	172,982	**138,523**
Corporate and others		
External sales	76,368	48,986
Inter-segment sales	44,897	32,046
	121,265	**81,032**
Elimination of inter-segment sales	(531,147)	(397,139)
Turnover	**799,115**	**597,197**
Other operating revenues		
Exploration and production	10,745	9,283
Refining	5,421	5,186
Marketing and distribution	1,358	755
Chemicals	5,841	6,170
Corporate and others	637	1,192
Other operating revenues	**24,002**	**22,586**
Other income		
Refining	9,415	—
Total other income	**9,415**	**—**
	832,532	**619,783**

	2005 RMB millions	2004 RMB millions
Result		
Operating profit		
By segment		
– Exploration and production	46,871	25,614
– Refining	(3,505)	5,943
– Marketing and distribution	10,350	14,716
– Chemicals	14,296	18,721
– Corporate and others	(1,198)	(1,925)
Total operating profit	**66,814**	**63,069**
Share of profits less losses from associates		
– Exploration and production	326	447
– Refining	23	58
– Marketing and distribution	241	302
– Chemicals	1	(164)
– Corporate and others	266	154
Aggregate share of profits less losses from associates	**857**	**797**
Finance costs		
Interest expense	(5,920)	(4,583)
Interest income	382	374
Foreign exchange losses	(79)	(223)
Foreign exchange gains	996	61
Net finance costs	**(4,621)**	**(4,371)**
Investment income	178	111
Profit before taxation	**63,228**	**59,606**
Taxation	(19,388)	(17,815)
Profit for the year	**43,840**	**41,791**

37 SEGMENTAL REPORTING *(Continued)*

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

Interest in and earnings from associates are included in the segments in which the associates operate. Information on associates is included in Note 22. Additions to long-lived assets by operating segment are included in Notes 18 and 19.

	2005 RMB millions	2004 RMB millions
Assets		
Segment assets		
– Exploration and production	123,631	110,509
– Refining	135,731	111,878
– Marketing and distribution	102,935	93,722
– Chemicals	115,942	105,032
– Corporate and others	20,570	17,574
Total segment assets	**498,809**	**438,715**
Interests in associates		
– Exploration and production	1,494	1,396
– Refining	521	314
– Marketing and distribution	4,298	2,410
– Chemicals	1,092	4,315
– Corporate and others	1,812	1,787
Aggregate interests in associates	**9,217**	**10,222**
Unallocated assets	**29,295**	**25,657**
Total assets	**537,321**	**474,594**
Liabilities		
Segment liabilities		
– Exploration and production	18,882	16,241
– Refining	26,486	28,130
– Marketing and distribution	23,713	23,419
– Chemicals	19,442	16,528
– Corporate and others	35,855	15,547
Total segment liabilities	**124,378**	**99,865**
Unallocated liabilities	**159,947**	**150,643**
Total liabilities	**284,325**	**250,508**

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.

	2005 RMB millions	2004 RMB millions
Capital expenditure		
Exploration and production	23,095	21,234
Refining	14,127	14,272
Marketing and distribution	10,954	16,678
Chemicals	9,386	11,025
Corporate and others	1,164	1,550
	58,726	**64,759**
Capital expenditure of jointly controlled entities		
Exploration and production	772	1,323
Chemicals	1,830	5,178
	2,602	**6,501**
Depreciation, depletion and amortisation		
Exploration and production	10,915	12,066
Refining	7,053	7,730
Marketing and distribution	3,026	2,759
Chemicals	9,697	9,325
Corporate and others	722	462
	31,413	**32,342**
Impairment losses on long-lived assets recognised in income statement		
Exploration and production	60	98
Refining	—	14
Marketing and distribution	366	1,769
Chemicals	1,425	2,038
	1,851	**3,919**
Impairment losses on revalued long-lived assets recognised in equity attributable to equity shareholders of the Company		
Chemicals	**—**	**709**

38 PRINCIPAL SUBSIDIARIES

At 31 December 2005, the following list contains the particulars of subsidiaries which principally affected the results or assets of the Group.

Name of company	Particulars of issued capital (millions)	Type of legal entity	Percentage of equity held by the Company %	Percentage of equity held by the Company's subsidiary %	Principal activities
China Petrochemical International Company Limited	RMB 1,704	Limited company	100.00	—	Trading of crude oil and petrochemical products
Sinopec Beijing Yanshan Petrochemical Company Limited ("Beijing Yanhua") (i)	RMB 3,404	Limited company	100.00	—	Manufacturing of chemical products
Sinopec Sales Company Limited	RMB 1,700	Limited company	100.00	—	Marketing and distribution of refined petroleum products
Sinopec Shengli Oilfield Company Limited	RMB 29,000	Limited company	100.00	—	Exploration and production of crude oil and natural gas
Sinopec Fujian Petrochemical Company Limited (ii)	RMB 2,253	Limited company	50.00	—	Manufacturing of plastics, intermediate petrochemical products and petroleum products
Sinopec Qilu Petrochemical Company Limited	RMB 1,950	Limited company	82.05	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Shanghai Petrochemical Company Limited	RMB 7,200	Limited company	55.56	—	Manufacturing of synthetic fibres, resin and plastics, intermediate petrochemical products and petroleum products
Sinopec Shijiazhuang Refining-Chemical Company Limited	RMB 1,154	Limited company	79.73	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Kantons Holdings Limited	HK$ 104	Limited company	—	72.40	Trading of crude oil and petroleum products
Sinopec Wuhan Petroleum Group Company Limited (ii)	RMB 147	Limited company	46.25	—	Marketing and distribution of refined petroleum products
Sinopec Wuhan Phoenix Company Limited (ii)	RMB 519	Limited company	40.72	—	Manufacturing of petrochemical products and petroleum products
Sinopec Yangzi Petrochemical Company Limited	RMB 2,330	Limited company	84.98	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Yizheng Chemical Fibre Company Limited (ii)	RMB 4,000	Limited company	42.00	—	Production and sale of polyester chips and polyester fibres
Sinopec Zhenhai Refining and Chemical Company Limited	RMB 2,524	Limited company	71.32	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Zhongyuan Petroleum Company Limited	RMB 875	Limited company	70.85	—	Exploration and production of crude oil and natural gas
Sinopec Zhongyuan Petrochemical Company Limited	RMB 2,400	Limited company	93.51	—	Manufacturing of chemical products
Sinopec Shell (Jiangsu) Petroleum Marketing Company Limited	RMB 830	Limited company	60.00	—	Marketing and distribution of refined petroleum products
BP Sinopec (Zhejiang) Petroleum Company Limited	RMB 800	Limited company	60.00	—	Marketing and distribution of refined petroleum products
Sinopec Qingdao Refining and Chemical Company Limited	RMB 800	Limited company	85.00	—	Manufacturing of intermediate petrochemical products and petroleum products

Except for Sinopec Kantons Holdings Limited, which is incorporated in Bermuda, all of the above principal subsidiaries are incorporated in the PRC.

(i) During the year ended 31 December 2005, the Group acquired the entire 1,012,000,000 H shares, representing approximately 29.99% of the issued share capital of Beijing Yanhua from minority interests at HK$ 3.80 per share. The total consideration paid by the Group was approximately RMB 4,088 million which was settled in cash. The excess of the cost of purchase over the fair value of the underlying assets and liabilities (on a proportionate share) was recorded as goodwill, amounting to RMB 1,157 million, which is included in long-term prepayments and other assets.

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

39 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 2005 and 2004.

Credit risk

The carrying amounts of cash and cash equivalents, time deposits with financial institutions, trade accounts and bills receivables, and other current assets, except for prepayments and deposits, represent the Group's maximum exposure to credit risk in relation to financial assets.

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

With the authorisation from the PRC government, the People's Bank of China announced that the PRC government reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies on 21 July 2005. The exchange rate of US dollars against RMB was adjusted to 8.11 yuan per US dollar with effect from the time of 19:00 hours on 21 July 2005.

Other than the amounts as disclosed in Note 29, the amounts of other financial assets and liabilities of the Group are substantially denominated in the functional currency of respective entity of the Group.

Interest rate risk

The interest rates and terms of repayment of short-term and long-term debts of the Group are disclosed in Note 29.

Fair values

The disclosures of the fair value estimates, methods and assumptions, set forth below for the Group's financial instruments, are made to comply with the requirements of IAS 32 and IAS 39 and should be read in conjunction with the Group's consolidated financial statements and related notes. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgement is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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

The following table presents the carrying amount and fair value of the Group's long-term indebtedness other than loans from Sinopec Group Company and fellow subsidiaries at 31 December 2005 and 2004:

	2005 RMB millions	2004 RMB millions
Carrying amount	82,157	73,120
Fair value	82,161	73,263

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

Investments are unlisted equity securities, and are individually and in the aggregate not material to the Group's financial condition or results of operations. There are no listed market prices for such interests in the PRC and, accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

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

40 MAJOR DOMESTIC SUPPLIERS

The Group's major domestic suppliers of crude oil and refined petroleum products are China National Petroleum Corporation and its subsidiaries ("CNPC Group") and China National Offshore Oil Corporation and its subsidiaries ("CNOOC Group"). Failure in negotiating another contract with another key supplier at similar terms and costs could have a severe and significant impact on the Group's results of operations.

The following table presents the aggregate amount of crude oil purchased by refining segment and refined petroleum products purchased by marketing and distribution segment from CNPC Group and the amount of crude oil purchased by refining segment from CNOOC Group during the years ended 31 December 2005 and 2004:

	2005 RMB millions	2004 RMB millions
CNPC Group	44,814	30,214
CNOOC Group	14,143	11,438

41 ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in Note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

Oil and gas properties and reserves

The accounting for the exploration and production's oil and gas activities is subject to accounting rules that are unique to the oil and gas business. There are two methods to account for oil and gas business activities, the successful efforts method and the full cost method. The Group has elected to use the successful efforts method. The successful efforts method reflects the volatility that is inherent in exploring for mineral resources in that costs of unsuccessful exploratory efforts are charged to expense as they are incurred. These costs primarily include dry hole costs, seismic costs and other exploratory costs. Under the full cost method, these costs are capitalised and written-off or depreciated over time.

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

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expense and impairment expense. Depreciation rates are determined based on estimated proved developed reserve quantities (the denominator) and capitalised costs of producing properties (the numerator). Producing properties' capitalised costs are amortised based on the units of oil or gas produced.

Impairment for long-lived assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36 "Impairment of Assets". The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

Depreciation

Property, plant and equipment, other than oil and gas properties, are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Impairment for bad and doubtful debts

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

42 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2005

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the annual accounting period ended 31 December 2005 and which have not been adopted in these financial statements:

	Effective for accounting period beginning on or after
IFRS 6, Exploration for and evaluation of mineral resources	1 January 2006
IFRS 7, Financial instruments: disclosures	1 January 2007
IFRIC 4, Determining whether an arrangement contains a lease	1 January 2006
IFRIC 5, Rights to interests arising from decommissioning, restoration environmental rehabilitation funds	1 January 2006
IFRIC 6, Liabilities arising from participating in a specific market – Waste electrical and electronic equipment	1 December 2005
IFRIC 7, Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies	1 March 2006
IFRIC 8, Scope of IFRS 2	1 May 2006
IFRIC 9, Reassessment of Embedded Derivatives	1 June 2006
Amendment to IAS 1, Presentation of financial statements: capital disclosures	1 January 2007
Amendment to IAS 19, Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
Amendment to IAS 21, Net investment in a foreign operation	1 January 2006
Amendments to IAS 39, Financial instruments: Recognition and measurement:	
– Cash flow hedge accounting of forecast intragroup transactions	1 January 2006
– The fair value option	1 January 2006
– Financial guarantee contracts	1 January 2006
Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards	1 January 2006

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. Up to the date of issuance of these financial statements, the Group believes that the adoption of IFRIC 4, IFRIC 5, IFRIC6, IFRIC 7, IFRIC 8, IFRIC 9 and the amendments to IAS 19, IAS 21 and IFRS 1 are not applicable to any of the Group's operations and that the adoption of the remainder of the above amendments, new standards and new interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

43 CHANGES IN PRINCIPAL ACCOUNTING POLICIES

The IASB has issued a number of new and revised IFRS that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group after the adoption of these new and revised IFRS have been summarised in Note 2. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

(a) Minority interests (IAS 1 "Presentation of financial statements" and IAS 27 "Consolidated and separate financial statements")

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated statement of income as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with IAS 1 and IAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new accounting policy, minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to equity shareholders of the Company, and minority interests in the results of the Group for the year to be presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between the minority interests and equity shareholders of the Company. The presentations of minority interests in the consolidated balance sheet, consolidated income statement and consolidated statement of changes in equity for the comparative period have been restated accordingly.

(b) Accounting for investments in subsidiaries, associates and jointly controlled entities (IAS 27 "Consolidated and separate financial statements", IAS 28 "Investments in associates" and IAS 31 "Interests in joint ventures")

In prior years, in the balance sheet of the Company investments in subsidiaries, associates and jointly controlled entities are accounted for using the equity method.

With effect from 1 January 2005, in order to comply with IAS 27, IAS 28 and IAS 31, investments in subsidiaries, associates and jointly controlled entities are accounted for using the cost method. Investments in subsidiaries, interest in associates, interest in jointly controlled entities and reserves balance in the balance sheet of the Company for the comparative period has been restated accordingly. There was no impact to the Group's consolidated financial statements.

The following table discloses the adjustments that have been made in accordance with IAS 27, IAS 28 and IAS 31 to each of the line items in the balance sheet of the Company as previously reported as at 31 December 2004.

	2004 (as previously reported) RMB millions	Effect on new accounting policies (increase/ (decrease) in net assets) RMB millions	2004 (as restated) RMB millions
Investments in subsidiaries	118,451	(51,521)	66,930
Interest in associates	7,540	(1,116)	6,424
Interest in jointly controlled entities	3,568	195	3,763
Reserves	106,338	(52,442)	53,896

43 CHANGES IN PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Related party disclosures (IAS 24 "Related party disclosures")

The definition of related parties under IAS 24 as disclosed in Note 35 has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

With effect from 1 January 2005, in order to comply with IAS 24, the Group has made further disclosure of key management personnel compensation and contributions to post-retirement benefit plans.

(d) Property, Plant and Equipment (IAS 16 "Property, Plant and Equipment")

With effect from 1 January 2005, IAS 16 requires an entity to determine cost, useful life and depreciation charge separately for each significant part of an item of property, plant and equipment, and derecognise the carrying amount of a part of an item of property, plant and equipment if that part has been replaced. IAS 16 also requires an entity to include the costs of dismantlement, removal or restoration, the obligation for which an entity incurs as a consequence of installing the item in the cost of that item of property, plant and equipment. The change in accounting policy relating to these new requirements of IAS 16 did not have a material impact on the Group's financial statements.

44 POST BALANCE SHEET EVENT

On 12 November 2005, the Group announced its proposal to acquire all of the equity interests which the Group does not own of Sinopec Zhenhai Refining & Chemical Company Limited ("Zhenhai"), a non-wholly owned subsidiary in which the Group holds approximately 71.3% of the equity interests. According to the proposal, the Group will acquire the entire 723,754,468 H shares, representing approximately 28.7% of the issued share capital of Zhenhai at HK$ 10.60 per share. The total consideration required to be paid by the Group is approximately HK$ 7,762 million which will be settled in cash. Pursuant to the resolution passed in the Special General Meeting of Zhenhai on 12 January 2006, the shareholders of H shares in Zhenhai agreed to dispose of and sell their shares in Zhenhai to the Group at the above mentioned price.

On 15 February 2006, the Group announced its proposals to acquire all of the equity interests which the Group does not own of Sinopec Qilu Petrochemical Company Limited, Sinopec Yangzi Petrochemical Company Limited, Sinopec Zhongyuan Petroleum Company Limited and Sinopec Shengli Oilfield Dynamic Company Limited, being non-wholly owned subsidiaries and an associate in which the Group holds approximately 82%, 85%, 71% and 26% of the equity interests, respectively. According to the proposals, the Group will acquire the entire shares not held by the Group in Sinopec Qilu Petrochemical Company Limited, Sinopec Yangzi Petrochemical Company Limited, Sinopec Zhongyuan Petroleum Company Limited and Sinopec Shengli Oilfield Dynamic Company Limited. The total consideration required to be paid by the Group is approximately RMB 14,247 million which will be settled in cash. On 6 March 2006, these proposals were approved by the relevant PRC governmental and regulatory body.

45 COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of the changes in accounting policies. Further details are disclosed in Note 43.

46 PARENT AND ULTIMATE HOLDING COMPANY

The directors consider the parent and ultimate holding company of the Group as at 31 December 2005 is Sinopec Group Company, a state-owned enterprise established in the PRC. This entity does not produce financial statements available for public use.