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CHINA PETROLEUM & CHEMICAL CORP  
Form 6-K  
August 29, 2006

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 6-K

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

For the month of August, 2006

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

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

Form 20-F  Form 40-F   
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(Indicate by check mark whether the registrant by furnishing the  
information contained in this form is also thereby furnishing the information  
to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act  
of 1934.)

Yes  No   
-----

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

This Form 6-K consists of:

The 2006 interim report of China Petroleum & Chemical Corporation (the  
"Registrant"), made by the Registrant in English on August 25, 2006.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934,  
the registrant has duly caused this report to be signed on its behalf by the  
undersigned, thereunto duly authorized.

China Petroleum & Chemical Corporation

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By: /s/ Chen Ge

-----  
Name: Chen Ge

Title: Secretary to the Board of Directors

Date: August 28, 2006

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This interim report contains "forward-looking statements". All statements, other than statements of historical facts, that address business activities, events or developments that the Company expects or anticipates will or may occur in the future (including, but not limited to projections, targets, reserves and other estimates and business plans) are forward-looking statements. The actual results or developments of the Company may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties. The Company makes the forward-looking statements referred to herein as at 25 August 2006 and, unless otherwise required by the relevant regulatory authorities, undertakes no obligation to update these statements.

IMPORTANT NOTICE: THE BOARD OF DIRECTORS OF CHINA PETROLEUM & CHEMICAL CORPORATION ("SINOPEC CORP.") AND ITS DIRECTORS WARRANT THAT THERE ARE NO MATERIAL OMISSIONS, OR MISREPRESENTATIONS OR MISLEADING STATEMENTS CONTAINED IN THIS INTERIM REPORT AND SEVERALLY AND JOINTLY ACCEPT FULL RESPONSIBILITY FOR

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THE AUTHENTICITY, ACCURACY AND COMPLETENESS OF THE INFORMATION CONTAINED IN THIS INTERIM REPORT. MR. YAO ZHONGMIN AND MR. FAN YIFEI, DIRECTORS OF SINOPEC CORP., DID NOT ATTEND THE THIRD MEETING OF THE THIRD SESSION OF THE BOARD FOR REASONS OF OFFICIAL DUTIES. MR. YAO ZHONGMIN, DIRECTOR OF SINOPEC CORP., AUTHORISED MR. CHEN TONGHAI, MR. FAN YIFEI, DIRECTOR OF SINOPEC CORP., AUTHORISED MR. WANG TIANPU TO VOTE ON THEIR BEHALF IN RESPECT OF THE RESOLUTIONS PUT FORWARD IN THE MEETING OF THE BOARD. MR. CHEN TONGHAI, CHAIRMAN OF THE BOARD, MR. WANG TIANPU, PRESIDENT AND DIRECTOR, MR. DAI HOULIANG, DIRECTOR, SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER AND MR. LIU YUN, HEAD OF THE ACCOUNTING DEPARTMENT WARRANT THE AUTHENTICITY AND COMPLETENESS OF THE FINANCIAL STATEMENTS CONTAINED IN THIS INTERIM REPORT.

THE FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2006 OF SINOPEC CORP. AND ITS SUBSIDIARIES ("THE COMPANY") PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING RULES AND REGULATIONS, AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") HAVE BEEN AUDITED BY KPMG HUAZHEN AND KPMG, RESPECTIVELY, AND BOTH FIRMS HAVE ISSUED STANDARD UNQUALIFIED OPINIONS ON THE FINANCIAL STATEMENTS CONTAINED IN THIS INTERIM REPORT.

### COMPANY PROFILE

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

LEGAL NAME  
[GRAPHIC OMITTED]

CHINESE ABBREVIATION  
[GRAPHIC OMITTED]

ENGLISH NAME  
China Petroleum & Chemical Corporation

ENGLISH ABBREVIATION  
Sinopec Corp.

LEGAL REPRESENTATIVE  
Mr. Chen Tonghai

AUTHORISED REPRESENTATIVES  
Mr. Wang Tianpu, Mr. Chen Ge

REPRESENTATIVE ON SECURITIES MATTERS  
Mr. Huang Wensheng

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12th Floor, Office Tower, Convention Plaza  
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NEWSPAPERS FOR INFORMATION DISCLOSURE  
Mainland China:  
China Securities Journal  
Shanghai Securities News  
Securities Times

Hong Kong:  
Hong Kong Economic Times  
South China Morning Post (English)

INTERNET WEBSITE PUBLISHING INTERIM REPORT DESIGNATED BY THE CHINA SECURITIES REGULATORY COMMISSION  
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PLACES AVAILABLE  
China:

USA:

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PLACES NAMES A

A Share

H Share

ADR:

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SECRETARY TO THE BOARD OF DIRECTORS  
Mr. Chen Ge

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## PRINCIPAL FINANCIAL DATA AND INDICATORS

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

(1) Financial data and indicators of the Company for the first half of 2006

Items	At 30 June 2006 RMB millions	At 31 December 2005 RMB millions	Changes from the end of last year (%)
Current assets	161,351	141,896	13.71
Current liabilities	211,744	167,792	26.19
Total assets	568,888	520,572	9.28
Shareholders' funds (excluding minority interests)	228,510	215,623	5.98
Net assets per share (RMB/share) (Fully diluted)	2.636	2.487	5.98
Adjusted net assets per share (RMB/share)	2.570	2.426	5.94

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Items	Six-month periods ended 30 June 2006 RMB millions	2005 RMB millions	Changes over the same period of the preceding year (%)
Net profit	20,679	18,044	14.60
Net profit before extraordinary gains and losses	20,776	18,087	14.87
Return on net assets (%) (Fully diluted)	9.05	9.13	(0.08) percentage point
Return on net assets (%) (Weighted average)	9.20	9.29	(0.09) percentage point
Earnings per share (RMB/share) (Fully diluted)	0.239	0.208	14.60
Earnings per share (RMB/share) (Weighted average)	0.239	0.208	14.60
Net cash flow from operating activities	25,166	25,044	0.49

Items under extraordinary gains and losses and corresponding amounts:

Items	Six-month period ended 30 June 2006 (Income)/Expense RMB millions

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Gain on disposal of long-term equity investments	(24)
Written back of provisions for impairment losses in previous years	(339)
Non-operating expenses: (excluding impairment losses on assets provided in accordance with the Accounting Regulations for Business Enterprises)	640
Of which: Loss on disposal of fixed assets	43
Employee reduction expenses	48
Donations	40
Non-operating income	(132)
Tax effect	(48)
Total	97

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- (2) Appendix to income statement prepared in accordance with the PRC Accounting Rules and Regulations

Items	Six-month period ended 30 June 2006	
	Return on net assets (%)	
	Fully diluted	Weighted average
Profit from principal operations	26.16	26.60
Operating profit	13.64	13.88
Net profit	9.05	9.20
Net profit before extraordinary gains and losses	9.09	9.25

Items	Six-month period ended 30 June 2006	
	Earnings per share	
	Fully diluted RMB	Weighted average RMB
Profit from principal operations	0.689	0.689
Operating profit	0.360	0.360
Net profit	0.239	0.239
Net profit before extraordinary gains and losses	0.240	0.240

- (3) Significant changes of items in the financial statements Descriptions and reasons for changes of financial data during the reporting period where the fluctuation is more than 30%, or the fluctuation in such item is 5% or more of the total assets or 10% or more of the profit before taxation.

At 30 June 2006	At 31 December 2005	Increase/ (Decrease)	
		Amount	Percentage

Reasons

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Items	RMB millions	RMB millions	RMB millions	(%)	
Advance payments	7,313	5,051	2,262	44.78	Mainly due to for purchases
Long-term equity investments	27,392	14,146	13,246	93.64	Mainly due to investment dif of subsidiarie
Construction in progress	62,628	48,073	14,555	30.28	Mainly due to projects accor investment pla
Short-term loans	46,785	16,124	30,661	190.16	Mainly due to
Other payables	6,105	1,830	4,275	233.61	Mainly due to levy
Accrued expenses	1,483	512	971	189.65	Mainly due to unpaid product
Minority interests	20,118	29,383	(9,265)	(31.53)	Mainly due to interests in s

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

Items	Six month periods ended 30 June		Increase/ (Decrease)		Reasons
	2006	2005	Amount	Percentage	
	RMB millions	RMB millions	RMB millions	(%)	
Income from principal operations	481,988	359,248	122,740	34.17	Please refer t Analysis
Cost of sales	409,298	293,181	116,177	39.61	Please refer t Analysis
Sales taxes and surcharges	12,918	8,204	4,714	57.46	Mainly due to income levy
Non-operating expenses	674	1,109	(435)	(39.22)	Please refer t Analysis
Minority interests	161	2,101	(1,940)	(92.34)	Mainly due to interests in s
Reversal of unrecognised investment losses	(11)	(113)	102	(90.27)	Mainly due to investment los of long-term e

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(4) Details of provisions for assets

Items	Lines	At the beginning of the period	Increase in the period	Written back for the period
Allowance for doubtful accounts	1	6,652	99	(91)
Of which: Allowance for doubtful accounts for accounts receivable		3,140	77	(48)
Allowance for doubtful accounts for other receivables		3,512	22	(43)
Provision for diminution in value of short-term investments	2	--	--	--
Provision for diminution in value of inventories	3	892	250	(248)
Provision for impairment losses on long-term investments	4	327	41	--
Of which: Long-term equity investments		327	41	--
Provision for impairment losses on fixed assets	5	6,234	34	--
Of which: Land and buildings		351	29	--
Oil and gas properties		843	--	--
Oil depots, storage tanks and service stations		917	5	--
Plant, machinery, equipment and others		4,123	--	--
Provision for impairment losses on intangible assets	6	--	--	--
Provision for impairment losses on construction in progress	7	--	--	--
Provision for impairment losses on entrusted loans	8	--	--	--
Total		14,105	424	(339)

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Items	Six-month periods end 2006 RMB millions	RMB
Operating profit	34,238	
Profit attributable to equity shareholders of the Company	21,406	
Return on capital employed (%) note	5.46	
Basic earnings per share (RMB/share)	0.247	
Net cash flow from operating activities	21,478	

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

Items	At 30 June 2006 RMB millions	At 31 RMB
Current assets	165,170	
Current liabilities	215,165	
Total assets	586,915	
Total equity attributable to equity shareholders of the Company	237,159	
Net assets per share (RMB/share)	2.735	
Adjusted net assets per share (RMB/share)	2.670	

### 3 MAJOR DIFFERENCES BETWEEN AUDITED FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS AND IFRS

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

Items	Six-m end 2006 RMB millions
Net profit under the PRC Accounting Rules and Regulations	20,679
Adjustments:	
Equity investment differences	394
Capitalisation of general borrowing costs, net of depreciation effect	294
Depreciation of oil and gas properties	290
Acquisition of Sinopec National Star	58
Reduced amortisation on revaluation of land use rights	13
Unrecognised losses of subsidiaries	11
Reduced depreciation on government grants	6
Pre-operating expenditures	(16)
Disposal of oil and gas properties, net of depreciation effect	(177)
Effects of the above adjustments on taxation	(146)
Minority interests	158
Profit for the period under IFRS	21,564

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

Items	At 30 June 2006 RMB millions
Shareholders' funds under the PRC Accounting Rules and Regulations	228,510
Adjustments:	
Equity investment differences	594
Capitalisation of general borrowing costs	2,406
Depreciation of oil and gas properties	12,523
Acquisition of Sinopec National Star	(2,520)
Revaluation of land use rights	(940)
Government grants	(582)
Pre-operating expenditures	(38)
Disposal of oil and gas properties	2,883
Effects of the above adjustments on taxation	(5,677)
Minority interests	20,027
Total equity under IFRS	257,186

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

##### 1 CHANGES IN THE SHARE CAPITAL OF SINOPEC CORP.

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

##### 2 SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS

As at 30 June 2006, there were a total of 227,849 shareholders of Sinopec Corp., of which 219,385 were holders of domestic A Shares and 8,464 were holders of overseas H Shares.

- (1) Top ten shareholders as at 30 June 2006 Unit: 1,000 shares

Number of shares held at the end of the reporting	Percentage	Nature of	N
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Name of shareholders	period	of shares held	shareholders	s
China Petrochemical Corporation	61,757,325	71.23%	State-owned	6
HKSCC (Nominees) Limited	16,684,625	19.24%	Foreign	
China Cinda Asset Management Corp. (1)	2,848,886	3.29%	State-owned	
China Orient Asset Management Corp. (1)	1,296,410	1.50%	State-owned	
China Development Bank (1)	632,570	0.73%	State-owned	
GuoTai JunAn Corp.	590,821	0.68%	State-owned	

China Life Corp.,-Participating- Individual Participating-005L-FH002 Shanghai	98,021	0.11%	State-owned
China Life (Group) - Conventional -Ordinary Insurance Product	57,340	0.07%	State-owned
Guangfa Stratrgic Selected Mixed Securities Fund	52,891	0.06%	State-owned
International Finance-Standard Chartered - CITIGROUP GLOBAL MARKETS LIMITED	39,284	0.05%	Foreign

Explanation for the relationships among the above Eshareholders or any actions in concert: Among the top ten shareholders, except -Participating- Individual Participating China Life (Group) - Conventional -Ordinary Insurance Product, both subordinates to China Life Insurance Corp. is not aware of any connection or the above shareholders.

Note 1: According to the Equity Transfer Agreements between China Petrochemical Corporation ("Company") and each of China Cinda Asset Management Corp., China Orient Asset Management Corp., China Development Bank respectively, China Cinda Asset Management Corp., China Orient Asset Management Corp., China Development Bank shall each transfer their entire shareholdings of Sinopec Company. For detailed information, please refer to Significant Events in this report.

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(2) Top ten shareholders with tradable shares as at 30 June 2006

Name of shareholders	Number of tradable shares held at end of the reporting period
HKSCC (Nominees) Limited	16,684,625
China Life Corp.,-Participating-Individual Participating-005L-FH002 Shanghai	98,021

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China Life (Group) - Conventional-Ordinary Insurance Product	57,340
Guangfa Strategic Selected Mixed Securities Fund	52,891
International Finance-Standard Chartered - CITIGROUP GLOBAL MARKETS LIMITED	39,284
CIFM China Balanced Fund	37,138
Jinghong Securities Investment Fund	36,607
BOCI Sustained Growth Equity Securities Investment Fund	32,203
Tongsheng Securities Investment Fund	31,532
Yinfeng Securities Investment Fund	31,388
Explanation for the relationships among the above shareholders or any actions in concert:	Among the top ten Life Corp., -Parti 005L-FH002 Shangh Conventional-Ordi subordinates to C Company, Sinopec connection or act shareholders.

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(3) Information disclosed by the shareholders of H Shares according to the Securities and Future

Name of shareholders	Nature	Number of share interests held on regarded as held (share)
J.P. Morgan Chase & Co.	Beneficial owner Investment manager Custodian corporation	137,949,210 805,357,086 771,990,035
Credit Suisse Group	Corporate	997,124,580 754,104,300 48,538,200
Alliance Bernstein L.P.	Corporate	986,511,840
UBS AG	Beneficial owner  Warrant equity  Corporate	478,366,173  109,468,745 38,308,000 5,597,900 335,375,700 10,000,000
Templetonne Asset Management L.P.	Investment manager	848,691,395

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

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

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#### CHAIRMAN'S STATEMENT

Dear shareholders,

On 24 May 2006, the third session of the Board of Directors was elected at 2005 Annual General Meeting of Sinopec Corp. Having been nominated and elected to chair the Board of Directors successively, I would like to thank all the shareholders and the Board as a whole for the trust and confidence placed in me.

Confronted with the market situations featured by soaring global crude prices, tight domestic control over prices of refined oil products, as well as significant fluctuation in the petrochemical prices during the first half of 2006, Sinopec Corp. has fully leveraged its integrated business portfolio, deepened reforms, accelerated structural adjustments to assets, expanded resources, and consolidated market position, which, in turn, led to our delivery of good results in both reform and operations. During the reporting period, the privatisation and delisting of several listed subsidiaries, including Sinopec Zhenhai Refining and Chemical Co. Ltd., Sinopec Yangzi Petrochemical Co., Ltd, Sinopec Qilu Petrochemical Co., Ltd, Zhongyuan Oil & Gas Hi-tech Co., Ltd, Sinopec Shengli Oil Field Dynamic (Group) Co., Ltd and Sinopec Wuhan Phoenix Company Limited, have been accomplished. According to the PRC Accounting Rules and Regulations, in the first half of 2006, the Company's net profit was RMB 20.679 billion, representing an increase of 14.6% over that of the first half of 2005. According to the International Financial Reporting Standards, profit attributable to shareholders of the Company was RMB 21.406 billion, up by 8.92% over that of the first half of 2005. The Board has decided a distribution of interim dividend of RMB 0.04 per share.

Since listing, through continuous reform and development over the years, the Company has established an organisational framework for its managerial system and mechanism necessitated by market economy and corporate governance. The portfolio and quality of its integrated energy and chemical assets have been significantly upgraded, which have resulted in expanded scale of operations, enhanced profitability and competitiveness. China Petrochemical Corporation, whose core assets are represented by Sinopec Corp., ranks 23rd in 2006 Fortune 500.

At present, we have entered a phase featuring high oil prices, compounded by cyclic fluctuation as is typical of the petrochemical sector. Against the background, an important mission for the Board is to leverage the opportunities presented by the steady growth in domestic demand for energy and chemical products, and overcome numerous challenges such as market fluctuation and intensified competition, so as to attain further advancement and improve the

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overall competitiveness of Sinopec Corp. in the global arena. During the three years to come, the Board will continue the policy of "reform, adjustment, innovation and development", further evolve corporate governance practices, and take more steps to transform the Company into a resource-conservation and environmental-friendly enterprise, with an ultimate goal of achieving balanced and sustainable development.

The Board will continue to develop corporate governance practices, undertake further reforms of management system and mechanism, reinforce efficacy of the Board of Directors, while giving full play to the role of the independent directors, as well as the three specialised committees under the Board, with an aim to enhance informed decision-making. The reform orientated to a sole-tier legal entity structure will be pushed forward, hence, to achieve an integration of internal managerial resources, more centralised decision-making process for significant business activities and material resources, as well as enhancement on the managerial functions of Sub Business Units. Driven by domestic and overseas regulatory requirements, as well as the need for reform and development to improve efficacy of the overall management, the Company will further empower its internal controls, and improve risk management.

The Company shall speed up adjustments to the layout and portfolios of assets as well as corporate structure. The key is to expand resources and markets, and align refining and chemicals capacity with markets demand and resource availability.

Resource expansion remains as the first priority. From the strategic perspective, the Company will take measures to maintain stability in production and recoverable reserves of the existing mature blocks in Eastern China. While, in northeast Sichuan and Tahe area where new reserves and structural belts have been discovered, a strategy of expansion will be implemented, with accelerated pace of exploration along with construction of new production capacity to obtain increased reserve and production. Furthermore, researching efforts for promising blocks will be conducted in the back-up areas. It is expected that by 2008, production of crude oil will reach 42 million tonnes and natural gas will reach 10 billion cubic meters.

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Expand markets extensively, rationalise the marketing network, and consolidate the Company's position in the market. Brand value will be exploited through marketing and distribution of refined oil products. Both retail and direct sales volume will be expanded, and the percentage of sales improved. In the marketing of chemicals, advantages of unified marketing will be employed, with direct sales expanded, customer service improved, hence market competitiveness enhanced. We expect that by 2008, the sales volume of refined oil products will reach 120 million tonnes, among which, retail shall account for 75 million tonnes. We also expect that chemical products sold through direct sales shall account for 65% of total sales volume by 2008.

As an important value-added link between resources and markets, our refining and chemical business will operate on a large scale basis through resource optimisation, improvement in quality, product mix, and economic returns, consistent adjustment to the layout and portfolio of assets, and intensified industrial concentration. As a result, three regional large scale refining and chemical groups shall take shape around the Yangtze River Delta, the Pearl River Delta, and the Bohai Bay area. It is estimated that by 2008, crude oil processing capacity will reach 187 million tonnes, and ethylene

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capacity will reach 7.1 million tonnes.

Accelerate the construction of modern logistics systems, and improve modern logistics facilities such as pipelines and terminals for crude oil, refined oil products and natural gas. The Company shall optimise resource flow with modern information technology, so as to ensure safe and efficient handling and shipping of resources. We expect that by 2008, the receiving and unloading capacity of major crude oil terminals will reach 150 million tonnes, crude oil and refined oil products pipelines will respectively total 6,300 km and 7,600 km in length, with around 90% of crude oil and 40% of refined oil be transported by pipelines.

Global operations and trading will be expanded as a new growth area for the Company, through further leveraging synergies in its integrated operations, which, will play more important roles in ensuring safe and stable supply of oil and gas resources, and rational adjustment to its industrial structures.

Sinopec Corp. will continue with technological and scientific innovation to add value to its assets. The Company's abilities to achieve original innovation, integrated innovation and innovation by assimilation shall be strengthened. In particular, the Company will develop a series of core proprietary technologies in the field of oil & gas exploration and production as well as efficient resource utilisation, so as to improve the Company's overall technological competency.

As a large energy and chemical company, Sinopec will continue the implementation of the HSE management system, attaching importance to resource and environment conservation. Clean production will be achieved through advances in science and technology. More efforts will be done to promote a recycling economy through reinforced management on resource conservation and comprehensive utilisation, with an aim to achieve low consumption, low emission and high efficiency, and to build the Company into a resource-saving and environmental-friendly enterprise. We expect that by 2008, an obvious reduction in fresh water consumption, overall energy consumption and COD emission will be achieved as compared with that in 2005.

The Board and I believe that, with joint efforts of the Board of Directors, the Supervisory Committee, as well as our management and employees, and in pursuit of building up an integrated energy and chemical company with strong competitive edges in the international market, Sinopec Corp. will continue to grow with the strategy of "expanding resources, exploring markets, enhancing competitiveness" that are underpinned by corporate reforms and strive for a balanced and sustainable development, which is the common interest of our shareholders, customers, employees, the society and the Company.

][GRAPHIC OMITTED]

Chen Tonghai  
Chairman

Beijing, China  
25 August 2006

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## BUSINESS REVIEW AND PROSPECTS

### BUSINESS REVIEW

In the first half of 2006, the Chinese economy continued to grow at a rapid rate, with a GDP growth rate of 10.9%, and demand for petroleum and petrochemical products kept increasing. According to the Company's statistics, apparent domestic consumption of refined oil products (i.e. gasoline, diesel and kerosene) and consumption of ethylene equivalent increased by 7.1% and 6.3% respectively over that of the same period last year.

During the reporting period, international oil prices kept increasing, and the price of chemical products maintained at high level. Due to the tight control on domestic prices of refined oil products, the price gap between domestic and overseas markets remained wide, despite two upward adjustments on the domestic price. The Company responded flexibly to the changing markets by fully leveraging advantage of integrated business structure, extensively expanding oil & gas resources, accelerating structural adjustments, strengthening the linkage between production and sales, optimising resource allocation and consolidating its dominant position in market. As a result, both the production volume and financial returns maintained stable growth.

### 1 PRODUCTION AND OPERATIONS

#### (1) Exploration and Production Segment

In the first half of 2006, the international crude oil prices kept increasing. The average Brent crude price was USD 66.56 per barrel, representing an increase of 29.49% over that of the first half of 2005. The average crude price realised by the Company during the first half of 2006 was RMB 3,309.71 per tonne, representing an increase of 42.88% over that of the same period last year.

In the first half of 2006, the Company strengthened its innovation in oil & gas exploration theory and technology, in particular, in the marine facies sedimentation theory and technology, and accelerated exploration. It resulted in a series of important discoveries, represented by the discovery of Puguang Gas Field.

[GRAPHIC OMITTED]

Trend of International Crude Prices

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In oilfield development and production, by seizing the opportunities of increasing crude oil price, the Company optimised and accelerated construction of new production capacity. A series of major capacity building projects were put into operation. Efforts are also made to stabilise production in mature oil fields by restoring marginal wells and conducting specialised water treatments. As a result, the overall production in mature oilfield improved. In respect of natural gas development, more efforts were made in Daniudi Gas Field in Erdos basin in North China. The preparations for development of Puguang Gas Field in northeast Sichuan Province were accelerated.

In the first half of 2006, the Company achieved a new record in both oil and gas production, with 140.89 million barrels of crude oil and 126.2 billion cubic feet of natural gas produced, representing a year on year

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increase of 3.07% and 20.42% respectively.

### Summary of Operations of Exploration and Production Segment

	Six-month pe ended June	
	2006	
Crude oil production (mmbbls) (1)	140.89	
Natural gas production (bcf)	126.2	
Newly added proved reserve of crude oil (mmbbls)	143.89	
Newly added proved reserve of natural gas (bcf) (2)	175.5	
	At June 30	At De
	2006	
Proved reserve of crude oil at the end of the reporting period (mmbbls)	3,297	
Proved reserve to natural gas at the end of the reporting period(2) (bcf)	3,001.0	

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

Note 2: Natural gas reserve of Puguang Gas Field is not included.

#### (2) Refining Segment

In the first half of 2006, the Company continued to run the refining facilities at full-load and increased refined oil production along with improvement on the overall quality of refined oil products to meet market demands. By fully leveraging on the Ningbo-Shanghai-Nanjing crude oil pipeline and the newly operated Yizheng-Changling crude oil pipeline and optimising resource allocation, the Company achieved cost savings in both crude oil transportation and storage. The Company increased the refining throughput of sour and heavy crude oil in order to reduce purchase cost of crude oil. In addition, the Company strived to increase the production volume of high value-added products through optimised production plan and product mix which resulted in further improvement in both light products yield and overall refining yield.

### Summary of Operations of Refining Segment

Six-month pe  
ended June  
2006

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Crude throughput (million tonnes)	71.68
of which: sour crude throughput (million tonnes)	17.60
Gasoline, diesel and kerosene output (million tonnes)	42.73
of which: Gasoline (million tonnes)	11.23
Diesel (million tonnes)	28.32
Kerosene including jet fuel (million tonnes)	3.18
Light chemical feedstock (million tonnes)	11.47
Light products yield (%)	74.81
Overall refining yield (%)	93.73

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

### (3) Marketing and Distribution

In the first half of year 2006, the Company proactively took measures to maintain its position in the market by organising and mobilising resources, making structural adjustments, fully leveraging transportation and storage facilities such as the southwest refined oil pipeline. As a result of improved service-oriented awareness and service quality, both proportion of sales to end customers and annual throughput per station further improved. As a result, the Company's position in the refined oil market continually strengthened. The Company was also active in developing non-fuel businesses, including establishment of a strategic partnership with McDonald's. The customer base for IC fueling cards continued to grow, with an aggregate of over 11 million petrol IC cards issued.

#### Summary of Operations of Marketing and Distribution Segment

	Six-month period ended June 2006
Total domestic sales volume of refined oil	
products (million tonnes)	54.32
of which: retail volume (million tonnes)	35.33
direct sales volume (million tonnes)	9.69
wholesale volume (million tonnes)	9.30
Total No. of service stations	29,198
of which: No. of self-operated service stations	27,628
No. of franchised service stations	1,570
Average annual throughput per station (tonne)	2,558

### (4) Chemicals

In the first half of 2006, the Company fully leveraged the newly built production capacity and strengthened operation management on facilities to ensure safe, stable, sustained, full-load and optimal operation of major facilities. The production of ethylene and other major chemical products, such as synthetic resins, etc., significantly increased. The Company continued to reinforce product mix improvement, with more high value-added

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products.

In the first half of 2006, the intensive operations of the Chemical Sales Company and its improved adaptability to market conditions resulted in a steady growth in the Company's proportion of direct sales, which laid a solid foundation for maximisation of the overall returns of the Chemicals Segment.

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

	Six-month periods		Changes (%)
	ended June 30		
	2006	2005	
Ethylene	3,031	2,434	24.53
Synthetic Resin	4,184	3,528	18.59
Synthetic fiber monomers and polymers	3,577	3,152	13.48
Synthetic fiber	770	756	1.85
Synthetic rubber	318	308	3.25
Urea	906	998	(9.22)

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

### 2 COST SAVING

In the first half of 2006, the Company took various measures to reduce costs, such as optimising resource allocation and fully leveraging the modern logistics system to reduce transportation costs, further increasing the throughput of sour and heavy crude oil to reduce procurement costs, optimising the operation of facilities to reduce material and energy consumption, improving utilisation of oil and water wells and intensifying treatment of heavy viscous oils. In the first half of 2006, the Company effectively saved RMB 1.382 billion in cost. Of the total cost saved, the Exploration and Production Segment, the Refining Segment, the Marketing and Distribution Segment and the Chemicals Segment achieved cost saving of RMB 396 million, RMB 348 million, RMB 287 million and RMB 351 million respectively.

### 3 CAPITAL EXPENDITURES

In the first half of 2006, the Company's total capital expenditure was RMB 30.452 billion. Among which, the capital expenditure for Exploration and Production Segment was RMB 11.676 billion. With the investment, the Company achieved a number of important exploration results through strengthening progressive exploration and preliminary exploration in new blocks. The newly built production capacity of crude oil and natural gas was 2.95 million tonnes per year and 758 million cubic meters per year respectively. The capital expenditure for Refining Segment was RMB 5.121 billion. With the investment, the construction of Yizheng-Changling crude oil pipeline was completed; the refinery projects including Guangzhou, Yanshan and Qingdao Projects made smooth progress. The capital expenditure in Chemicals Segment was RMB 5.93 billion. With the investment, the PX and PTA expansion project in Sinopec Yangzi was completed and commenced production; the second round of Maoming Ethylene revamping project, Fujian Integrated Project and Tianjin ethylene project as well as the fertiliser coal gasification projects were proceeding as planned. The capital expenditure

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in Marketing and Distribution Segment was RMB 6.685 billion. With the investment, the construction and acquisition of service stations in key areas started to turn in an initial pay-off; with the newly added 353 service stations, the marketing network was further improved. The capital expenditure for Corporate and Others amounted to RMB 1.04 billion.

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In addition, the total capital expenditure for joint ventures amounted to RMB 179 million.

### BUSINESS PROSPECTS

Looking into the second half of 2006, China's economy will continue to grow rapidly and demands for petroleum and petrochemical products will increase steadily, while international crude price is expected to remain high. Domestic refineries will face considerable operations pressure, and due to the effects of high raw materials price and other factors, the price of chemical products is expected to remain high. In addition, under China's WTO accession commitment, China will fully open its domestic wholesale market for refined oil products by the end of 2006, which will result in intensified market competition.

Confronted with the complicated market situation, the Company will adopt flexible operating strategies, deepen reforms, strengthen management, optimise resources and make structural adjustments while organising various production and operation activities in the following manner:

In Exploration and Production Segment, the Company will continue to stick to the strategy of resources and endeavor to increase oil and gas production. The Company intends to focus on building production capacity in Tahe Oilfield in western China and Erdos blocks, while taking actions to improve management with an aim of stabilising production and comprehensive adjustment in the mature oilfields, so as to stabilise and increase reserves. The preparation for gas exploration in northeast Sichuan will be accelerated. In the second half of 2006, the Company plans to produce 20.16 million tonnes of crude oil and 3.5 billion cubic meters of natural gas.

In Refining Segment, the Company will adhere to the strategy of diversified sources of crude oil, strive to increase the refining throughput of sour and heavy crude to reduce the procurement cost of crude oil. In addition, the Company will optimise its product mix by increasing the production of value added products such as BTX products to reduce losses and improve returns. In the second half of 2006, the Company plans to process 73.30 million tonnes of crude oil.

In Marketing and Distribution Segment, the Company will closely monitor the market trend, make timely adjustments to operations while making appropriate resource deployment. The modern logistics system will be brought into full play by optimising resource allocation. Operational management will also be strengthened, and sales structure optimised to improve economic returns. In the second half of 2006, the Company will target its total domestic sales volume of refined oil products at 56.0 million tonnes.

In Chemicals Segment, the Company will focus on successful start-up of new facilities and maintain safe and stable operation of the existing facilities. The product mix will also be optimised, and the linkage between production and sales will be strengthened to produce more profitable products to meet robust demand so as to increase profitability. In addition, the Company will fully

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leverage the specialised operation of the newly established chemical sales company to improve its overall competitiveness. In the second half of 2006, the Company plans to produce 3.03 million tonnes of ethylene.

In the second half of 2006, the Company will continue to adhere to the operation guidelines featuring "reform, adjustment, innovation and development", work hard and aggressively, endeavoring to fulfill the annual production and operation targets, and maintain its good performance.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

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

#### 1 CONSOLIDATED RESULTS OF OPERATIONS

In the first half of 2006, the Company's turnover and other operating revenues were RMB 493.1 billion and the operating profit was RMB 34.2 billion, representing an increase of 33.8% and 1.7% over the same period of 2005 respectively. These results were largely attributable to the significant increase in international crude price and the fact that by seizing the favourable opportunities of steady growth of the domestic economy, the Company proactively developed the market, increased oil and gas production, optimised crude oil processing structure, and increased the production of chemical products and sales of refined oil products.

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

	Six-month ended Ju 2006 RMB mill
Turnover and other operating revenues	493,128
Of which: Turnover	481,988
Other operating revenues	11,140
Operating expenses	(458,890)
Of which: Purchased crude oil, products, and operating supplies and expenses	(400,215)
Selling, general and administrative expenses	(16,429)
Depreciation, depletion and amortisation	(16,504)
Exploration expenses, including dry holes	(3,085)
Personnel expenses	(9,197)
Employee reduction expenses	(48)
Taxes other than income tax	(12,918)
Other operating expenses, net	(494)
Operating profit	34,238
Net finance costs	(3,142)

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Investment income and share of profits less losses from associates	578
Profit before taxation	31,674
Taxation	(10,110)
Profit for the period	21,564
Attributable to: Equity shareholders of the Company	21,406
Minority interests	158

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(1) Turnover and other operating revenues

In the first half of 2006, the Company's turnover and other operating revenues were RMB 493.1 billion, of which turnover was RMB 482.0 billion, representing an increase of 34.2% over the first half of 2005. These results were largely attributable to the increase in international crude oil price, and the Company's effort in expanding sales volume of our petroleum and petrochemical products and optimising our sales and marketing structure. In the first half of 2006, the Company's other operating revenue was RMB 11.1 billion, representing an increase of 21.0% over the first half of 2005. This was mainly due to the increase of raw materials sales to Sinopec Group Company and to third parties during the period.

The following table lists the Company's external sales volume, average realised prices and the respective rate of changes between the first half of 2006 and the first half of 2005 for the Company's major products:

	Sales Volume (thousand tonnes)		Rate of changes (%)	Aver ( thou Six-mont ended
	Six-month periods ended June 30			2006
	2006	2005		2006
Crude oil	2,710	2,569	5.5	3,290
Natural gas (million cubic meters)	2,600	1,962	32.5	745
Gasoline	15,986	14,609	9.4	4,968
Diesel	35,109	32,571	7.8	4,259
Kerosene, including jet fuel	2,702	3,086	(12.4)	4,301
Basic chemical feedstock	4,941	3,836	28.8	5,336
Synthetic fiber monomers and polymer	1,704	1,412	20.7	8,602
Synthetic resin	3,523	2,898	21.6	9,485
Synthetic fiber	825	784	5.2	10,723
Synthetic rubber	382	303	26.1	13,911
Chemical fertiliser	928	1,004	(7.6)	1,699

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Most of crude oil and a small portion of natural gas produced by the Company were internally used for refining and chemical production and the remaining were sold to the refineries owned by Sinopec Group Company and other customers. In the first half of 2006, turnover from crude oil and natural gas that were sold externally by the Exploration and Production Segment amounted to RMB 12.1 billion, representing an increase of 40.3% over the first half of 2005, accounting for 2.5% of the Company's total turnover and other operating revenues. The increase was mainly due to significant increases in crude oil prices as well as the increase in price and sales volume of natural gas.

The Company's Refining Segment and Marketing and Distribution Segment sell refined oil products (mainly consisting of gasoline, diesel, jet fuel, kerosene and other refined oil products) to third parties. In the first half of 2006, the external sales revenue of refined oil products by these two segments were RMB 321.8 billion, accounting for 65.3% of the Company's turnover and other operating revenues, representing an increase of 32.0% compared with that in the first half of 2005. The increase was mainly due to the increased prices of refined oil products and our proactive efforts in increasing sales volume, optimising sales and marketing structure and expanding the markets of other refined oil products. The sales revenue of gasoline, diesel and kerosene was RMB 240.6 billion, accounting for 74.8% of the total turnover of refined oil products, representing an increase of 29.6% over the same period in 2005. The turnover of other refined oil products was RMB 81.2 billion, accounting for 25.2% of the total turnover of refined oil products, representing an increase of 39.6% compared with the first half of 2005.

The Company's external turnover of chemical products was RMB 92.7 billion, accounting for 18.8% of its turnover and other operating revenues, representing an increase of 24.0% compared with the first half of 2005. The increase was mainly due to the fact that the Company utilised the new production capacity resulting in higher sales volume.

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### (2) Operating expenses

In the first half of 2006, the Company's operating expenses were RMB 458.9 billion, representing an increase of 37.1% over the first half of 2005. The operating expenses mainly consisted of the following:

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

The Company's purchase of crude oil, products and operating supplies and expenses were RMB 400.2 billion, representing an increase of 41.4% over the first half of 2005, accounting for 87.2% of the total operating expenses, of which:

Purchased crude oil expenses was RMB 207.7 billion, representing an increase of 40.1% over the first half of 2005, accounting for 45.3% of the total operating expenses, up by 1.0 percentage point over the first half of 2005.

To meet the increasing demands in the fast growing Chinese economy, the Company increased its throughput of crude oil purchased externally. In the first half of 2006, the throughput of the Company's crude oil purchased externally was RMB 56.05 million tonnes (excluding amounts processed for third parties), representing an increase of 6.9% compared with the same

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period in 2005. Average cost for crude oil processed which were purchased externally in the first half of 2006 was RMB 3,706 per tonne (equivalent to USD 62.8 per barrel), representing an increase of 31.1% compared with the first half of 2005.

In the first half of 2006, the Company's other purchase expenses were RMB 192.5 billion, representing an increase of 42.8% over the first half of 2005, accounting for 42.0% of the total operating expenses. The increase was mainly due to the increased costs of purchased refined oil products and chemical feedstock externally.

### Selling, general and administrative expenses

In the first half of 2006, the Company's selling, general and administrative expenses totalled RMB 16.4 billion, representing an increase of 5.9% over the first half of 2005. This increase was mainly due to the increased operating leases charges, research and development costs, natural resources compensation fees, and costs of supporting units.

### Depreciation, depletion and amortisation

In the first half of 2006, the Company's depreciation, depletion and amortisation were RMB 16.5 billion, representing an increase of 8.9% compared with the first half of 2005. The increase was mainly due to the additions of fixed assets.

### Exploration expenses

In the first half of 2006, the Company's exploration expenses were RMB 3.1 billion, representing a decrease of 8.0% compared with the first half of 2005. This was mainly due to the decrease of geological and geophysical exploration expenses.

### Personnel expenses

In the first half of 2006, the Company's personnel expenses were RMB 9.2 billion, representing an increase of 7.7% compared with the first half of 2005. The increase was largely due to the remuneration reforms initiated by the Company in the second half of 2005.

### Employee reduction expenses

In the first half of 2006, in accordance with the Company's voluntary employee reduction plan, the Company recorded employee reduction expenses of approximately RMB 50 million relating to the reduction of approximately 1,000 employees.

### Taxes other than income tax

In the first half of 2006, the Company's taxes other than income tax were RMB 12.9 billion, representing an increase of 57.5% over the first half of 2005. The increase was mainly attributable to the accrual of RMB 3.7 billion as special oil income levy imposed by the Chinese government effect from 26 March 2006, and an increase of RMB 740 million in consumption tax as a result of the increase in sales volume of gasoline and diesel and the increase in the number of items subject to consumption taxes.

### Other operating expenses, net

In the first half of 2006, the Company's other operating expenses, net were RMB 0.5 billion, representing a decrease of 43.6% compared with the first half of 2005. This was mainly due to the decrease in the impairment losses

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on long-lived assets.

- (3) Operating profit  
In the first half of 2006, the Company's operating profit was RMB 34.2 billion, representing an increase of 1.7% over the first half of 2005.
- (4) Net finance costs  
In the first half of 2006, the Company's net finance costs were RMB 3.1 billion, representing an increase of 22.4% compared with the first half of 2005, which was mainly due to the increase of crude oil price and expanded scale of operation, leading to an increase in short term loan as a result of more capital being employed by operating activities such as purchase of inventories.
- (5) Profit before tax  
In the first half of 2006, the Company's profit before tax was RMB 31.7 billion, representing a decrease of 0.1% over the first half of 2005.
- (6) Taxation  
In the first half of 2006, the Company's income tax was RMB 10.1 billion, representing an increase of 1.7% over the first half of 2005.
- (7) Profit attributable to minority interests  
In the first half of 2006, the Company's profit attributable to minority interests were RMB 0.2 billion, representing a decrease of 92.5% compared with the first half of 2005. The decrease was mainly as a result of acquisition of minority interests of the five subsidiaries by the Company.
- (8) Profit attributable to equity shareholders of the Company  
In the first half of 2006, the Company's profit attributable to equity shareholders of the Company was RMB 21.4 billion, representing an increase of 8.9% over the first half of 2005.

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## 2 DISCUSSION ON RESULTS OF SEGMENT OPERATION

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

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

As a percentage of  
consolidated operating

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	Operating revenues		revenue before elimination	
	Six-month periods		of inter-segment sales	
	ended June 30		Six-month periods	
	2006	2005	2006	2005
	RMB millions		(% )	
Exploration and Production Segment				
External Sales(1)	16,855	12,278	2.1	2.0
Inter-segment sales	53,362	35,745	6.6	5.9
Operating revenue	70,217	48,023	8.7	7.9
Refining Segment				
External sales(1)	51,012	38,934	6.3	6.4
Inter-segment sales	220,301	172,035	27.1	28.4
Operating revenue	271,313	210,969	33.4	34.8
Marketing and Distribution Segment				
External sales(1)	273,435	207,296	33.7	34.1
Inter-segment sales	1,962	1,320	0.2	0.2
Operating revenue	275,397	208,616	33.9	34.3
Chemicals Segment				
External sales(1)	96,248	77,681	11.8	12.8
Inter-segment sales	5,271	8,335	0.6	1.4
Operating revenue	101,519	86,016	12.4	14.2
Corporate and Others				
External sales(1)	55,578	32,265	6.9	5.3
Inter-segment sales	38,335	21,228	4.7	3.5
Operating revenue	93,913	53,493	11.6	8.8
Operating revenue before elimination of inter-segment sales	812,359	607,117	100.0	100.0
Elimination of inter-segment sales	(319,231)	(238,663)		
Consolidated operating revenue	493,128	368,454		

Note 1: Including other operating revenues.

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The following table sets forth the operating revenues, operating expenses and operating profit/(loss) by each segment before elimination of the inter-segment transactions for the periods indicated, and the rate of changes from the first half of 2005 to 2006.

	Six-month periods ended June 30		Rate of changes (%)
	2006	2005	
	RMB millions		
Exploration and Production Segment			
Operating revenues	70,217	48,023	46.2
Operating expenses	36,873	30,228	22.0
Operating profit	33,344	17,795	87.4
Refining Segment			
Operating revenues	271,313	210,969	28.6
Operating expenses	287,923	212,265	35.6
Operating profit/(loss)	(16,610)	(1,296)	1,181.6
Marketing and Distribution Segment			

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Operating revenues	275,397	208,616	32.0
Operating expenses	264,636	201,973	31.0
Operating profit	10,761	6,643	62.0
Chemicals Segment			
Operating revenues	101,519	86,016	18.0
Operating expenses	94,321	75,201	25.4
Operating profit	7,198	10,815	(33.4)
Corporate and others			
Operating revenues	93,913	53,493	75.6
Operating expenses	94,368	53,768	75.5
Operating profit/(loss)	(455)	(275)	65.5

### (1) Exploration and Production Segment

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

In the first half of 2006, the operating revenues of this segment were RMB 70.2 billion, representing an increase of 46.2% over the first half of 2005, which was mainly due to the increase in the sales volume and realised price of crude oil compared with the first half of 2005.

In the first half of 2006, this segment sold 18.73 million tonnes of crude oil and 2.72 billion cubic meters of natural gas, representing an increase of 4.2% and 36.2% respectively compared with those in the first half of 2005. The average realised price of crude oil was RMB 3,310 per tonne (equivalent to USD 58.1/barrel), representing an increase of 42.9% over the first half of 2005. The average realised price of natural gas was RMB 748 per thousand cubic meters, representing an increase of 13.3% over the first half of 2005.

In the first half of 2006, the operating expenses of this segment were RMB 36.9 billion, representing an increase of 22.0% over the first half of 2005. The increase was mainly due to the following reasons:

The increase of RMB 3.7 billion in special oil income levy which was imposed by the government since 26 March 2006.

The increase of RMB 500 million in taxes associated with the increased sales volume and price of crude oil compared with the first half of 2005.

The increase of RMB 1.1 billion in other operating expenses (other operating revenue also increased by RMB 1.1 billion), primarily due to the increase in sales of materials compared with the first half of 2005.

The increase of RMB 1 billion in depreciation, depletion and amortisation mainly resulted from the increase in depreciation charge on newly acquired assets.

In the first half of 2006, in response to the rise of international crude oil prices, the Company seized this opportunity to increase production of crude oil through utilising marginal reserves and enhancing recovery activities. It resulted an increase in lifting cost of crude oil and natural gas by 12.4% from RMB 410 per tonne (equivalent to USD 6.98 per barrel) to RMB 461 per tonne (equivalent to USD 8.09 per barrel) compared with the first half of 2005.

In the first half of 2006, this segment's operating profit was RMB 33.3

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billion, representing an increase of 87.4% over the first half of 2005.

### (2) Refining Segment

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

In the first half of 2006, this segment's operating revenues were RMB 271.3 billion, representing an increase of 28.6% over the first half of 2005. The increase was mainly due to the increase in the realised prices and sales volumes of various refined oil products.

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The following table sets forth the sales volumes, average realised prices and the rate of changes of the Company's major refined oil products of the segment from the first half of 2005 and the first half of 2006.

	Sales Volume (thousand tonnes)		Rate of changes (%)	Aver
	Six-month periods ended June 30			Six-mont ended
	2006	2005		2006
Gasoline	10,651	10,323	3.2	4,282
Diesel	28,140	25,792	9.1	3,782
Chemical feedstock	13,035	12,781	2.0	4,405
Other refined oil products	17,174	16,263	5.6	3,466

In the first half of 2006, the sales revenues of gasoline by the segment were RMB 45.6 billion, representing an increase of 28.0% over the first half of 2005, accounting for 16.8% of this segment's operating revenues.

In the first half of 2006, the sales revenues of diesel by the segment were RMB 106.4 billion, representing an increase of 28.2% over the first half of 2005, accounting for 39.2% of this segment's operating revenues.

In the first half of 2006, the sales revenues of chemical feedstock by the segment were RMB 57.4 billion, representing an increase of 30.0% over the first half of 2005, accounting for 21.2% of this segment's operating revenues. The extent of increase in the sales revenues of chemical feedstock was higher than that in the sales revenues of gasoline and diesel, which was mainly due to tight domestic control over gasoline and diesel prices, which resulted in smaller price increase in gasoline and diesel than that in chemical feedstock.

In the first half of 2006, the sales revenues of refined oil products other than gasoline, diesel and chemical feedstock were RMB 59.5 billion, representing an increase of 28.5% over the first half of 2005, accounting

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for 21.9% of this segment's operating revenues.

In the first half of 2006, this segment's operating expenses were RMB 287.9 billion, representing an increase of 35.6% over the first half of 2005, which was primarily due to the increase in crude oil price and its refining throughput.

In the first half of 2006, the average cost of crude oil processed was RMB 3,654 per tonne (approximately USD 61.95/barrel), representing an increase of 33.1% over the first half of 2005. Refining throughput was 70.23 million tonnes (excluding amounts processed for third parties), representing an increase of 6.6% over the first half of 2005. In the first half of 2006, the total costs of crude oil processed were RMB 256.6 billion, representing an increase of 41.9%, accounting for 89.1% of the segment's operating expenses, up by 3.9 percentage points over the first half of 2005.

In the first half of 2006, although international crude oil prices remaining at a higher level, the Chinese government continued to implement tight control over domestic prices of refined oil products. As a result, the Refining Segment recorded a negative refining margin of RMB 93 per tonne (equivalent to negative USD 1.57 per barrel) (defined as the sales revenues less the crude oil costs and refining feedstock costs and taxes other than income tax divided by the throughput of crude oil and refining feedstock), representing a decrease of RMB 234 per tonne (equivalent to USD 3.89 per barrel) compared with RMB 141 per tonne (equivalent to USD 2.32 per barrel) in the first half of 2005.

In the first half of 2006, the unit refining cash operating cost (defined as operating expenses less the purchase cost of crude oil and refining feedstock, depreciation and amortisation, taxes other than income tax, other operating expenses; and divided by the throughput of crude oil and refining feedstock) was RMB 118 per tonne (equivalent to USD 2.00 per barrel), which was consistent with the first half of 2005.

In the first half of 2006, operating loss of this segment was RMB 16.6 billion, representing an increase of RMB 15.3 billion in operating loss over the first half of 2005.

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### (3) Marketing and Distribution Segment

The business of Marketing and Distribution Segment includes purchasing refined oil products from the Refining Segment and third parties, conducting wholesale and direct sale to domestic users, and retailing, distributing refined oil products through the segment's retail and distribution network, as well as providing services related to product sales.

In the first half of 2006, the operating revenues of this segment were RMB 275.4 billion, up by 32.0% over the first half of 2005. The increase was mainly due to the increases in sales volume and prices of refined oil products and the continuous optimisation of the sales structure, which further increased the retail proportion of gasoline and diesel.

In the first half of 2006, the operating revenues from sales of gasoline and diesel were RMB 230.6 billion, accounting for 83.7% of the operating revenues of this segment. The percentage of retail sales volume of gasoline and diesel in the total sales volume of gasoline and diesel increased from

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56.8% in the first half of 2005 to 62.8% in the first half of 2006, representing an increase of 6 percentage points. The percentage of sales volume of gasoline and diesel by direct sales in the total sales volume decreased from 20.0% in the first half of 2005 to 17.7% in the first half of 2006, representing a decrease of 2.3 percentage points. The percentage of wholesale volume in the total sales volume of gasoline and diesel decreased from 23.3% in the first half of 2005 to 19.6% in the first half of 2006, representing a decrease of 3.7 percentage points.

The following table sets forth the sales volumes, average realised prices, and respective rate of changes of the four product categories in the first half of 2005 and 2006, including detailed information of different sales channels for gasoline and diesel:

	Sales volume (thousand tonnes)		Rate of changes (%)	Average
	Six-month periods ended June 30			Six-month ended
	2006	2005		2006
Gasoline	16,045	14,660	9.4	4,967
Of which: Retail	11,543	10,040	15.0	5,078
Direct sales	1,576	1,429	10.3	4,745
Wholesale	2,926	3,191	(8.3)	4,650
Diesel	35,454	32,866	7.9	4,256
Of which: Retail	20,778	16,935	22.7	4,310
Direct sales	7,528	8,057	(6.6)	4,397
Wholesale	7,148	7,874	(9.2)	3,952
Kerosene	2,684	3,058	(12.2)	4,300
Fuel oil	7,308	6,459	13.1	2,989

In the first half of 2006, the operating expenses of the segment were RMB 264.6 billion, representing an increase of 31.0% compared with that in the first half of 2005, mainly due to increase of procurement costs, of which purchasing costs of gasoline and diesel were RMB 208.8 billion, representing an increase of 31.3% over that in the first half of 2005, and accounted for 78.9% of the segment's operating expenses. In the first half of 2006, average purchase prices of gasoline and diesel increased by 25.2% and 18.7% respectively, compared with that in the first half of 2005, to RMB 4,390 per tonne and RMB 3,885 per tonne respectively. The purchasing volume of gasoline and diesel increased by 9.4% and 7.9% respectively, compared with that in the first half of 2005, to 16.04 million tonnes and 35.45 million tonnes respectively.

In the first half of 2006, the segment's cash operating cost per tonne of refined oil products (defined as the operating expenses less the purchasing costs, taxes other than income tax, depreciation and amortisation, and divided by the sales volume) was RMB 149.75 per tonne, representing a decrease of 0.1% compared with that in the first half of 2005.

In the first half of 2006, the Marketing and Distribution Segment's operating profit was RMB 10.8 billion, representing an increase of 62.0% compared with the first half of 2005.

## (4) Chemicals Segment

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

In the first half of 2006, operating revenues of the Chemicals Segment were RMB 101.5 billion, representing an increase of 18.0% over the first half of 2005, which was primarily due to the increase in sales volume and prices of major chemical products.

The sales revenue mainly generated from the Company's six categories of chemical products (i.e. basic organic chemicals, synthetic resin, synthetic rubber, synthetic fiber monomers and polymers, synthetic fiber and chemical fertiliser) totaled approximately RMB 94.1 billion, representing an increase of 25.0% over the first half of 2005, and accounted for 92.7% of the operating revenues of this segment.

The following table lists the sales volumes, average realised price and rates of change of each of these six categories of chemical products of this segment in the first half of 2005 and 2006.

	Sales volume (thousand tonnes)		Rate of changes (%)	Av Six-m ende 2006
	Six-month periods ended June 30			
	2006	2005		
Basic organic chemicals	5,625	4,454	26.3	5,262
Synthetic fiber monomers and polymers	1,715	1,420	20.8	8,595
Synthetic resin	3,636	2,899	25.4	9,318
Synthetic fiber	825	784	5.2	10,726
Synthetic rubber	397	303	31.0	13,848
Chemical fertiliser	928	1,005	(7.7)	1,706

In the first half of 2006, operating expenses of the Chemicals Segment were RMB 94.3 billion, representing an increase of 25.4% over the first half of 2005. The increase was primarily due to increase in the price of feedstock as well as increased expenses for various raw materials and ancillary materials associated with the significant increased production of chemical products. Of which:

The purchasing costs for raw materials, operating supplies and other related expenses increased by approximately RMB 19.5 billion compared with the first half of 2005 was mainly due to the increase in the consumption of raw materials and ancillary materials and rise in their unit prices. Of which, the consumption of naphtha increased by 930

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thousand tonnes, and the unit cost of raw materials increased by RMB 931 per tonne to RMB 4,512 per tonne in the first half of 2006 when compared with the same period of 2005.

In the first half of 2006, operating profit of Chemicals Segment was RMB 7.2 billion, representing a decrease of 33.4% over the first half of 2005. The percentage of operating profit of the Chemicals Segment in the Company's total operating profit decreased from 32.1% in the first half of 2005 to 21.0% in the first half of 2006, representing a decrease of 11.1%.

### (5) Corporate and Others

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

In the first half of 2006, the operating revenues generated from corporate and others was RMB 93.9 billion, representing an increase of 75.6% over the first half of 2005. The increase was largely as a result of increased revenues generated by its trading companies through increased trading volume in importing and exporting of crude oil and refined oil products and other business transactions.

In the first half of 2006, the operating expenses were RMB 94.4 billion, representing an increase of 75.5% over the first half of 2005. This increase was mainly due to the increase in the purchasing costs of its trading subsidiaries associated with the increase in its operating revenue.

In the first half of 2006, the operating losses were RMB 0.5 billion, representing an increase in losses by RMB 0.2 billion compared with that in the first half of 2005.

## 3 ASSETS, LIABILITIES, EQUITY AND CASH FLOWS

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

	At June 30, 2006	At December 31, 2005	Changes
Total assets	586,915	537,321	49,594
Current assets	165,170	145,291	19,879
Non-current assets	421,745	392,030	29,715
Total liabilities	329,729	284,325	45,404
Current liabilities	215,165	170,649	44,516
Non-current liabilities	114,564	113,676	888
Total equity attributable to the equity shareholders of the			
Company	237,159	223,556	13,603
Share capital	86,702	86,702	--
Reserves	150,457	136,854	13,603
Minority interests	20,027	29,440	(9,413)
Total equity	257,186	252,996	4,190

At 30 June 2006, the Company's total assets were RMB 586.9 billion,

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representing an increase of RMB 49.6 billion compared with that at the end of 2005, of which:

The current assets increased by RMB 19.9 billion from those at the end of 2005 to RMB 165.2 billion. The change was mainly due to the increase in inventories by RMB 16.4 billion during the first half of 2006, of which, crude oil and other feedstock increased by RMB 10.5 billion, and finished goods increased by RMB 5.1 billion. In the first half of 2006, with significant increase in the income from principal operations, trade accounts receivable and bills receivable increased by RMB 3.6 billion, prepaid expenses and other current assets increased by RMB 3.8 billion. The Company also further reinforced the centralised fund management and, as a result, cash and cash equivalents and time deposits decreased by RMB 4 billion.

The non-current assets increased by RMB 29.7 billion from those at the end of 2005 to RMB 421.7 billion. The change was primarily attributable to additions of property, plant and equipment and construction in progress of RMB 15.8 billion which were in line with the annual investment plan, and the increase in goodwill of RMB 11.7 billion due to privatisations of subsidiaries.

At 30 June 2006, the Company's total liabilities were RMB 329.7 billion, representing an increase of RMB 45.4 billion compared with that at the end of 2005, of which:

The current liabilities increased by RMB 44.5 billion from those at the end of 2005 to RMB 215.2 billion. Such increases were mainly caused by an increase of RMB 31.3 billion in short term debts due to expansion of production and operations, and the increase in other payables of RMB 12.7 billion (which primarily include an increase of RMB 5 billion in other payables to the Sinopec Group Company and fellow subsidiaries, and an increase of RMB 3.7 billion in special oil income levy payable).

The non-current liabilities increased by RMB 0.9 billion from those at the end of 2005 to RMB 114.6 billion. This was mainly due to increase in long-term loans as a result of the implementation of investment projects.

At 30 June 2006, the Company's total equity attributable to equity shareholders of the Company was RMB 237.2 billion, representing an increase of RMB 13.6 billion compared with that at the end of 2005, which was due to increase of reserves.

### (2) Cash Flow

In the first half of 2006, cash and cash equivalents decreased by RMB 3.8 billion from RMB 13.7 billion as at 31 December 2005 to RMB 9.9 billion as at 30 June 2006.

The following table sets forth the major items on the consolidated cash flow statements for the first half of 2006 and the first half of 2005.

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Units: RMB mil

Major items of cash flows	Six-month periods ended June 30	
	2006	2005
Net cash flow from operating activities	21,478	21,082
Net cash flow from investing activities	(54,327)	(31,400)
Net cash flow from financing activities	29,050	7,553
Net decrease in cash and cash equivalents	(3,799)	(2,765)

Net cash flow from operating activities was RMB 21.5 billion.

Mainly due to: In the first half of 2006, profit before taxation was RMB 31.7 billion, after adjusting the non-cash expense and non-operating activities items by RMB 20.6 billion, mainly including depreciation, depletion and amortisation of RMB 16.5 billion, interest expenses of RMB 3.5 billion, and the dry holes costs of RMB 1.4 billion.

Operating profit before changes in working capital was RMB 52.3 billion. After deducting cash outflow caused by increase in inventory, such as crude oil, of RMB 15.6 billion, and cash outflow from changes in operating receivables, payables and other assets of RMB 600 million, cash generated from operations was RMB 36.1 billion. Upon deduction of cash outflows due to payment of income tax of RMB 11.2 billion and payment of interest of RMB 3.4 billion, the net cash generated from operating activities was RMB 21.5 billion.

Net cash used in investing activities was RMB 54.3 billion, which was mainly used for:

The Company's capital expenditure of RMB 27.2 billion;

Acquisitions of subsidiaries' minority interests of RMB 22 billion;

Exploratory wells expenditure of RMB 3.4 billion.

Net cash flow generated from financing activities was RMB 29.1 billion. This was mainly derived from increase in bank loans.

(3) Contingent Liability

At 30 June 2006, the amount of guarantees provided by the Company in respect of banking facilities granted to associates amounted to approximately RMB 95 million.

4 CAPITAL EXPENDITURES

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

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

The major differences between the Company's financial statements prepared under the PRC Accounting Rules and Regulations and IFRS are set out in Section (C) of the financial statements of the Company on page 110 to page 111 of this report.

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

	Six-month periods ended June 30	
	2006	2005
	RMB millions	RMB millions
Income from principal operations		
Exploration and Production Segment	65,497	44,396
Refining Segment	268,982	209,118
Marketing and Distribution Segment	275,115	208,083
Chemicals Segment	97,944	83,066
Others	93,681	53,248
Elimination of inter-segment sales	(319,231)	(238,663)
Consolidated income from principal operations	481,988	359,248
Cost of sales, sales taxes and surcharge		
Exploration and Production Segment	24,457	17,920
Refining Segment	284,044	208,147
Marketing and Distribution Segment	253,015	190,761
Chemicals Segment	87,039	68,283
Others	92,217	52,619
Elimination of costs of inter-segment sales	(318,556)	(236,345)
Consolidated costs, sales taxes and surcharge	422,216	301,385
Profit from principal operations		
Exploration and Production Segment	39,647	23,738
Refining Segment	(14,344)	1,391
Marketing and Distribution Segment	22,100	17,322
Chemicals Segment	10,905	14,783
Others	1,464	629
Consolidated profit from principal operations	59,772	57,863
Consolidated net profit	20,679	18,044

Profit from principal operations: In the first half of 2006, the realised profit from principal operations by the Company was RMB 59.8 billion, representing an increase of RMB 1.9 billion. This increase was mainly due to the significant increase in international crude oil prices and all efforts the company made, following the pace of the steady growth of the domestic economy, in expanding the market proactively, expanding production volume of crude oil and natural gas, optimising crude oil processing structure, increasing production of chemicals and increasing sales volume of refined oil products.

Net profit: In the first half of 2006, the Company's net profit was RMB 20.7 billion, representing an increase of RMB 2.6 billion, or 14.6% over the first half of 2005.

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Financial data prepared under the PRC Accounting Rules and Regulations:

	At June 30	At December 31	Changes
	2006	2005	
	RMB millions	RMB millions	
Total assets	568,888	520,572	48,316
Long-term liabilities	108,516	107,774	742

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Shareholder's funds	228,510	215,623	12,887
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### Analysis of changes:

Total assets: As at 30 June 2006, the Company's total assets were RMB 568.9 billion, representing an increase of RMB 48.3 billion compared with that at the end of 2005. The change was mainly because of an increase of RMB 15.2 billion in fixed assets, in addition, the increase of RMB 19.5 billion in current assets caused by the increase in inventory of crude oil, refined oil products and other items in response to the increase of production volume and price and the increase of RMB 13.2 billion in long term equity investments mainly due to acquisitions of minority interests of subsidiaries.

Long-term liabilities: As at 30 June 2006, the Company's long-term liabilities were RMB 108.5 billion, representing an increase of RMB 0.7 billion compared with that at the end of 2005.

Shareholders' equity: As at 30 June 2006, the shareholders' equity of the Company were RMB 228.5 billion, representing an increase of RMB 12.9 billion compared with that at the end of 2005. The change was mainly as a result of (1) a realised net profit of RMB 20.7 billion in the first half of 2006; and (2) final dividend of RMB 7.8 billion for 2005 declared in the first half of 2006.

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

The significant differences between the Company's financial statements prepared under IFRS and US GAAP are set out in Section (D) of the financial statements of the Company on page 112 to page 114 of this report.

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### SIGNIFICANT EVENTS

#### 1 CORPORATE GOVERNANCE

During the reporting period, Sinopec Corp. further strengthened corporate governance practices in accordance with domestic and overseas regulations and circumstances of the Company; members of the Third Session of the Board of Directors and the Third Session of the Supervisory Committee were elected, senior management was also appointed; the new members of the Board of Directors, Supervisory Committee and senior management systematically studied relevant domestic and overseas securities rules and regulations; the Articles of Association and its appendices were further amended and revised; the revised internal control system and detailed implementing rules came into full effect.

#### 2 COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

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

#### 3 ELECTION OF THE MEMBERS OF THE THIRD SESSION OF THE BOARD OF DIRECTORS AND THE THIRD SESSION OF THE SUPERVISORY COMMITTEE AND APPOINTMENT OF SENIOR MANAGEMENT

The term of the Second Session of the Board of Directors and the Second Session of the Supervisory Committee ended in the first half of 2006. At the annual general meeting of shareholders for 2005 held on 24 May 2006 ("2005 Annual General Meeting"), members of the Third Session of the

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Board of Directors and Third Session of the Supervisory Committee were elected, and at the first meeting of the Third Session of the Board of Directors held on 24 May 2006, senior management was appointed. Please refer to the Section titled "Directors, Supervisors and Other Senior Management" for the name list of the members of the Third Session of the Board of Directors, the Third Session of the Supervisory Committee and the newly appointed senior management.

#### 4 AMENDMENT TO THE ARTICLES OF ASSOCIATION

Amendments to the Articles of Association of Sinopec Corp. and its appendices were approved at the 2005 Annual General Meeting. For further details, please refer to the circular mailed to holders of H shares on 4 April 2006 as well as the proceedings of the 2005 Annual General Meeting posted by Sinopec Corp. on the website of the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)).

#### 5 DIVIDEND DISTRIBUTION FOR THE YEAR ENDED 31 DECEMBER 2005 AND INTERIM DIVIDEND DISTRIBUTION PLAN FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2006

##### (1) Dividend distribution for the year ended 31 December 2005

As approved at the 2005 Annual General Meeting of Sinopec Corp, a final cash dividend of RMB 0.09 (inclusive of tax) per share for the year ended 31 December 2005 was distributed, which amounted to an aggregate of RMB 7.803 billion. On 30 June 2006, Sinopec Corp. distributed the 2005 year end dividend to shareholders whose names appeared on the register of members of Sinopec Corp. on 16 June 2006.

For the year 2005, total cash dividend of RMB 0.13 (inclusive of tax) per share was distributed, and the total cash dividend amounted to RMB 11.271 billion.

##### (2) Interim dividend distribution plan for the six-month period ended 30 June 2006

According to the provisions of the Articles of Association of Sinopec Corp., the interim dividend distribution plan for the six-month period ended 30 June 2006 was approved at the third meeting of the Third Session of the Board of Directors. An interim cash dividend of RMB 0.04 (inclusive of tax) per share will be distributed based on the total number of shares of 86,702.439 million as at 30 June 2006. The total cash dividend amounts to RMB 3.468 billion.

The interim dividend will be distributed on or before Thursday, 28 September 2006 to the shareholders whose names appear on the register of members of Sinopec Corp. on Wednesday, 13 September 2006.

To be entitled to the interim dividend, holders of H shares shall lodge their share certificate(s) and transfer documents with Hong Kong Registrars Limited at Shops 1712-1716, 17/F., Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong for registration of transfer, no later than 4:00pm on Tuesday, 12 September 2006. The register of members of the H shares of Sinopec Corp. will be closed from Wednesday, 13 September 2006 to Tuesday, 19 September 2006 (both dates inclusive).

Dividends will be denominated and declared in Renminbi. Dividends for domestic shares will be paid in Renminbi and dividends for foreign shares will be paid in Hong Kong dollars. The exchange rate for dividends to be paid in Hong Kong dollars is the average of the basic exchange rate of Hong Kong dollar to Renminbi published by the People's Bank of China during the week prior to the date of declaration of dividends, being Friday, 25 August 2006.

- 6 THE DISCOVERY OF LARGE-SCALE MARINE FACIES GAS FIELD -- PUGUANG GAS FIELD  
The Company discovered the largest and most abundant marine facies natural gas field - Puguang Gas Field -- in northeast Sichuan Province. According to the appraisal undertaken by the Mineral Resource Reserve Evaluation Center under the Ministry of Land and Resources, reserve in Puguang Gas Field is estimated to be 251.071 billion cubic meters, with technically recoverable reserve of 188.304 billion cubic meters. Puguang Gas Field meets the conditions for commercial development.
- 7 THE TRANSFER OF STATE OWNED SHARES TO SINOPEC GROUP COMPANY. FROM CHINA ORIENT ASSET MANAGEMENT CORPORATION, CHINA CINDA ASSET MANAGEMENT CORPORATION AND CHINA DEVELOPMENT BANK During the reporting period, China Orient Asset Management Corporation ("China Orient"), China Cinda Asset Management Corporation ("Cinda") and China Development Bank ("CDB"), all of which are shareholders of Sinopec Corp., entered into equity transfer agreements with Sinopec Group Company on 29 April 2006, 6 June 2006 and 17 August 2006 respectively, pursuant to which China Orient, Cinda and CDB respectively transferred 1,296.41 million (approximately 1.5% of the total shares of Sinopec Corp.), 2,848,886,224 (approximately 3.3% of the total shares of Sinopec Corp.) and 632.57 million (approximately 0.7% of the total shares of Sinopec Corp.) state-owned shares to Sinopec Group Company. The respective total cash considerations of RMB 3,150,276,300.00, RMB 7,207,682,100.00, and RMB 1,537,145,100.00 will be paid to China Orient, Cinda and CDB by China Petrochemical Corporation. The equity transfer agreement with China Orient has been approved by the State-owned Assets Supervision and Administration Commission ("SASAC") and the Ministry of Finance. The equity transfer agreement with Cinda has been approved by SASAC but is pending approval by the Ministry of Finance while the equity transfer agreement with CDB is pending approval by SASAC and the Ministry of Finance.
- 8 INCREASE OF EQUITY INVESTMENT IN SINOPEC FINANCE COMPANY LIMITED  
On 31 March 2006, Sinopec Corp. and Sinopec Group Company entered into an arrangement ("Arrangement") with Sinopec Finance Co., Ltd. ("Sinopec Finance"), under which, the registered capital of Sinopec Finance increased to RMB 6 billion from RMB 2.5 billion. Sinopec Corp. and Sinopec Group Company injected RMB 1,602.3 million and 897.7 million respectively into Sinopec Finance. Upon completion of the Arrangement, the equity holding of Sinopec Corp. in Sinopec Finance increased to 49% from 38.22%, while the equity holding of Sinopec Group Company in Sinopec Finance increased to 51% from 61.78%. Please refer to the relevant announcements published in the China Securities Journal, Shanghai Securities News and Securities Times in Mainland China and Hong Kong Economic Times and South China Morning Post in Hong Kong on 3 April 2006 for details.
- 9 SPECIAL OIL INCOME LEVY  
The Chinese government imposed a special oil income levy on the revenue derived from the sales of domestically produced crude oil by any company engaged in oil exploration and production at a price which exceeds a certain level starting from 26 March 2006. The special oil income levy system consists of 5 levels and will be calculated and charged according to the progressive ad valorem rates on the excess amounts. The levy will be calculated on a monthly basis and charged and collected on a quarterly basis. The applicable level of the special oil income levy will be determined based on the weighted average price of the crude oil sold in a particular month. The level of levy will be determined based on US dollar

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per barrel which starts at US\$ 40 per barrel. Please refer to the relevant announcements published in the China Securities Journal, Shanghai Securities News and Securities Times in Mainland China and Hong Kong Economic Times and South China Morning Post in Hong Kong on 4 April 2006 for details.

### 10 ISSUANCE OF CORPORATE BONDS AND INTEREST PAYMENT

On 24 February 2004, Sinopec Corp. issued RMB 3.5 billion corporate bond in the domestic market with a term of 10 years, AAA credit rating, carrying a fixed coupon rate of 4.61%. On 28 September 2004, the said corporate bonds were listed on the Shanghai Stock Exchange. For further details, please refer to Sinopec Corp.'s announcements published in China Securities Journal, Shanghai Securities News, and Securities Times in Mainland China, and Hong Kong Economic Times and South China Morning Post in Hong Kong on 24 February 2004 and 28 September 2004. On 24 February 2006, Sinopec Corp. paid the full amount of coupon interest for the second interest payment year.

### 11 ISSUANCE OF SHORT-TERM COMMERCIAL PAPER

On 19 September 2005, Sinopec Corp. convened the first extraordinary general meeting of shareholders for 2005, at which a special resolution was passed for issuance of short-term commercial paper. For details, please refer to Sinopec Corp.'s announcements published in China Securities Journal, Shanghai Securities News, and Securities Times in Mainland China, and Hong Kong Economic Times and South China Morning Post in Hong Kong on 20 September 2005. 2006 first tranche of commercial paper with a term of 183 days, carrying a rate of 2.668% was issued on 16 May 2006 to institutional investors in China's inter-bank commercial paper market, totaling RMB 10 billion at face value.

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### 12 THE TRANSFER OF STATE-OWNED LEGAL PERSON SHARES OF CHINA PHOENIX HELD BY SINOPEC CORP.

On 18 October 2005, Sinopec Corp. and China Changjiang National Shipping (Group) Corporation ("Changhang Group") entered into a equity transfer agreement, under which, Sinopec Corp. agreed to transfer to Changhang Group a total of 211,423,651 state-owned legal person shares held by Sinopec Corp. in Sinopec Wuhan Phoenix Company Limited ("China Phoenix") (representing 40.72% of the total issued share capital of China Phoenix) and repurchase the operating assets of China Phoenix. For further details, please refer to the "Report on Changes of Shareholdings in Sinopec Wuhan Phoenix Company Limited" dated 20 October 2005 published by Sinopec Corp. on the website of the Shanghai Stock Exchange. The proposed asset restructuring of China Phoenix was approved by the China Securities Regulatory Commission ("CSRC") on 29 April 2006. The relevant equity transfer procedures were completed by Sinopec Corp. and Changhang Group on 10 July 2006.

### 13 MERGER BY ABSORPTION OF ZHENHAI REFINERY AND CHEMICALS

Pursuant to the agreement entered into between Ningbo Yonglian Co., Ltd. ("Ningbo Yonglian") and Sinopec Zhenhai Refining and Chemicals Company Limited ("ZRCC") on 12 November 2005, Ningbo Yonglian purchased the listed H shares of ZRCC from its shareholders at a unit price of HK\$ 10.60 per share in cash, amounting to a total consideration of HK\$ 7.672 billion. For further details, please refer to Sinopec Corp.'s announcements published in China Securities Journal, Shanghai Securities News and Securities Times in

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Mainland China and Hong Kong Economic Times and South China Morning Post in Hong Kong on 14 November 2005. The proposed merger had been approved on 12 January 2006 at the general meeting of shareholders and the general meeting of independent shareholders of ZRCC and approved by the shareholders of Ningbo Yonglian, as well as by domestic and overseas securities regulatory authorities. ZRCC was delisted on 24 March 2006.

### 14 TENDER OFFER BY SINOPEC CORP. TO FOUR A-SHARE SUBSIDIARIES

On 25 February 2006, the 24th meeting of the Second Session of the Board of Directors of Sinopec Corp. approved its voluntary tender offers to acquire all the tradable shares of Sinopec Qilu Petrochemical Co., Ltd. ("Sinopec Oilu") at a price of RMB 10.18 per share, all the tradable shares of Sinopec Yangzi Petrochemical Co., Ltd. ("Sinopec Yangzi") at a price of RMB 13.95 per share, all the tradable shares of Sinopec Zhongyuan Oil & Gas Hi-tech Co., Ltd. ("Sinopec Zhongyuan Oil & Gas") at a price of RMB 12.12 per share, and all the tradable shares of Sinopec Shengli Oil Field Dynamic (Group) Co., Ltd. at a price of RMB 10.30 per share and all the non-tradable shares (including non-tradable shares held by investors other than Sinopec Corp.) of Sinopec Shengli Oil Field Dynamic (Group) Co., Ltd. at a price of RMB 5.60 per share. Sinopec Qilu was delisted on 24 April 2006, and Sinopec Yangzi, Zhongyuan Oil & Gas and Sinopec Shengli Oil Field Dynamic (Group) Co., Ltd. were delisted on 21 April 2006. For further details, please refer to relevant announcements published in China Securities Journal, Shanghai Securities News and Securities Times in Mainland China on 16 February and 6 March 2006 (Sinopec Shengli Oilfield Daming (Group) Co., Ltd.'s announcement was only published in China Securities Journal and Securities Times).

### 15 MAJOR PROJECTS

#### (1) CONSTRUCTION OF TIANJIN ONE MILLION TONNES PER ANNUM ETHYLENE PROJECT

Construction of Sinopec Tianjin one million tonnes per annum ("tpa") ethylene and associated facilities project started on 26 June 2006. This project comprises three parts, which are respectively ethylene project, revamping of refinery and thermal power generation facilities, at a total investment of about RMB 20.8 billion.

#### (2) ZRCC ONE MILLION TPA ETHYLENE PROJECT

ZRCC one million tpa ethylene and associated facilities project was approved by the State Council in March 2006. The total investment is approximately RMB 21.9 billion. The project consists of the ethylene project and the expansion of thermal power generation facilities. Initial preparatory work has commenced.

### 16 DE-REGISTRATION OF SINOPEC SHENGLI OIL FIELD COMPANY LIMITED

Sinopec Corp. de-registered Sinopec Shengli Oilfield Co., Ltd. and on 16 January 2006 established Shengli Oilfield Company. Prior to the de-registration, Sinopec Shengli Oilfield Co., Ltd. was a wholly owned subsidiary of Sinopec. Corp.

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

### 18 CONNECTED TRANSACTIONS

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(1) Connected transactions entered into by the Company during the reporting period During the reporting period, the aggregate amount of major and frequent connected transactions incurred between the Company and the connected parties was RMB 103.119 billion, of which, incoming trade amounted to RMB 48.349 billion, and outgoing trade amounted to RMB 54.770 billion (including RMB 54.716 billion of sales of products and services). Details of the connected transactions incurred during the reporting period are set out in the Note 30 to the financial statements prepared under the IFRS in this report.

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

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

Categorised by business segments	Income from principal operations (RMB million)	Cost of sales (RMB million)	Gross profit ratio (%) note (1)	Year-on-year increase/ decrease of income from principal operations (%)
Exploration and Production	65,497	19,596	60.53	47.53
Refining	268,982	276,547	(5.33)	28.63
Chemicals	97,944	86,849	11.13	17.91
Marketing and Distribution	275,115	252,663	8.03	32.21
Others	93,681	92,198	1.56	75.93
Elimination of inter-segment sales	(319,231)	(318,556)	--	--
Total	481,988	409,297	12.40	34.17
Of which: connected transactions note (2)	47,194	44,163	5.40	48.43
Pricing policy for connected transactions	<p>(1) Government-prescribed prices and government-guided prices are available; such prices are available;</p> <p>(2) Where there is no government-prescribed price or government-guided price, the market price (inclusive of bidding price) will apply to the products and services;</p> <p>(3) Where none of the above is applicable, the price will be decided based on the production cost incurred plus sales taxes and reasonable profit. Reasonable profit means the profit margin of the production cost of products by the same type of enterprises with the same kind of raw materials. Reasonable profit means the profit margin of the cost incurred based on the current interest rate level.</p>			

Note 1: Gross profit ratio = profit from principal operations/income from principal operations.

Note 2: During the reporting period, the total amount of connected transactions of the products sold and the services provided by the Company to Sinopec Group Company was RMB 29.853 billion.

(2) Continuing connected transactions

When listed in 2000, Sinopec Corp. and Sinopec Group Company executed a series of agreements regarding continuing connected transactions, including the Mutual Supply Agreement, the Community Service Agreement, the Land Use Right Leasing Agreement, Property Leasing Agreement, the Intellectual Property License Agreement, the Agency Agreement and the SPI Fund Document. On 24 December 2003, the Stock Exchange of Hong Kong Limited granted a conditional waiver of three years (from 2004 to 2006) to Sinopec Corp. from strict compliance with relevant requirements of the Hong Kong Listing Rules in relation to the continuing connected transactions. The waiver will expire on 31 December 2006.

It is expected that Sinopec Corp. will continue to conduct the relevant continuing connected transactions after the expiry of the waiver period. Sinopec Corp. has entered into supplemental agreements in relation to the connected transactions with Sinopec Group Company on 31 March 2006. The relevant supplemental agreements will apply to the continuing connected transactions of the Company to be conducted after 1 January 2007.

The proposal regarding continuing connected transactions for the three-year period from 2007 to 2009 was approved at the 2005 Annual General Meeting. For further details, please refer to Sinopec Corp.'s announcements published in China Securities Journal, Shanghai Securities News and Securities Times in Mainland China and Hong Kong Economic Times and South China Morning Post in Hong Kong on 3 April 2006.

(3) Connected transaction between Sinopec Corp. and its subsidiary Sinopec Kantons Holdings Limited At the second meeting of the Third Session of the Board of Directors of Sinopec Corp. held on 10 July 2006, Sinopec Kantons Holdings Limited ("Sinopec Kantons"), a controlled subsidiary of Sinopec Corp., is approved to acquire 30% equity interest in Huade Petrochemical Company Limited of Dayawan, Huizhou City at a cash consideration of RMB 594 million through its wholly owned subsidiary Kanton International Investment Limited; and Sinopec Corp. is approved to acquire 100% equity interest in Kantons Gas Station Investment Management Company Limited located in Guangzhou Free Trade Zone at a cash consideration of RMB 170 million (of which RMB 17 million was paid to acquire 10% equity interest which constitutes a connected transaction). For further details, please refer to relevant announcements published in China Securities Journal, Shanghai Securities News and Securities Times in Mainland China and Hong Kong Economic Times and South China Morning Post in Hong Kong on 11 July 2006.

19 ACQUISITIONS, DISPOSALS AND RESTRUCTURINGS OF ASSETS

Aside from the tender offer to four listed A-share subsidiaries (reference is made to Item 14) and the assets restructuring of China Phoenix (reference is made to Item 12), there is no other major acquisition, disposal or restructuring of assets during the reporting period.

20 SIGNIFICANT TRUSTEESHIP, SUB-CONTRACT AND LEASE

During this reporting period, Sinopec Corp. did not have any significant trusteeship, sub-contract or lease of any other company's assets, nor placed its assets to or under any other company's trusteeship, sub-contract or lease which were required to be disclosed.

21 DURING THIS REPORTING PERIOD, SINOPEC CORP. DID NOT ENTRUST ANY OUTSIDE

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PARTY TO CARRY OUT CASH ASSETS MANAGEMENT ON ITS BEHALF

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### 22 MATERIAL GUARANTEE CONTRACTS AND STATUS OF IMPLEMENTATION

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

Obligor	Date of Occurrence (Date of Execution)	Amount RMB millions	Type of guarantee	Term
Shanghai Secco				
Petrochemical Co., Ltd. Shanghai Secco	9 February 2002	2,830	Joint and several liability	9 February 20
Petrochemical Co., Ltd.	9 February 2002	4,062	Joint and several liability	9 February 20
BASF-YPC Co., Ltd.	7 March 2003	4,680	Joint and several liability	7 March 2003
Yueyang Sinopec Shell Coal Gasification Co., Ltd.	10 December 2003	377	Joint and several liability	10 December 2
Fujian Zhangzhao Expressway Service Company Limited	21 January 2003	10	Joint and several liability	21 January 20
Total amount of guarantee provided during the reporting period note (2)				

Total amount of guarantee outstanding at the end of the reporting period note (2)

Guarantees provided by Sinopec Corp. for its controlled subsidiaries

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

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

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

Total guarantee amount note (3)

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

Of which:

Amount of guarantee provided for shareholders, effective controlling parties or their companies

Amount of debt guarantee provided directly or indirectly for the companies with liabilities to assets ratio of over 70%

The amount of guarantee in excess of 50% of the net assets

Sum of the above three guaranteed items note (4)

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

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

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shareholdings in the controlled subsidiary.

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

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

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### Material Guarantees under Performance

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

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

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

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

At the thirteenth meeting of the Second Session of the Board of Directors of Sinopec Corp, the Board approved the provision of a credit line guarantee equivalent to RMB 2.421 billion to China International United Petroleum & Chemical Co., Ltd.

Independent' directors of Sinopec Corp. have carefully reviewed the external guarantees of Sinopec Corp. and confirmed that they have no different opinion.

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### 23 FUND PROVIDED BETWEEN CONNECTED PARTIES

Connected Parties	Relation with the Company	Fund to connected parties Net fund provided	Balance
Sinopec Group Company	Controlling shareholder and its controlled entity	420	2,908
Other Connected Parties	Associates	(11)	506
Total		409	3,414

Of which: RMB 420 million fund (net) was provided by the Company to China Petrochemical Corporation during the reporting period, and the balance at the end of the reporting period is RMB 2.91 billion.

### 24 USE OF FUND AND ITS EFFECTS AND REPAYMENT PLAN AS OF THE REPORTING PERIOD

Not applicable

### 25 PERFORMANCE OF THE COMMITMENTS BY SINOPEC CORP. AND ITS SHAREHOLDER HOLDING 5% OR MORE OF THE TOTAL ISSUED SHARE CAPITAL, NAMELY, CHINA PETROCHEMICAL CORPORATION

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

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

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

During the reporting period, Sinopec Corp. was not aware of itself or the above-mentioned principal shareholders having breached the above commitments.

### 26 AUDITORS

At the 2005 Annual General Meeting, KPMG Huazhen and KPMG were reappointed as the domestic and overseas auditors of the Company for the year of 2006 respectively, and the Board of Directors was authorised to determine the remunerations for them. The audit fee accrued for the first half of 2006 was RMB 24 million. The financial statements for the first half of 2006 have been audited by KPMG Huazhen and KPMG. The signing certified public accountants of KPMG Huazhen are Wu Wei and Zhang Jingjing.

27 APPLICATION OF THE MODEL CODE

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

28 REPURCHASE, SALE AND REDEMPTION OF SHARES

Apart from those as disclosed in Items 12, 13, and 14 above, Sinopec Corp. or any of its subsidiaries, has not repurchased, sold or redeemed any securities of Sinopec Corp. or its subsidiaries during the reporting period.

29 INTERESTS OF DIRECTORS, SUPERVISORS AND OTHER MEMBERS OF THE SENIOR MANAGEMENT IN THE SHARE CAPITAL

As of 30 June 2006, none of the directors, supervisors or senior management of Sinopec Corp. had any interest in any shares of Sinopec Corp.

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

30 OTHER SIGNIFICANT EVENTS

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

31 DOMESTIC SHARE REFORM ON NON-TRADABLE SHARES

Sinopec Corp. initiated domestic A share reform on non-tradable shares on 21 August, 2006. All the shareholders holding non-tradable shares intend to grant 2.8 shares for every ten tradable shares held by the shareholders as consideration. All shareholders holding non-tradable shares of Sinopec Corp. have made commitments of not trading their shares which have acquired the trading rights within the legal lock up period.

The above domestic A share reform is to be submitted to A share shareholders' general meeting for approval. Please refer to the

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announcement on A Share Reform of Sinopec Corp. published on 28 August, 2006.

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### DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT

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

#### DIRECTORS

Name	Gender	Age	Position in Sinopec
Chen Tonghai	Male	57	Chairman
Zhou Yuan	Male	58	Vice chairman
Wang Tianpu	Male	43	Director, president
Zhang Jianhua	Male	41	Director, senior vice president
Wang Zhigang	Male	49	Director, senior vice president
Dai Houliang	Male	42	Director, senior vice president, CFO
Liu Zhongli	Male	71	Independent, non-executive director
Shi Wanpeng	Male	69	Independent, non-executive director
Li Deshui	Male	62	Independent, non-executive director
Yao Zhongmin	Male	54	Director
Fan Yifei	Male	42	Director

#### SUPERVISORS

Name	Gender	Age	Position in Sinopec
Wang Zuoran	Male	55	Chairman of Supervisory Committee
Zhang Youcai	Male	64	Vice chairman of Supervisory Committee, independent supervisor
Kang Xianzhang	Male	58	Supervisor
Zou Huiping	Male	45	Supervisor
Li Yonggui	Male	66	Independent supervisor
Su Wensheng	Male	49	Employee representative supervisor
Zhang Jitian	Male	58	Employee representative supervisor
Cui Guoqi	Male	53	Employee representative supervisor
Li Zhonghua	Male	55	Employee representative supervisor

#### OTHER MEMBERS OF SENIOR MANAGEMENT

Name	Gender	Age	Position in Sinopec
Cai Xiyou	Male	44	Senior vice president
Zhang Kehua	Male	52	Vice president
Zhang Haichao	Male	49	Vice president
Chen Ge	Male	44	Secretary to the Board

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REPORT OF THE PRC AUDITORS  
[KPMG HUAZHEN GRAPHIC OMITTED]

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To the Shareholders of China Petroleum & Chemical Corporation:

We have audited the accompanying Company's consolidated balance sheet and balance sheet at 30 June 2006, and the consolidated income statement and profit appropriation statement, income statement and profit appropriation statement, consolidated cash flow statement and cash flow statement for the six-month period ended 30 June 2006. The preparation of these financial statements is the responsibility of the Company's management. Our responsibility is to express an audit opinion on these financial statements based on our audit.

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

In our opinion, the above-mentioned financial statements comply with the requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the Company's consolidated financial position and financial position at 30 June 2006, and the consolidated results of operations, results of operations, consolidated cash flows and cash flows for the six-month period ended 30 June 2006.

KPMG Huazhen

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

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

Wu Wei  
Zhang Jingjing

25 August 2006

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Note

RMB

Assets

Current assets

Cash at bank and in hand	4
Bills receivable	5
Trade accounts receivable	6
Other receivables	7
Advance payments	8
Inventories	9

-----  
Total current assets

Long-term equity investments (Including equity investment differences of RMB 13,549 million (2005: RMB 2,003 million))	10
--	----

Fixed assets

Fixed assets, at cost	
Less: Accumulated depreciation	
Net book value of fixed assets before impairment losses	11
Less: Provision for impairment losses on fixed assets	11
Net book value of fixed assets	
Construction materials	12
Construction in progress	13

Total fixed assets

Intangible assets and other assets

Intangible assets	14
Long-term deferred expenses	15

Total intangible assets and other assets

Deferred tax assets	16
---------------------	----

Total assets

-----  
Liabilities and shareholders' funds

Current liabilities

Short-term loans	17
Bills payable	18
Trade accounts payable	19
Receipts in advance	20
Wages payable	
Staff welfare payable	
Taxes payable	21
Other payables	22
Other creditors	23
Accrued expenses	24
Short-term debentures payable	27
Current portion of long-term loans	25

Total current liabilities

-----  
Long-term liabilities

Long-term loans	26
Debentures payable	27
Other long-term liabilities	28

Total long-term liabilities

-----  
Total liabilities

Minority interests

Shareholders' funds

Share capital	29
Capital reserve	30
Surplus reserves	31

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Unrecognised investment losses  
 Retained profits (Including cash dividend declared after the balance sheet date  
 of RMB 3,468 million (2005: Proposed cash dividend of RMB 7,803 million)) 39  
 Total shareholders' funds  
 -----  
 Total liabilities and shareholders' funds  
 -----

These financial statements have been approved by the Board of Directors on 25 August 2006.

Chen Tonghai  
 Chairman  
 (Authorised representative)

Wang Tianpu  
 Director and President

Dai Houliang  
 Director, Senior Vice President  
 and Chief Financial Officer

The notes on pages 47 to 75 form part of these financial statements.

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### BALANCE SHEET at 30 June 2006

	Note	
Assets		A
Current assets		RMB
Cash at bank and in hand	4	
Bills receivable	5	
Trade accounts receivable	6	
Other receivables	7	
Advance payments	8	
Inventories	9	
-----		
Total current assets		
Long-term equity investments (Including equity investment differences of RMB 13,549 million (2005: RMB 2,017 million))	10	
Fixed assets		
Fixed assets, at cost		
Less: Accumulated depreciation		
Net book value of fixed assets before impairment losses	11	
Less: Provision for impairment losses on fixed assets	11	
Net book value of fixed assets		
Construction materials	12	
Construction in progress	13	
-----		
Total fixed assets		
Intangible assets and other assets		
Intangible assets	14	
Long-term deferred expenses	15	

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Total intangible assets and other assets	16
Deferred tax assets	16
Total assets	16
<hr style="border-top: 1px dashed black;"/>	
Liabilities and shareholders' funds	
Current liabilities	
Short-term loans	17
Bills payable	18
Trade accounts payable	19
Receipts in advance	20
Wages payable	
Staff welfare payable	
Taxes payable	21
Other payables	22
Other creditors	23
Accrued expenses	24
Short-term debentures payable	27
Current portion of long-term loans	25
<hr style="border-top: 1px dashed black;"/>	
Total current liabilities	
Long-term liabilities	
Long-term loans	26
Debentures payable	27
Other long-term liabilities	28
Total long-term liabilities	
Total liabilities	
Shareholders' funds	
Share capital	29
Capital reserve	30
Surplus reserves	31
Retained profits (Including cash dividend declared after the balance sheet date of RMB 3,468 million (2005: Proposed cash dividend of RMB 7,803 million))	39
Total shareholders' funds	
Total liabilities and shareholders' funds	
<hr style="border-top: 1px dashed black;"/>	

These financial statements have been approved by the Board of Directors on 25 August 2006.

Chen Tonghai  
Chairman  
(Authorised representative)

Wang Tianpu  
Director and President

Dai Houliang  
Director, Senior Vice President  
and Chief Financial Officer

The notes on pages 47 to 75 form part of these financial statements.

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	Note	RMB
Income from principal operations	32	
Less: Cost of sales		
Sales taxes and surcharges	33	
Profit from principal operations		
Add: Profit from other operations		
Less: Selling expenses		
Administrative expenses		
Financial expenses	34	
Exploration expenses, including dry holes	35	
-----		
Operating profit		
Add: Investment income/(loss)	36	
Non-operating income		
Less: Non-operating expenses	37	
-----		
Profit before taxation		
-----		
Less: Income tax	38	
Minority interests		
Add: Reversal of unrecognised investment losses		
-----		
Net profit		
Add: Retained profits at the beginning of the period		
-----		
Distributable profits		
Less: Transfer to statutory surplus reserve	31	
Transfer to statutory public welfare fund	31	
Distributable profits to shareholders		
Less: Distribution of ordinary shares' dividend	39	
Retained profits at the end of the period (Including cash dividend declared after the balance sheet date of RMB 3,468 million (2005: RMB 3,468 million))	39	
-----		

These financial statements have been approved by the Board of Directors on 25 August 2006.

Chen Tonghai  
Chairman  
(Authorised representative)

Wang Tianpu  
Director and President

Dai Houliang  
Director, Senior Vice President  
and Chief Financial Officer

The notes on pages 47 to 75 form part of these financial statements.

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INCOME STATEMENT AND PROFIT APPROPRIATION STATEMENT for the six-month period ended 30 June 2006

	Note	RMB
Income from principal operations	32	
Less: Cost of sales		
Sales taxes and surcharges	33	
-----		
Profit from principal operations		
Add: Profit from other operations		
Less: Selling expenses		
Administrative expenses		
Financial expenses	34	
Exploration expenses, including dry holes	35	
Operating profit		
Add: Investment income	36	
Non-operating income		
Less: Non-operating expenses		
Profit before taxation		
Less: Income tax		
Net profit		
Add: Retained profits at the beginning of the period		
Distributable profits		
Less: Transfer to statutory surplus reserve	31	
Transfer to statutory public welfare fund	31	
-----		
Distributable profits to shareholders		
Less: Distribution of ordinary shares' dividend	39	
Retained profits at the end of the period (Including cash dividend declared after the balance sheet date of RMB 3,468 million (2005: RMB 3,468 million))	39	
-----		

These financial statements have been approved by the Board of Directors on 25 August 2006.

Chen Tonghai  
Chairman  
(Authorised representative)

Wang Tianpu  
Director and President

Dai Houliang  
Director, Senior Vice President  
and Chief Financial Officer

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The notes on pages 47 to 75 form part of these financial statements.

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CONSOLIDATED CASH FLOW STATEMENT  
for the six-month period ended 30 June 2006

	Note	RMB
Cash flows from operating activities		
Cash received from sale of goods and rendering of services		
Rentals received		
Other cash received relating to operating activities		
-----		
Sub-total of cash inflows		
Cash paid for goods and services		
Cash paid for operating leases		
Cash paid to and on behalf of employees		
Value added tax paid		
Income tax paid		
Taxes paid other than value added tax and income tax		
Other cash paid relating to operating activities		
-----		
Sub-total of cash outflows		
Net cash flow from operating activities	(a)	
Cash flows from investing activities		
Cash received from sale of investments		
Dividends received		
Net cash received from sale of fixed assets and intangible assets		
Cash received on maturity of time deposits with financial institutions		
Other cash received relating to investing activities		
-----		
Sub-total of cash inflows		
Cash paid for acquisition of fixed assets and intangible assets		
Cash paid for acquisition of fixed assets and intangible assets of jointly controlled entities		
Cash paid for purchase of investments		
Cash paid for purchase of time deposits with financial institutions		
Cash paid for acquisition of operating assets and related liabilities from Sinopec Group Company		
Cash paid for acquisition of subsidiaries		
Sub-total of cash outflows		
-----		
Net cash flow from investing activities		
Cash flows from financing activities		
Cash received from contribution from minority shareholders		
Cash received from issuance of corporate bonds		

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Cash received from borrowings	
Cash received from borrowings of jointly controlled entities	
-----	
Sub-total of cash inflows	
Cash repayments of corporate bonds	
Cash repayments of borrowings	
Cash paid for dividends, profits distribution or interest expenses	
Dividends paid to minority shareholders by subsidiaries	
-----	
Sub-total of cash outflows	
Net cash flow from financing activities	
Effects of changes in foreign exchange rate	
Net decrease in cash and cash equivalents	(b)
-----	

The notes on pages 47 to 75 form part of these financial statements.

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

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

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Increase in operating payables  
Minority interests

---

Net cash flow from operating activities

(b) Net decrease in cash and cash equivalents  
Cash and cash equivalents at the end of the period  
Less: Cash and cash equivalents at the beginning of the period  
Net decrease in cash and cash equivalents

---

These financial statements have been approved by the Board of Directors on 25 August 2006.

Chen Tonghai  
Chairman  
(Authorised representative)

Wang Tianpu  
Director and President

Dai Houliang  
Director, Senior Vice President  
and Chief Financial Officer

The notes on pages 47 to 75 form part of these financial statements.

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CASH FLOW STATEMENT  
for the six-month period ended 30 June 2006

Note

RMB

Cash flows from operating activities

Cash received from sale of goods and rendering of services  
Rentals received  
Other cash received relating to operating activities

---

Sub-total of cash inflows  
Cash paid for goods and services  
Cash paid for operating leases  
Cash paid to and on behalf of employees  
Value added tax paid  
Income tax paid  
Taxes paid other than value added tax and income tax  
Other cash paid relating to operating activities

---

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Sub-total of cash outflows

Net cash flow from operating activities (a)

Cash flows from investing activities

Cash received from sale of investments

Dividends received

Net cash received from sale of fixed assets and intangible assets

Cash received on maturity of time deposits with financial institutions

Other cash received relating to investing activities

---

Sub-total of cash inflows

Cash paid for acquisition of fixed assets and intangible assets

Cash paid for purchase of investments

Cash paid for acquisition of operating assets and related liabilities  
from Sinopec Group Company

Cash paid for acquisition of subsidiaries

---

Sub-total of cash outflows

Net cash flow from investing activities

Cash flows from financing activities

Proceeds from issuance of corporate bonds

Proceeds from borrowings

---

Sub-total of cash inflows

Cash repayments of corporate bonds

Cash repayments of borrowings

Cash paid for dividends, profits distribution or interest expenses

---

Sub-total of cash outflows

Net cash flow from financing activities

Net decrease in cash and cash equivalents (b)

---

The notes on pages 47 to 75 form part of these financial statements.

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

Net profit

Add: (Reversal of)/provision for allowance for doubtful accounts

Provision for diminution in value of inventories

Depreciation of fixed assets

Amortisation of intangible assets

Impairment losses on fixed assets

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Impairment losses on long-term investments  
Net (income)/loss on disposal of fixed assets and intangible assets  
Financial expenses  
Dry hole costs  
Investment income  
Deferred tax liabilities (less: assets)  
Increase in inventories  
(Increase)/decrease in operating receivables  
Increase/(decrease) in operating payables  
Net cash flow from operating activities

---

(b) Net decrease in cash and cash equivalents  
Cash and cash equivalents at the end of the period  
Less: Cash and cash equivalents at the beginning of the period  
Net decrease in cash and cash equivalents

These financial statements have been approved by the Board of Directors on 25 August 2006.

Chen Tonghai  
Chairman  
(Authorised representative)

Wang Tianpu  
Director and President

Dai Houliang  
Director, Senior Vice President  
and Chief Financial Officer

The notes on pages 47 to 75 form part of these financial statements.

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NOTES ON THE FINANCIAL STATEMENTS  
for the six-month period ended 30 June 2006

### 1 STATUS OF THE COMPANY

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

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

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

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value transferred from Sinopec Group Company to the Company in connection with the Reorganisation.

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

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

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

Pursuant to the resolution passed at the Board of Directors' meeting held on 28 October 2003, the Company acquired the principal assets and associated liabilities related to the 380 kiloton ethylene production and distribution equipment from Sinopec Group Maoming Petrochemical Company ("Sinopec Maoming"), for a consideration of RMB 3.3 billion (hereinafter referred to as the "Acquisition of Ethylene Assets").

Pursuant to the resolution passed at the Board of Directors' meeting held on 29 December 2003, the Company acquired the entire operating assets and liabilities of Tahe Oilfield Petrochemical Factory ("Tahe Petrochemical") and Xi'an Petrochemical Main Factory ("Xi'an Petrochemical") from Sinopec Group Company, for considerations of RMB 0.14 billion and RMB 0.22 billion, respectively (hereinafter referred to as the "Acquisition of Refining Assets").

Pursuant to the resolutions passed at the Extraordinary General Meeting held on 21 December 2004, the Company acquired certain operating assets and associated liabilities of refining, petrochemicals, catalysts and gas stations (the "Acquisition of Acquired Assets") from Sinopec Group Company for a consideration of RMB 5.36 billion. In connection with these acquisitions, the Group disposed of certain assets and liabilities related to its oilfield downhole operation (the "Disposal of Downhole Assets") to Sinopec Group Company for a consideration receivable of RMB 1.71 billion, resulting in a net consideration of RMB 3.65 billion payable to Sinopec Group Company.

## 2 SIGNIFICANT ACCOUNTING POLICIES

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

### (a) Accounting year

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

### (b) Basis of consolidation

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

The consolidated financial statements include the financial statements of the Company and all of its principal subsidiaries. A subsidiary is a company held by the Company directly or indirectly, of more than 50%

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

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

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

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### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (c) Basis of preparation and measurement basis

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

#### (d) Reporting currency and translation of foreign currencies The Group's reporting currency is Renminbi.

Foreign currency transactions during the period are translated into Renminbi at exchange rates 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 gains and losses on foreign currency translation, except for those directly relating to the construction of fixed assets (see note 2(i)), are dealt with in the income statement.

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

#### (e) Cash equivalents

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

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### (f) Allowance for doubtful accounts

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

### (g) Inventories

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

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

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

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

Inventories are recorded by perpetual method.

### (h) Long-term equity investments

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

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

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

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investment period as stipulated in the relevant agreement, or 10 years if the investment period is not specified in the agreement. The unamortised balance is included in long-term equity investments at the period end.

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

Upon the disposal or transfer of long-term equity investments, the difference between the proceeds received and the carrying amount of the investments is recognised in the income statement.

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

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### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (i) Fixed assets and construction in progress

Fixed assets represent the assets held by the Group for use in the production of goods and for administrative purposes with useful life over 1 year and comparatively high unit value.

Fixed assets are stated in the balance sheet at cost or revalued amount less accumulated depreciation and impairment losses (see note 2(w)). Construction in progress is stated in the balance sheet at cost or revalued amount less impairment losses (see note 2(w)). The revalued amount represents the amount of assets, which is determined by revaluation carried out in accordance with the relevant rules and regulations.

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

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

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

	Estimated useful lives	Estimated rate of residual value
Land and buildings	15-45 years	3%-5%
Oil and gas properties	10-14 years	0%-3%

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Plant, machinery, equipment, vehicles and others	4-18 years	3%
Oil depots and storage tanks	8-14 years	3%
Service stations	25 years	3%-5%

(j) Oil and gas properties

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

(k) Intangible assets

Intangible assets are stated in the balance sheet at cost or revalued amount less accumulated amortisation and provision for impairment losses (see note 2(w)). Amortisation is provided on a straight-line basis. The amortisation period is the shorter of the contracted beneficial period and the effective period stipulated by law. Amortisation is provided over 10 years if it is not specified in contracts or stipulated by law.

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

(l) Pre-operating expenditures

Except for the acquisition and constructions of fixed assets, all expenses incurred during the start-up period are aggregated in long-term deferred expenses and then fully charged to the income statement in the month operations commence.

(m) Debentures payable

Debentures payable is stated in the balance sheet based on the proceeds received upon issuance. Interest expenses are calculated based on actual interest rate.

The premium/discount on debentures is amortised on a straight-line basis, over the period from the issue date to the maturity date.

(n) Revenue recognition

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

Revenue from the rendering of services only involving in one accounting year is recognised in the income statement upon completion. If a transaction lasts more than one accounting years, when the outcome of the transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised in the income statement in proportion to the stage of completion of the transaction based on the progress of work performed; or when the outcome

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of the transaction involving the rendering of services cannot be estimated reliably, revenues recognised only to the extent that costs incurred are expected to be recoverable.

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

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### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (o) Income tax

Income tax is recognised using the tax effect accounting method. Income tax for the period comprises current tax payable and movement of deferred tax assets and liabilities.

Current tax is calculated at the applicable tax rate on taxable income.

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

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

#### (p) Borrowing costs

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

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

#### (q) Repairs and maintenance expenses

Repairs and maintenance expenses are recognised in the income statement when incurred.

#### (r) Environmental expenditures

Environmental expenditures relating to circumstances arising as a result of the current or past businesses are recognised in the income statement when incurred.

#### (s) Research and development costs

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

#### (t) Operating leases

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

#### (u) Dividends

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

### (v) Retirement benefits

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution retirement plan for the employees arranged by a governmental organisation. The Group makes contributions to the retirement scheme at the applicable rate(s) based on the employees' salaries. The contributions are charged to the income statement on an accrual basis. After the payment of the contributions under the retirement plan, the Group does not have any other obligations in this respect.

### (w) Provision for impairment

The carrying amounts of assets (including long-term equity investments, fixed assets, construction in progress, intangible assets and other assets) are reviewed regularly to determine whether their recoverable amounts have declined below their carrying amounts. Assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount by which the carrying amount is reduced is the impairment loss.

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

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

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

### (x) Related parties

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

## (y) Provisions and contingent liabilities

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

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

## 3 TAXATION

Major taxes applicable to the Group and the Company comprise income tax, consumption tax, resources tax, value added tax and special oil income levy.

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

Consumption tax is levied on gasoline and diesel at rates of RMB 277.6 per tonne and RMB 117.6 per tonne respectively. Effective from 1 April 2006, the MOF prescribed additional taxable refined oil products. New tax rates levied upon naphtha, solvent oil, lubricant oil, fuel oil and jet fuel oil are RMB 277 per tonne, RMB 256.4 per tonne, RMB 225.2 per tonne, RMB 101.5 per tonne and RMB 124.6 per tonne respectively. The consumption tax on jet fuel oil is temporarily exempted while those for naphtha, solvent oil, lubricant oil and fuel oil are temporarily imposed on 30% of the taxable amounts.

For the period from 1 January 2005 to 30 June 2005, resources tax was levied on crude oil and natural gas at rates ranging from RMB 8 per tonne to RMB 30 per tonne and RMB 2 to RMB 15 per 1,000 cubic metres respectively. Since 1 July 2005, resources tax is levied on crude oil and natural gas at rates ranging from RMB 14 per tonne to RMB 30 per tonne and RMB 7 to RMB 15 per 1,000 cubic metres respectively.

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

With effective from 26 March 2006, the MOF imposed a special oil income levy on any income derived from the sale of locally produced crude oil by an oil exploration and production entity exceeding a certain level of selling price. The levy starts at USD 40 per barrel and the rates range from 20% to 40%.

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

Name of branches, subsidiaries  
and jointly controlled entities

Preferential tax rate

Reasons for

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Sinopec National Star Xinan Branch	15%	Tax preferential po
Sinopec National Star Xibei Branch	15%	Tax preferential po
Sinopec Southern Exploration Branch	15%	Tax preferential po
Sinopec Shanghai Petrochemical Company Limited	15%	The first batch of successfully got
Sinopec Yizheng Chemical Fibre Company Limited	15%	The first batch of successfully got
Sinopec Yangzi Petrochemical Company Limited	15%	High technology ent
Sinopec Zhongyuan Petroleum Company Limited	15%	High technology ent
Petro-CyberWorks Information Technology Company Limited	15%	High technology ent
Shanghai Secco Petrochemical Company Limited	2-year exemption and 3-year 50% reduction	Foreign investment
BASF-YPC Company Limited	2-year exemption and 3-year 50% reduction	Foreign investment

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4 CASH AT BANK AND IN HAND

The Group

	Original currency millions	At 30 June 2006		Original currenc million
		Exchange rates	RMB millions	
Cash in hand				
Renminbi			16	
Cash at bank				
Renminbi			8,740	
US Dollars	100	7.9956	803	7
Hong Kong Dollars	73	1.0294	75	6
Japanese Yen	345	0.0695	24	27
Euro	1	10.1313	13	
			9,671	
Deposits at related parties				
Renminbi			1,105	
US Dollars	--	7.9956	1	--
Total cash at bank and in hand			10,777	

The Company

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	Original currency millions	At 30 June 2006 Exchange rates	RMB millions	Original currency million
Cash in hand				
Renminbi			11	
Cash at bank				
Renminbi			3,701	
US Dollars	--	7.9956	3	
Hong Kong Dollars	4	1.0294	4	
			3,719	
Deposits at related parties				
Renminbi			273	
US Dollars	--	7.9956	1	
Total cash at bank and in hand			3,993	

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

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

	At 30 June 2006 RMB millions	The Group At 31 December 2005 RMB millions	
Amounts due from subsidiaries	--	--	
-----			
Amounts due from Sinopec Group Company and fellow subsidiaries	2,001	3,049	
-----			
Amounts due from associates	534	572	
Amounts due from jointly controlled entities	503	505	
Amounts due from others	17,579	13,546	
-----			
	20,617	17,672	
-----			
Less: Allowance for doubtful accounts	3,168	3,140	
Total	17,449	14,532	
-----			

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6 TRADE ACCOUNTS RECEIVABLE (Continued) Allowance for doubtful accounts is analysed as follows:

	The Group		RMB
	At 30 June 2006 RMB millions	At 31 December 2005 RMB millions	
Balance at 1 January	3,140	3,671	
Provision for the period/year	77	328	
Written back for the period/year	(48)	(503)	
Written off for the period/year	(1)	(356)	
Transferred from subsidiaries	--	--	
Balance at 30 June/31 December	3,168	3,140	

Ageing analysis on trade accounts receivable is as follows:

	Amount RMB millions	At 30 June 2006 Allowance		The Group		At
		RMB %	millions	RMB %	Amount millions	
Within one year	16,985	82.4	48	0.3	14,320	
Between one and two years	381	1.8	82	21.5	279	
Between two and three years	284	1.4	119	41.9	158	
Over three years	2,967	14.4	2,919	98.4	2,915	
Total	20,617	100.0	3,168		17,672	1

	Amount RMB millions	At 30 June 2006 Allowance		The Company		At
		RMB %	millions	RMB %	Amount millions	
Within one year	10,811	78.3	46	0.4	8,721	
Between one and two years	312	2.3	78	25.0	164	

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Between two and three years	254	1.8	94	37.0	95
Over three years	2,426	17.6	2,387	98.4	2,165
<hr/>					
Total	13,803	100.0	2,605	11,145	1
<hr/>					

Major trade accounts receivable of the Group at 30 June 2006 are set out below:

Name of debtor	Balance RMB millions
North Petroleum International Company Limited	1,044
Sinochem Singapore Petroleum International Company Limited	543
Qingdao Petrochemical Plant	497
Exxon Mobil Sales and Supply Corporation	284
Mitsubishi Corporation	276

Major trade accounts receivable of the Group at 31 December 2005 are set out below:

Name of debtor	Balance RMB millions
Guangdong Nanhua Petroleum Company Limited	921
Dongxing Oil Industry Limited	697
Sinopec Railway Oil Marketing Company Limited	330
SK Corporation	232
Sinochem Singapore Petroleum International Company Limited	216

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

During the six-month periods ended 30 June 2006 and 2005, the Group and the Company had no individually significant trade accounts receivable been fully or substantially provided for.

During the six-month periods ended 30 June 2006 and 2005, the Group and the Company had no individually significant write off or recover of doubtful debts which had been fully or substantially provided for in prior years.

At 30 June 2006 and 31 December 2005, the Group and the Company had no

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individually significant trade accounts receivable that aged over three years.

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### 7 OTHER RECEIVABLES

	The Group		
	At 30 June 2006 RMB millions	At 31 December 2005 RMB millions	
Amounts due from subsidiaries	--	--	
Amounts due from Sinopec Group Company and fellow subsidiaries	3,316	3,059	
Amounts due from associates	493	521	
Amounts due from others	12,152	11,419	
	15,961	14,999	
Less: Allowance for doubtful accounts	3,470	3,512	
Total	12,491	11,487	

Allowance for doubtful accounts is analysed as follows:

	The Group		
	At 30 June 2006 RMB millions	At 31 December 2005 RMB millions	
Balance at 1 January	3,512	3,496	
Provision for the period/year	22	446	
Written back for the period/year	(43)	(415)	
Written off for the period/year	(21)	(15)	
Transferred from subsidiaries	--	--	
Balance at 30 June/31 December	3,470	3,512	

Ageing analysis of other receivables is as follows:

Amount	The Group		Amount
	At 30 June 2006	At 31 December 2005	
	Allowance		

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	RMB millions	RMB %	RMB millions	RMB %	RMB millions
Within one year	10,185	63.8	12	0.1	9,167
Between one and two years	582	3.7	35	6.0	676
Between two and three years	469	2.9	254	54.2	447
Over three years	4,725	29.6	3,169	67.1	4,709
Total	15,961	100.0	3,470		14,999

	Amount RMB millions	At 30 June 2006 Allowance RMB %	millions	The Company RMB %	Amount RMB millions	At
Within one year	13,637	69.7	9	0.1	7,127	
Between one and two years	530	2.7	30	5.7	491	
Between two and three years	740	3.8	539	72.8	748	
Over three years	4,668	23.8	3,115	66.7	4,438	
Total	19,575	100.0	3,693		12,804	1

Major other receivables of the Group at 30 June 2006 are set out below:

Name of debtor	Particulars	Balance RMB millions
China Petrochemical Corporation	Current Account	1,500
Jinhuang Real Estate Company Limited	Current Account	208
Ningbo Taiyi Real Estate Company Limited	Current Account	192
Qingdao Qirun Petrochemical Company Limited	Current Account	165
China Petroleum Sales Nanchang Jiaoqu Company Limited	Current Account	148

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- 7 OTHER RECEIVABLES (Continued)  
Major other receivables of the Group at 31 December 2005 are set out below:

Name of debtor	Particulars	Balance RMB millions
China Petrochemical Corporation	Current Account	1,507
Fujian Quanzhou Qu Finance Bureau	Current Account	375
Jinhuang Real Estate Company Limited	Current Account	208
Ningbo Taiyi Real Estate Company Limited	Current Account	192
Qingdao Qirun Petrochemical Company Limited	Current Account	162

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

During the six-month periods ended 30 June 2006 and 2005, the Group and the Company had no individually significant other receivables been fully or substantially provided for.

During the six-month periods ended 30 June 2006 and 2005, the Group and the Company had no individually significant write off or recover of doubtful debts which had been fully or substantially provided for in prior years.

At 30 June 2006 and 31 December 2005, the Group and the Company had no individually significant other receivables that aged over three years.

- 8 ADVANCE PAYMENTS  
All advance payments are aged within one year.

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

- 9 INVENTORIES

	The Group		
	At 30 June 2006 RMB millions	At 31 December 2005 RMB millions	
Raw materials	63,874	53,350	
Work in progress	9,587	9,422	
Finished goods	28,308	23,163	

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Spare parts and consumables	4,619	3,893
	106,388	89,828
Less: Provision for diminution in value of inventories	892	892
	105,496	88,936

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

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

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

	The Group		The Company	
	At 30 June 2006 RMB millions	At 31 December 2005 RMB millions	At 30 June 2006 RMB millions	At R
Balance at 1 January	892	906	309	
-----				
Provision for the period/year	250	262	--	
Written back for the period/year	(248)	(180)	--	
Written off	(2)	(96)	(1)	
Transferred from subsidiaries	--	--	106	
-----				
Balance at 30 June/31 December	892	892	414	
-----				

The cost of inventories recognised as costs and expenses by the Group and the Company amounted to RMB 416,500 million (2005: RMB 298,803 million) and RMB 281,369 million (2005: RMB 218,070 million) for the six-month period ended 30 June 2006, respectively.

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### 10 LONG-TERM EQUITY INVESTMENTS

The Group

	Listed stock investment	Unlisted stock and other equity investment	Equity investment differences
--	----------------------------	---	-------------------------------------

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	RMB millions	RMB millions	RMB millions	RM
At 1 January 2006	823	11,647	2,003	
Addition for the period	--	2,159	11,940	
Share of profits less losses from investments accounted for under the equity method	19	428	--	
Long-term equity investments transferred to a subsidiary	(494)	--	--	
Dividends receivable/received	--	(236)	--	
Disposal for the period	--	(143)	--	
Amortisation for the period	--	--	(394)	
Movement of provision for impairment losses	--	--	--	
At 30 June 2006	348	13,855	13,549	

The Company

	Listed stock investment RMB millions	Unlisted stock and other equity investment RMB millions	Equity investment differences RMB millions	RM
At 1 January 2006	48,564	82,725	2,017	
Addition for the period	--	12,669	11,927	
Reclassification	(32,304)	32,304	--	
Share of profits less losses from investments accounted for under the equity method	(654)	5,608	--	
Dividends receivable/received	(430)	(2,183)	--	
Disposal for the period	--	(72)	--	
Acquired equity interests in subsidiaries (Note)	--	(49,746)	--	
Amortisation for the period	--	--	(395)	
Movement of provision for impairment losses	--	--	--	
At 30 June 2006	15,176	81,305	13,549	

Note: During the six-month period ended 30 June 2006, the Company acquired all the assets and liabilities of Sinopec Shengli Oilfield Company Limited and Sinopec Beijing Yanhua Petrochemical Company Limited ("Beijing Yanhua"). The above companies no longer existed as at 30 June 2006.

Provision for impairment losses is analysed as follows:

The Group

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	At 30 June 2006 RMB millions	At 31 December 2005 RMB millions	A RMB
Balance at 1 January	327	353	
Addition for the period/year	41	77	
Written back for the period/year	--	(17)	
Written off	(8)	(86)	
Balance at 30 June/31 December	360	327	

At 30 June 2006 and 31 December 2005, the Group and the Company had no individually significant long-term equity investments which had been provided for.

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

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10 LONG-TERM EQUITY INVESTMENTS (Continued)

At 30 June 2006, details of listed stock investment of the Group (associates) are as follows:

Name of investee enterprise	Type of equity interest	No. of shares millions	Percentage of equity interest held by the Group	Initial investment cost RMB millions	Balance at 1 January 2006 RMB millions	Sh p acc for the RMB mi
Sinopec Shandong Taishan Petroleum Company Limited	Legal person shares	186	38.68%	124	329	

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

At 30 June 2006, details of principal unlisted stock and other equity

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investment of the Group (including associates) are as follows:

Name of investee enterprise	Initial investment cost RMB millions	Investment period	Percentage of equity interest held by the Group	Balance at 1 January 2006 RMB millions	Addition for the period RMB millions	profit a for u equit RMB
Sinopec Finance Company Limited (i) (ii)	1,205	--	49%	1,517	1,507	
China Aviation Oil Supply Company Limited (ii)	1,102	--	29%	1,102	--	
Shanghai Petroleum National Gas Corporation (i) (ii)	300	--	30%	958	--	
Shanghai Chemical Industry Park Development Company Limited (ii)	608	30 years	38%	659	--	
China Shipping & Sinopec Suppliers Company Limited (ii)	438	--	50%	509	--	
Sinopec Changjiang Fuel Company Limited (ii)	190	20 years	50%	253	--	
Hunan Highway Industrial Development Company Limited (i) (ii)	215	--	49%	221	--	
Beijing International Trust and Investment Company Limited	200	--	8%	200	--	
Zhejiang Express Petroleum Development Company Limited (i) (ii)	174	30 years	50%	177	--	
China Gas Holdings Ltd	136	--	11%	136	--	
Sinopec Railway Oil Marketing Company Limited (ii)	74	20 years	50%	126	--	

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

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

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

At 30 June 2006, the Group's and the Company's proportion of the total investments to the net assets was 12% (2005: 7%) and 48% (2005: 61%), respectively.

At 30 June 2006, the Group's and the Company's equity investment differences represent mainly the equity investment differences resulting from the acquisitions of the equity interests of Beijing Yanhua, Sinopec Zhenhai Refining and Chemical Company Limited, Sinopec Qilu Petrochemical Company Limited, Sinopec Yangzi Petrochemical Company Limited, Sinopec Zhongyuan Petroleum Company Limited and Sinopec Shengli Oilfield Dynamic Company Limited. The equity investment differences are amortised on a straight-line basis over 10 years. The carrying values of the equity investment differences as at 30 June 2006 are RMB 12,497 million.

## 11 FIXED ASSETS

The Group - by segment

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemical RMB mill
Cost/valuation:				
At 1 January 2006	189,126	122,009	76,673	180,18
Addition for the period	14	92	168	18
Transferred from construction in progress	4,747	4,555	3,907	1,80
Acquisition of a subsidiary	2,071	--	--	--
Reclassification	--	557	--	(55
Disposals	(36)	(96)	(101)	(19
At 30 June 2006	195,922	127,117	80,647	181,41
Accumulated depreciation:				
At 1 January 2006	94,741	61,160	13,476	94,68
Depreciation charge for the period	6,227	3,431	1,626	4,80
Acquisition of a subsidiary	592	--	--	--
Reclassification	--	1,235	--	(1,23
Written back on disposal	(16)	(60)	(44)	(14
At 30 June 2006	101,544	65,766	15,058	98,11
Net book value:				
At 30 June 2006	94,378	61,351	65,589	83,29
At 31 December 2005	94,385	60,849	63,197	85,49

The Company - by segment

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemical RMB mill
Cost/valuation:				
At 1 January 2006	72,478	91,960	67,548	58,84
Addition for the period	14	90	163	--

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Transferred from construction in progress	4,484	3,890	3,107	68
Transferred from subsidiaries	107,948	1,548	--	15,65
Transferred to subsidiaries	--	--	(239)	--
Reclassification	--	(709)	--	70
Disposals	(5)	(92)	(86)	(1
At 30 June 2006	184,919	96,687	70,493	75,88
Accumulated depreciation:				
At 1 January 2006	29,346	46,261	12,809	34,26
Depreciation charge for the period	5,879	2,576	1,472	1,98
Transferred from subsidiaries	60,961	759	--	9,26
Transferred to subsidiaries	--	--	(64)	--
Reclassification	--	(3)	--	--
Written back on disposal	(4)	(56)	(40)	(1
At 30 June 2006	96,182	49,537	14,177	45,49
Net book value:				
At 30 June 2006	88,737	47,150	56,316	30,39
At 31 December 2005	43,132	45,699	54,739	24,57

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11 FIXED ASSETS (Continued)

The Group - by asset class

	Land and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	ve RM
Cost/valuation:				
At 1 January 2006	49,318	169,941	72,217	
Addition for the period	243	--	136	
Transferred from construction in progress	345	4,653	5,632	
Acquisition of a subsidiary	519	1,313	--	
Reclassification	1,415	1	(1,238)	
Disposals	(102)	(3)	(41)	
At 30 June 2006	51,738	175,905	76,706	
Accumulated depreciation:				
At 1 January 2006	21,130	85,896	12,738	
Depreciation charge for the period	925	5,876	1,634	
Acquisition of a subsidiary	49	468	--	
Reclassification	179	2	(278)	
Written back on disposal	(36)	(3)	(19)	
At 30 June 2006	22,247	92,239	14,075	
Net book value:				
At 30 June 2006	29,491	83,666	62,631	
At 31 December 2005	28,188	84,045	59,479	

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The Company - by asset class

	Land and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	ve RM
Cost/valuation:				
At 1 January 2006	25,278	64,142	64,056	
Addition for the period	81	--	100	
Transferred from construction in progress	187	4,442	4,825	
Transferred from subsidiaries	3,261	101,287	--	
Transferred to subsidiaries	--	--	(239)	
Reclassification	(1,271)	1	2,025	
Disposals	(17)	(3)	(34)	
At 30 June 2006	27,519	169,869	70,733	
Accumulated depreciation:				
At 1 January 2006	10,329	27,358	11,943	
Depreciation charge for the period	471	5,596	1,447	
Transferred from subsidiaries	1,054	55,576	--	
Transferred to subsidiaries	--	--	(64)	
Reclassification	(271)	2	710	
Written back on disposal	(8)	(3)	(16)	
At 30 June 2006	11,575	88,529	14,020	
Net book value:				
At 30 June 2006	15,944	81,340	56,713	
At 31 December 2005	14,949	36,784	52,113	

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

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

In accordance with the relevant rules and regulations in respect of the Acquisition of Ethylene Assets, the fixed assets and construction in progress of Sinopec Maoming have been revalued by a firm of independent

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valuers in the PRC. Deficit on revaluation of RMB 86 million has been incorporated in the Group's financial statements since the year ended 31 December 2003.

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### 11 FIXED ASSETS (Continued)

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

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

At 30 June 2006, the carrying amounts of fixed assets that were pledged by the Group and the Company were RMB 109 million (2005: RMB 83 million) and RMB nil (2005: RMB 10 million), respectively.

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

The Group - by segment

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	RM
At 1 January 2006	843	11	1,270	
Addition for the period	--	--	5	
Written off for the period	--	--	(1)	
At 30 June 2006	843	11	1,274	

The Company - by segment

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	RM

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At 1 January 2006	780	11	1,241
Written off for the period	--	--	(1)
At 30 June 2006	780	11	1,245

The Group - by asset class

	Land and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	RM
At 1 January 2006	351	843	917	
Addition for the period	29	--	5	
Reclassification	(28)	--	149	
Written off for the period	--	--	(1)	
At 30 June 2006	352	843	1,070	

The Company - by asset class

	Land and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	RM
At 1 January 2006	154	780	935	
Addition for the period	--	--	5	
Reclassification	21	--	(22)	
Written off for the period	--	--	(1)	
At 30 June 2006	175	780	917	

Provision for impairment losses recognised on fixed assets of the Chemicals Segment of the Group of RMB 29 million (2005: RMB 392 million) for the six-month period ended 30 June 2006 relate to certain chemicals production facilities that are held for use. The carrying values of these facilities were written down to their recoverable amounts that were determined based on the appraised value of the production facilities. The primary factor resulting in the provision for impairment losses of the Chemicals Segment was due to higher operating and production costs caused by the increase in the prices of raw materials that are not expected to be recovered through an increase in selling price.

## 11 FIXED ASSETS (Continued)

Provision for impairment losses recognised on fixed assets of the Marketing and Distribution Segment of the Group of RMB 5 million (2005: RMB 5 million) for the six-month period ended 30 June 2006 primarily relate to certain service stations that were closed during the period. In measuring the amounts of impairment charges, the carrying amounts of these assets were compared to the present value of the expected future cash flows of the assets, as well as information about sales and purchases of similar properties in the same geographic area.

At 30 June 2006 and 31 December 2005, the Group and the Company had no individually significant fixed assets which were temporarily idle or pending for disposal.

At 30 June 2006 and 31 December 2005, the Group and the Company had no individually significant fully depreciated fixed assets which were still in use.

## 12 CONSTRUCTION MATERIALS

At 30 June 2006 and 31 December 2005, the Group's and the Company's construction materials mainly represent the actual cost of materials such as steel and copper to be used for construction projects.

## 13 CONSTRUCTION IN PROGRESS

The Group

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Che RMB m
At 1 January 2006	10,884	14,185	9,956	10,
Addition for the period	13,060	4,956	6,347	5,
Addition for the period of jointly controlled entities	73	--	--	
Acquisition of a subsidiary	89	--	--	
Dry hole costs written off	(1,398)	--	--	
Transferred to fixed assets	(4,747)	(4,555)	(3,907)	(1,
At 30 June 2006	17,961	14,586	12,396	14,

The interest rates per annum at which borrowing costs were capitalised during the six-month period ended 30 June 2006 by the Group ranged from 3.6% to 5.9% (2005: 3.3% to 6.6%).

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The Group's proportionate share of the jointly controlled entities' construction in progress at 30 June 2006 in the exploration and production and the Chemicals Segments were RMB 2,961 million (2005: RMB 2,888 million) and RMB 592 million (2005: RMB 504 million), respectively.

At 30 June 2006, major construction projects of the Group are as follows:

Project name	Budgeted amount RMB millions	At 1 January 2006 RMB millions	Addition/ (decrease) for the period RMB millions	At 30 June 2006 RMB millions	Percenta compl
The Group					
1,000,000 tonnes Ethylene Reconstruction and Expansion Project	7,494	2,517	2,358	4,875	65%
Middle East Sour Crude Processing and Clean Fuel Production Supporting Project	4,438	2,450	1,333	3,783	85%
Yizheng-Changling Crude Oil Pipeline Project	4,820	3,887	(1,825)	2,062	84%
10,000,000 tonnes Refinery Plant Reform	2,521	1,029	567	1,596	63%
Chaoyang Square Project	2,800	1,106	288	1,394	50%

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### 13 CONSTRUCTION IN PROGRESS (Continued)

The Company

Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Che RMB m
--	--------------------------	--	--------------

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At 1 January 2006	7,651	13,202	8,353	7
Addition for the period	12,699	3,640	5,073	4
Transferred from subsidiaries	927	--	--	
Dry hole costs written off	(1,398)	--	--	
Transferred to fixed assets	(4,484)	(3,890)	(3,107)	
At 30 June 2006	15,395	12,952	10,319	11

The interest rates per annum at which borrowing costs were capitalised for the six-month period ended 30 June 2006 by the Company ranged from 3.6% to 5.9% (2005: 3.3% to 6.6%).

### 14 INTANGIBLE ASSETS

The Group

	Computer software license RMB millions	Technical know-how RMB millions	Exploration and production right RMB millions	RM
Cost:				
At 1 January 2006	1,033	2,946	3,163	
Addition for the period	6	86	--	
At 30 June 2006	1,039	3,032	3,163	
Accumulated Amortisation:				
At 1 January 2006	673	1,156	585	
Amortisation charge for the period	34	141	58	
At 30 June 2006	707	1,297	643	
Net book value:				
At 30 June 2006	332	1,735	2,520	
At 31 December 2005	360	1,790	2,578	

Except for the exploration and production right, the above intangible assets were acquired from third parties. The Company acquired Sinopec National Star together with the exploration and production right from Sinopec Group Company. The exploration and production right was valued with reference to the proved reserves of the associated oil fields. The amortisation period of the exploration and production right was 27 years. The amortisation periods of other intangible assets range from 4 to 40 years. At 30 June 2006, the remaining amortisation period of the exploration and production right was 21.5 years.

The Company

Exploration

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	Computer software license RMB millions	Technical know-how RMB millions	and production right RMB millions	RM
Cost:				
At 1 January 2006	825	1,318	3,163	
Addition for the period	6	50	--	
Transferred from subsidiaries	--	208	--	
At 30 June 2006	831	1,576	3,163	
Accumulated Amortisation:				
At 1 January 2006	586	803	585	
Amortisation charge for the period	20	80	58	
Transferred from subsidiaries	--	62	--	
At 30 June 2006	606	945	643	
Net book value:				
At 30 June 2006	225	631	2,520	
At 31 December 2005	239	515	2,578	

Except for the exploration and production right, the above intangible assets were acquired from third parties. The Company acquired Sinopec National Star together with the exploration and production right from Sinopec Group Company. The exploration and production right was valued with reference to the proved reserves of the associated oil fields. The amortisation period of the exploration and production right was 27 years. The amortisation periods of other intangible assets range from 4 to 40 years. At 30 June 2006, the remaining amortisation period of the exploration and production right was 21.5 years.

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15 LONG-TERM DEFERRED EXPENSES

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

16 DEFERRED TAX ASSETS AND LIABILITIES

	The Group		A
	At 30 June 2006 RMB millions	At 31 December 2005 RMB millions	RMB
Current			
Receivables and inventories	4,116	3,900	
Non-current			
Fixed assets	1,557	1,642	

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Tax value of losses	97	128
Others	26	31
Deferred tax assets	5,796	5,701

### 17 SHORT-TERM LOANS

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

	The Group		
	At 30 June 2006 RMB millions	At 31 December 2005 RMB millions	
Short-term bank loans	39,664	15,392	
Loans from Sinopec Group Company and fellow subsidiaries	7,121	732	
Total	46,785	16,124	

The Group's and the Company's weighted average interest rates per annum on short-term loans were 4.9% (2005: 4.0%) and 4.8% (2005: 3.2%) respectively at 30 June 2006. The majority of the above loans are unsecured.

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

At 30 June 2006 and 31 December 2005, the Group and the Company had no significant overdue short-term loan.

### 18 BILLS PAYABLE

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

### 19 TRADE ACCOUNTS PAYABLE

The ageing analysis of trade accounts payable is as follows:

	At 30 June 2006	The Group	
	RMB millions	%	RMB
Within 3 months	41,549	82.1	
Between 3 and 6 months	7,212	14.2	
Over 6 months	1,875	3.7	
Total	50,636	100.0	

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	At 30 June 2006	The Company
	RMB millions	%
Within 3 months	27,350	79.1
Between 3 and 6 months	5,650	16.4
Over 6 months	1,565	4.5
Total	34,565	100.0

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

At 30 June 2006 and 31 December 2005, the Group and the Company had no individually significant trade accounts payable aged over three years.

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20 RECEIPTS IN ADVANCE

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

At 30 June 2006 and 31 December 2005, the Group and the Company had no individually significant receipts in advance aged over one year.

21 TAXES PAYABLE

	The Group		The Company	
	At 30 June	At 31 December	At 30 June	At 31 December
	2006	2005	2006	2005
	RMB millions	RMB millions	RMB millions	RMB millions
Value added tax	(2,019)	(2,240)	(1,916)	(1,700)
Consumption tax	1,211	1,348	938	1,000
Income tax	3,934	5,029	2,252	2,400
Business tax	44	45	35	35
Other taxes	935	1,080	753	300
Total	4,105	5,262	2,062	2,000

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The provision for PRC current income tax is based on a statutory rate of 33% of the assessable income of the Group and the Company as determined in accordance with the relevant tax rules and regulations of the PRC during the six-month period ended 30 June 2006 and year ended 31 December 2005, except for certain branches and subsidiaries of the Company, which are taxed at a preferential rate of 15%, and certain jointly controlled entities of the Company, which are entitled to a tax holiday of a tax-free period for the first two years and a 50% reduction in income tax for the following three years.

### 22 OTHER PAYABLES

At 30 June 2006 and 31 December 2005, the Group's and the Company's other payables primarily represent payables for special oil income levy, resources compensation fee and education surcharge.

### 23 OTHER CREDITORS

At 30 June 2006 and 31 December 2005, the Group's and the Company's other creditors primarily represent payables for constructions.

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

At 30 June 2006 and 31 December 2005, the Group and the Company had no individually significant other creditors aged over three years.

### 24 ACCRUED EXPENSES

At 30 June 2006 and 31 December 2005, the Group's and the Company's accrued expenses primarily represent accrued interest expenses, repair and maintenance expenses, research and development expenses and other production expenses.

### 25 CURRENT PORTION OF LONG-TERM LOANS

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

	The Group		
	At 30 June 2006	At 31 December 2005	A
	RMB millions	RMB millions	RMB
Long-term bank loans-			
- Renminbi loans	12,243	11,952	
- Japanese Yen loans	611	615	
- US Dollar loans	1,438	2,206	
- Euro loans	23	24	
- Hong Kong Dollar loans	48	82	
	14,363	14,879	
Long-term bank loans of jointly controlled entities			
- Renminbi loans	112	82	
- US Dollar loans	141	111	
	253	193	
Long-term other loans			
- Renminbi loans	26	22	
- US Dollar loans	2	4	

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Long-term loans from	28	26
Sinopec Group Company and fellow subsidiaries		
- Renminbi loans	174	100
Total current portion of long-term loans	14,818	15,198

At 30 June 2006 and 31 December 2005, the Group and the Company had no significant overdue long-term loan.

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26 LONG-TERM LOANS

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

	Interest rate and final maturity	The Group At 30 June 2006 RMB millions	At 31 Decem 2005 RMB milli
Third parties debts			
Long-term bank loans			
Renminbi loans	Interest rates ranging from interest free to 6.3% per annum at 30 June 2006 with maturities through 2013	63,409	59,000
Japanese Yen loans	Interest rates ranging from 2.6% to 5.8% per annum at 30 June 2006 with maturities through 2024	3,096	3,000
US Dollar loans	Interest rates ranging from interest free to 7.4% per annum at 30 June 2006 with maturities through 2031	2,816	5,000
Euro loans	Fixed rate at 6.7% per annum at 30 June 2006 with maturities through 2010	104	
Hong Kong Dollar loans	Floating rate at Hong Kong Prime Rate plus 0.8% to 1.1% per annum at 30 June 2006 with maturities through 2007	48	
Less: Current portion		14,363	14,000
Long-term bank loans		55,110	53,000
Long-term bank loans of jointly controlled entities			

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Renminbi loans	Floating rate at 90% of PBOC's base lending rate per annum at 30 June 2006 with maturities through 2021	5,580	5,
US	Dollar loans Floating rate at London Interbank Offer Rate plus 0.4% to 0.7% per annum at 30 June 2006 with maturities through 2021	4,198	4,
Less: Current portion		253	
Long-term bank loans of jointly controlled entities		9,525	9,
Other long-term loans			
Renminbi loans	Interest rates ranging from interest free to 5.0% per annum at 30 June 2006 with maturities through 2008	124	
US Dollar loans	Interest rates ranging from interest free to 2.0% per annum at 30 June 2006 with maturities through 2015	48	
Less: Current portion		28	
Other long-term loans		144	
Long-term loans from Sinopec Group Company and fellow subsidiaries			
Renminbi loans	Interest rates ranging from interest free to 5.4% per annum at 30 June 2006 with maturities through 2020	39,554	39,
Less: Current portion		174	
Long-term loans from Sinopec Group Company and fellow subsidiaries		39,380	39,
Long-term loans of jointly controlled entities from Sinopec Group Company and fellow subsidiaries			
Renminbi	loans Floating rate at 90% of PBOC's base lending rate applicable to three-year tenor loan per annum at 30 June 2006 with maturities through 2021	73	
Long-term loans of jointly controlled entities from Sinopec Group Company and fellow subsidiaries		73	
		104,232	103,

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### 26 LONG-TERM LOANS (Continued)

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

	The Group	
	At 30 June	At 31 December
	2006	2005
	RMB millions	RMB millions
Between one and two years	24,619	18,787
Between two and five years	32,746	39,142
After five years	46,867	45,563
Total long-term loans	104,232	103,492

At 30 June 2006, the Group and the Company had secured loans from third parties amounting to RMB 62 million (2005: RMB 35 million) and RMB nil (2005: RMB 13 million) respectively. At 30 June 2006, the Group had loans secured by long-term investments from third parties amounting to RMB 3,722 million (2005: RMB 3,899 million). All long-term other loans are unsecured.

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

### 27 DEBENTURES PAYABLE

	The Group	
	At 30 June	At 31 December
	2006	2005
	RMB millions	RMB millions
Short-term corporate bonds (i)	10,891	9,921
Corporate bonds (ii)	3,500	3,500

(i) The Company issued six-month corporate bonds with a 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. The effective yield of the bonds was 2.54% per annum. The Company redeemed the bonds at face value in April 2006.

A subsidiary of the Company issued 270-day corporate bonds with a face value at RMB 1 billion to corporate investors in PRC debenture market on 23 February 2006, at a discounted value of RMB 97.78 per RMB 100 par value. The bonds have an effective yield of 3.07% per annum and mature in November 2006.

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The Company issued 183-day corporate bonds with a face value at RMB 10 billion to corporate investors in PRC debenture market on 16 May 2006, at a discounted value of RMB 98.68 per RMB 100 par value. The bonds have an effective yield of 2.67% per annum and mature in November 2006.

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

### 28 OTHER LONG-TERM LIABILITIES

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

### 29 SHARE CAPITAL

	The Group and the C	At 31
	2006	At 31
	RMB millions	RMB
Registered, issued and fully paid:		
67,121,951,000 domestic state-owned A shares of RMB 1.00 each	67,122	
16,780,488,000 H shares of RMB 1.00 each	16,780	
2,800,000,000 A shares of RMB 1.00 each	2,800	
	86,702	

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

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

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

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

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

## 30 CAPITAL RESERVE

The movements in capital reserve are as follows:

	The Group		A
	At 30 June 2006 RMB millions	At 31 December 2005 RMB millions	
Capital reserve	37,121	37,121	

---

The capital reserve represents mainly: (i) the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from Sinopec Group Company in connection with the Reorganisation; and (ii) share premiums, representing the excess of cash paid by investors over their proportionate shares in share capital in connection with the issuances of H shares and A shares by the Company.

## 31 SURPLUS RESERVES

Movements in surplus reserves are as follows:

	Statutory surplus reserve RMB millions	The Group and the C Statutory public welfare fund RMB millions	Disc RMB
At 1 January 2005	9,558	9,558	
Appropriation of net profit	3,956	3,956	
At 31 December 2005	13,514	13,514	
At 1 January 2006	13,514	13,514	
Appropriation of net profit	2,068	--	
Statutory public welfare fund transferred to statutory surplus reserve (Note)	13,514	(13,514)	
At 30 June 2006	29,096	--	

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

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

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

### 32 INCOME FROM PRINCIPAL OPERATIONS

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

For the six-month period ended 30 June 2006, revenue from sales to top five customers amounted to RMB 37,239 million (2005: RMB 26,877 million) which accounted for 8% (2005: 7%) of income from principal operations of the Group.

### 33 SALES TAXES AND SURCHARGES

	The Group		RMB
	Six-month periods ended 30 June		
	2006	2005	
	RMB millions	RMB millions	
Consumption tax	6,644	5,906	
Special oil income levy	3,652	--	
City construction tax	1,409	1,332	
Education surcharge	694	649	
Resources tax	407	221	
Business tax	112	96	
Total	12,918	8,204	

### 34 FINANCIAL EXPENSES

The Group  
Six-month periods

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	ended 30 June	
	2006	2005
	RMB millions	RMB millions
Interest expenses incurred	4,176	3,399
Less: Capitalised interest expenses	(254)	(268)
Net interest expenses	3,922	3,131
Interest income	(250)	(168)
Foreign exchange losses	52	40
Foreign exchange gains	(202)	(151)
Total	3,522	2,852

35 EXPLORATION EXPENSES

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

36 INVESTMENT INCOME/(LOSS)

	The Group Six-month periods ended 30 June	
	2006	2005
	RMB millions	RMB millions
Investment income accounted for under the cost method	172	97
Amortisation of equity investment differences	(394)	(1,169)
Impairment losses of investment	(41)	(35)
Investment income accounted for under the equity method	447	365
Total	184	(742)

37 NON-OPERATING EXPENSES

	The Group Six-month periods ended 30 June	
	2006	2005
	RMB millions	RMB millions
Loss on disposal of fixed assets	43	109
Impairment losses on fixed assets	34	397
Fines, penalties and compensation	37	111
Donations	40	128
Employee reduction expenses (Note)	48	100
Others	472	264
Total	674	1,109

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Note: During the six-month period ended 30 June 2006, in accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 48 million (2005: RMB 100 million) relating to the reduction of approximately 1,000 employees (2005: 1,800 employees).

### 38 INCOME TAX

	The Group Six-month periods ended 30 June		RMB
	2006 RMB millions	2005 RMB millions	
Provision for PRC income tax for the period	9,819	9,438	
Deferred taxation	(95)	(747)	
Adjustment for provision for income tax in respect of proceeding year	240	477	
Total	9,964	9,168	

### 39 DIVIDENDS

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

Pursuant to the Articles of Association of the Company and the resolution passed at the Board of Directors' meeting on 25 August 2006, an interim dividend for the year ending 31 December 2006 of RMB 0.04 (2005: RMB0.04) per share totalling RMB 3,468 million (2005: RMB3,468 million) was declared.

#### (b) Dividends of ordinary shares declared during the period

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

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.

### 40 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

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

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

There is no movement in the above registered capital for the period ended 30 June 2006.

At 30 June 2006, Sinopec Group Company held 71.23% shares of the Company and there is no change on percentage shareholding during this reporting period.

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

Related parties under common control of a parent company with the Company: Sinopec Finance Company Limited Qingdao Petrochemical Company Sinopec Shengli Petroleum Administration Bureau Guangdong Nanhua Petroleum Company Limited Zhanjiang Dongxing Petroleum Corporation Company Limited Jinling Petrochemical Company Limited Baling Petrochemical Company Limited Sinopec Zhongyuan Petroleum Exploration Bureau

Associates of the Company:

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

Jointly controlled entities of the Group:

Shanghai Secco Petrochemical Company Limited  
BASF-YPC Company Limited  
Yueyang Sinopec and Shell Coal Gasification Company Limited  
Block A Oil Field in the Western Area Chengdao in Bohai Bay

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

Sales of goods	(i)
Purchases	(ii)
Transportation and storage	(iii)
Exploration and development services	(iv)
Production related services	(v)

Note

Six

RMB

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Ancillary and social services	(vi)
Operating lease charges	(vii)
Agency commission income	(viii)
Intellectual property license fee paid	(ix)
Interest received	(x)
Interest paid	(xi)
Net deposits withdrawn from related parties	(xii)
Net loans obtained from/(paid to) related parties	(xiii)

The amounts set out in the table above in respect of the six-month periods ended 30 June 2006 and 2005 represent the relevant costs to the Group and income from related parties as determined by the corresponding contracts with the related parties.

At 30 June 2006 and 31 December 2005, there were no guarantees given to banks by the Group in respect of banking facilities to Sinopec Group Company and fellow subsidiaries.

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

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

#### Notes:

- (i) Sales of goods represent the sale of crude oil, intermediate petrochemical products, petroleum products and ancillary materials.
- (ii) Purchases represent the purchase of material and utility supplies directly related to the Group's operations such as the procurement of raw and ancillary materials and related services, supply of water, electricity and gas.
- (iii) Transportation and storage represent the cost for the use of railway, road and marine transportation services, pipelines, loading, unloading and storage facilities.
- (iv) Exploration and development services comprise direct costs incurred in the exploration of crude oil such as geophysical, drilling, well testing and well measurement services.
- (v) Production related services represent ancillary services rendered in relation to the Group's operations such as equipment repair and general maintenance, insurance premium, technical research, communications, fire fighting, security, product quality testing and analysis, information technology, design and engineering, construction which includes the construction of oilfield ground facilities, refineries and chemical plants, manufacture of replacement parts and machinery, installation, project management and environmental protection.

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- (vi) Ancillary and social services represent expenditures for social welfare and support services such as educational facilities, media communication services, sanitation, accommodation, canteens, property maintenance and management services.
- (vii) Operating lease charges represent the rental paid to Sinopec Group Company for operating leases in respect of land, buildings and equipments.
- (viii) Agency commission income represents commission earned for acting as an agent in respect of sales of products and purchase of goods of certain entities owned by Sinopec Group Company.
- (ix) Intellectual property license fee represents reimbursement paid to Sinopec Group Company for fees required to maintain the validity of certain licenses for trademarks, patents, technology and computer software.
- (x) Interest received represents interest received from deposits placed with Sinopec Finance Company Limited, a finance company controlled by Sinopec Group Company. The applicable interest rate is determined in accordance with the prevailing saving deposit rate.
- (xi) Interest paid represents interest charges on the loans obtained from Sinopec Group Company and Sinopec Finance Company Limited.
- (xii) Deposits withdrawn from related parties represent net deposits withdrawn from Sinopec Finance Company Limited.
- (xiii) The Group obtained/repaid loans from/to Sinopec Group Company and Sinopec Finance Company Limited. The calculated periodic balance of average loan for the six-month period ended 30 June 2006, which is based on monthly average balances, was RMB 44,240 million (2005: RMB 42,518 million).

In connection with the Reorganisation, the Company and Sinopec Group Company entered into a number of agreements under which 1) Sinopec Group Company will provide goods and products and a range of ancillary, social and supporting services to the Group and 2) the Group will sell certain goods to Sinopec Group Company. These agreements impacted the operating results of the Group for the period ended 30 June 2006. The terms of these agreements are summarised as follows:

- (a) The Company entered into an Agreement for Mutual Provision of Products and Ancillary Services ("Mutual Provision Agreement") with Sinopec Group Company in which Sinopec Group Company has agreed to provide the Group with certain ancillary production services, construction services, information advisory services, supply services and other services and products. While each of Sinopec Group Company and the Company is permitted to terminate the Mutual Provision Agreement upon at least six months' notice, Sinopec Group Company agrees not to terminate the agreement if the Group is unable to obtain comparable services from a third party. The pricing policy for these services and products provided by Sinopec Group Company to the Group is as follows:
  - o the government-prescribed price;
  - o where there is no government-prescribed price, the government guidance price;

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- o where there is neither a government-prescribed price nor a government guidance price, the market price; or
  - o where none of the above is applicable, the price to be agreed between the parties, which shall be based on a reasonable cost incurred in providing such services plus a profit margin not exceeding 6%.
- (b) The Company has entered into an Agreement for Provision of Cultural and Educational, Health Care and Community Services with Sinopec Group Company effective from 1 January 2000 in which Sinopec Group Company has agreed to provide the Group with certain cultural, educational, health care and community services on the same pricing terms and termination conditions as agreed to in the above Mutual Provision Agreement.
- (c) The Company has entered into a number of lease agreements with Sinopec Group Company to lease certain land and buildings at a rental of approximately RMB 2,557 million and RMB 568 million, respectively, per annum. The Company and Sinopec Group Company can renegotiate the rental amount every three years for land and every year for buildings, such amount not to exceed the market price as determined by an independent third party. The Group has the option to terminate these leases upon six months notice to Sinopec Group Company.
- (d) The Company has entered into agreements with Sinopec Group Company effective from 1 January 2000 under which the Group has been granted the right to use certain trademarks, patents, technology and computer software developed by Sinopec Group Company. The Group will reimburse Sinopec Group Company for fees required to maintain the validity of these licenses.
- (e) The Company has entered into a service station franchise agreement with Sinopec Group Company under which its service station and retail stores would exclusively sell the refined products supplied by the Group.

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40 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)  
 (d) Balances with related parties

The balances with the Group's related parties at 30 June 2006 and 31 December 2005 are as follows:

	The ultimate holding company		
	At 30 June 2006	At 31 December 2005	A
	RMB millions	RMB millions	RMB
Cash and cash equivalents	--	--	

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Trade accounts receivable	--	--
Advance payments and other receivables	1,500	1,507
Trade accounts payable	--	--
Receipts in advance	--	--
Other creditors	6,461	986
Short-term loans	--	--
Long-term loans (including current portion) (Note)	--	--

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

### 41 PRINCIPAL SUBSIDIARIES

The Company's principal subsidiaries are limited companies operating in the PRC and had been consolidated into the Group's financial statements for the six-month period ended 30 June 2006. Except for Sinopec Kantons Holdings Limited, which is incorporated in Bermuda, the companies below are incorporated in the PRC. The following list contains only the particulars of subsidiaries which principally affected the results or assets of the Group:

Name of enterprise	Registered capital/paid-up capital RMB millions	Percentage of equity interest held by the Group %	Principal activities
China Petrochemical International Company Limited	1,704	00.00	Trading of crude oil a
Sinopec Sales Company Limited	1,700	00.00	Marketing and distribu
Sinopec Zhenhai Refining and Chemical Company Limited ("Sinopec Zhenhai") (i)	2,524	00.00	Manufacturing of inter and petroleum products
Sinopec Qilu Petrochemical Company Limited ("Sinopec Qilu") (ii)	1,950	99.76	Manufacturing of inter and petroleum products
Sinopec Yangzi Petrochemical Company Limited ("Sinopec Yangzi") (ii)	2,330	99.81	Manufacturing of inter and petroleum products
Sinopec Zhongyuan Petroleum Company Limited ("Sinopec Zhongyuan") (ii)	875	99.35	Exploration and produc
Shengli Oil Field Dynamic Company Limited ("Dynamic") (ii)	364	97.71	Exploration and produc of petrochemical produ
Sinopec Fujian Petrochemical Company Limited (iii)	2,253	50.00	Manufacturing of plast products and petroleum
Sinopec Shanghai Petrochemical Company Limited	7,200	55.56	Manufacturing of synth intermediate petrochem petroleum products

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Sinopec Shijiazhuang Refining Chemical Company Limited	1,154	79.73	Manufacturing of inter and petroleum products
Sinopec Kantons Holdings Limited	HK\$104	72.40	Trading of crude oil a
Sinopec Wuhan Petroleum Group Company Limited (iii)	147	46.25	Marketing and distribu
Sinopec Wuhan Phoenix Company Limited (iii)	519	40.72	Manufacturing of petro products
Sinopec Yizheng Chemical Fibre Company fibres Limited (iii)	4,000	42.00	Production and sale and polyester
Zhongyuan Petrochemical Company Limited	2,400	93.51	Manufacturing of chemi
Sinopec Shell (Jiangsu) Petrochemical Marketing Company Limited	830	60.00	Marketing and distribu
BP Sinopec (Zhejiang) Petrochemical Company Limited	800	60.00	Marketing and distribu
Sinopec Qingdao Refining and Chemical Company Limited	800	85.00	Manufacturing of inter and petroleum products

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### 41 PRINCIPAL SUBSIDIARIES (Continued)

- (i) During the period, the Group acquired the entire 723,754,468 H shares, representing approximately 28.7% of the issued share capital of Sinopec Zhenhai at HK\$ 10.60 per share. The total consideration required to be paid by the Group is approximately RMB 7,930 million which will be settled in cash. The excess of the cost of purchase over the carrying value of the underlying assets and liabilities (on a proportionate share) was RMB 4,043 million, which was recorded as equity investment differences.
- (ii) During the period, the Group acquired the shares not held by the Group in Sinopec Qilu, Sinopec Yangzi, Sinopec Zhongyuan and Dynamic of 17.71%, 14.83%, 28.50%, and 71.38%, respectively. The total consideration paid by the Group was approximately RMB 14,041 million which was settled in cash. The excess of the cost of purchase over the share of carrying value of the underlying assets and liabilities was RMB 7,766 million, which was recorded as equity investment differences.
- (iii) The Company consolidated the results of these entities because the Company controlled the board of these entities and had the power to govern their financial and operating policies.

### 42 PRINCIPAL JOINTLY CONTROLLED ENTITIES

At 30 June 2006, the Group's and the Company's principal jointly controlled entities are as follows:

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Name of jointly controlled entities	Registered capital/ paid-up capital	Percentage of equity interest held by the Company %	Percentage of equity interest held by the Company's subsidiaries %
Shanghai Secco Petrochemical Company Limited	Registered capital USD 901,440,964	30.00	20.00
BASF-YPC Company Limited	Registered capital RMB 8,793,000,000	30.00	10.00
Yueyang Sinopec and Shell Coal Gasification Company Limited	Registered capital USD 45,588,700	50.00	--
Block A Oil Field in the Western Area Chengdao in Bohai Bay	--	--	43.00

43 COMMITMENTS

Operating lease commitments

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

At 30 June 2006, the future minimum lease payments of the Group and the Company under operating leases are as follows:

	The Group		At 30 June 2005 RMB millions
	At 30 June 2006 RMB millions	At 31 December 2005 RMB millions	
Within one year	3,665	3,593	3,665
Between one and two years	3,480	3,442	3,480
Between two and three years	3,417	3,388	3,417
Between three and four years	3,383	3,357	3,383
Between four and five years	3,318	3,353	3,318
After five years	93,831	95,176	93,831
TOTAL	111,094	112,309	108,000

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Capital commitments

At 30 June 2006, capital commitments are as follows:

At  
RMB

THE GROUP

-----  
Authorised and contracted for

-----  
Authorised but not contracted for

-----  
JOINTLY CONTROLLED ENTITIES

-----  
Authorised and contracted for

-----  
Authorised but not contracted for

-----  
THE COMPANY

-----  
Authorised and contracted for

-----  
Authorised but not contracted for

=====

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

43 COMMITMENTS (Continued)

Exploration and production licenses

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

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The Group is required to make payments of exploration license fees and production right usage fees to the Ministry of Land and Resources annually which are expensed as incurred. Payments incurred were approximately RMB 12 million for the period ended 30 June 2006 (2005: RMB 25 million).

Estimated future annual payments are as follows:

	The Group		At 30 June 2005 RMB millions
	At 30 June 2006 RMB millions	At 31 December 2005 RMB millions	
Within one year	158	107	2
Between one and two years	101	112	2
Between two and three years	64	59	2
Between three and four years	63	67	2
Between four and five years	31	56	2
After five years	236	239	2
<b>TOTAL</b>	<b>653</b>	<b>640</b>	<b>2</b>

#### 44 CONTINGENT LIABILITIES

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

(b) At 30 June 2006, guarantees given by the Group and the Company to banks in respect of banking facilities granted to the parties below are as follows:

	The Group		At 30 June 2005 RMB million
	At 30 June 2006 RMB millions	At 31 December 2005 RMB millions	
Subsidiaries	--	--	2,5
Associates and jointly controlled entities	95	79	11,95
<b>Total</b>	<b>95</b>	<b>79</b>	<b>14,52</b>

The Company monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognises any such losses under guarantees when those losses are

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estimable. At 30 June 2006 and 31 December 2005, it is not probable that the Company will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Company's obligation under the guarantees arrangement.

### Environmental contingencies

To date, the Group has not incurred any significant expenditure for environmental remediation, is currently not involved in any environmental remediation, and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include: i) the exact nature and extent of the contamination at various sites including, but not limited to refineries, oil fields, service stations, terminals and land development areas, whether operating, closed or sold; ii) the extent of required cleanup efforts; iii) varying costs of alternative remediation strategies; iv) changes in environmental remediation requirements; and v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. The Group paid normal routine pollutant discharge fee of approximately RMB 667 million for the period ended 30 June 2006 (2005: RMB 107 million).

### Legal contingencies

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

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## 45 SEGMENTAL INFORMATION

The Group has five operating segments as follows:

- (i) Exploration and production - which explores and develops oil fields, produces crude oil and natural gas and sells such products to the Refining Segment of the Group and external customers.
- (ii) Refining - which processes and purifies crude oil, which is sourced from the Exploration and Production Segment of the Group and external suppliers, and manufactures and sells petroleum products to the chemicals and Marketing and Distribution Segments of the Group and external customers.
- (iii) Marketing and distribution - which owns and operates oil depots and service stations in the PRC, and distributes and sells refined petroleum products (mainly gasoline and diesel) in the PRC through wholesale and retail sales networks.
- (iv) Chemicals - which manufactures and sells petrochemical products, derivative petrochemical products and other chemical products to

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external customers.

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

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

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

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

	Six-month pe ended 30 2006 RMB millions
Income from principal operations	
-----	
Exploration and production	
-----	
External sales	12,135
-----	
Inter-segment sales	53,362
-----	
	65,497
-----	
Refining	
-----	
External sales	48,681
-----	
Inter-segment sales	220,301
-----	
	268,982
-----	
Marketing and distribution	
-----	
External sales	273,153
-----	
Inter-segment sales	1,962
-----	
	275,115
-----	
Chemicals	

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External sales	92,673
Inter-segment sales	5,271
	97,944
Others	
External sales	55,346
Inter-segment sales	38,335
	93,681
Elimination of inter-segment sales	(319,231)
Consolidated income from principal operations	481,988
Cost of sales, sales taxes and surcharges	
Exploration and production	24,457
Refining	284,044
Marketing and distribution	253,015
Chemicals	87,039
Others	92,217
Elimination of inter-segment cost of sales	(318,556)
Consolidated cost of sales, sales taxes and surcharges	422,216
Profit from principal operations	
Exploration and production	39,647
Refining	(14,344)
Marketing and distribution	22,100
Chemicals	10,905
Others	1,464
Consolidated profit from principal operations	59,772

46 POST BALANCE SHEET EVENTS

On 10 July 2006, one of the subsidiaries of the Group, Sinopec Kantons Holdings Limited, entered into two equity acquisition agreements with Guangzhou Petrochemical Plant ("GPC"), a wholly-owned subsidiary of Sinopec Group Company, and Guangzhou Zhong Guan An Tai Petrochemical Company Limited ("GZGAT"), a wholly-owned subsidiary of GPC. Pursuant to the agreements, the

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Group will acquire 30% of the equity interests of Hua De Petrochemical Company Limited ("Huade") from GPC at a cash consideration of RMB 594 million and the remaining 10% of the equity interests of Kantons Gas Station Investment and Management Company Limited ("KGSIM") from GZGAT at a cash consideration of RMB 17 million. These transactions were approved by the independent shareholders of Sinopec Kantons Holdings Limited on 18 August 2006 and are subject to the approval from the relevant PRC governmental and regulatory bodies.

47 EXTRAORDINARY GAINS AND LOSSES

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

Extraordinary gains and losses for the period:

-----  
Loss on disposal of fixed assets  
-----

Employee reduction expenses  
-----

Donations  
-----

(Gain)/ loss on disposal of long-term equity investments  
-----

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

Written back of provisions for impairment losses in previous years  
-----

Tax effect  
-----

TOTAL  
=====

48 OTHER SIGNIFICANT EVENTS

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

REPORT OF THE INTERNATIONAL AUDITORS

[KPMG LOGO GRAPHIC OMITTED]

To the Shareholders of  
China Petroleum & Chemical Corporation  
(Established in The People's Republic of China with limited liability)

We have audited the interim financial statements on pages 77 to 109 which have been prepared in accordance with International Financial Reporting Standards

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promulgated by the International Accounting Standards Board.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

### BASIS OF OPINION

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

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

### OPINION

In our opinion, the interim financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2006 and of the Group's profit and cash flows for the six-month period ended 30 June 2006 and have been properly prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

KPMG  
Certified Public Accountants  
Hong Kong, China, 25 August 2006

(B) INTERIM FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") CONSOLIDATED INCOME STATEMENT  
for the six-month period ended 30 June 2006  
(Amounts in millions, except per share data)

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	Note	
Turnover and other operating revenues		
Turnover	3	48
Other operating revenues	4	1
		49
Operating expenses		
Purchased crude oil, products and operating supplies and expenses		(40)
Selling, general and administrative expenses	5	(1)
Depreciation, depletion and amortisation		(1)
Exploration expenses, including dry holes		(
Personnel expenses	6	(
Employee reduction expenses	7	
Taxes other than income tax	8	(1
Other operating expenses, net	9	
Total operating expenses		(45
Operating profit		
		3
Finance costs		
Interest expense	10	(
Interest income		
Foreign exchange losses		
Foreign exchange gains		
Net finance costs		(
Investment income		
Share of profits less losses from associates		
Profit before taxation		
		3
Taxation	11	(1

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Profit for the period		2
-----		
Attributable to:		
-----		
Equity shareholders of the Company		2
-----		
Minority interests		
-----		
Profit for the period		2
-----		
Dividend payable to equity shareholders of the Company attributable to the period:		
-----		
Interim dividend declared after the balance sheet date	12	
-----		
Basic earnings per share	13	
=====		

The notes on pages 82 to 109 form part of these interim financial statements.

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CONSOLIDATED BALANCE SHEET  
at 30 June 2006  
(Amounts in millions)

	Note	At 30
Non-current assets		
Property, plant and equipment	14	31
Construction in progress	15	6
Goodwill	16	1
Investments	17	
Interest in associates	18	1
Deferred tax assets	24	
Lease prepayments		
Long-term prepayments and other assets	20	
Total non-current assets		42
Current assets		
Cash and cash equivalents		
Time deposits with financial institutions		

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Trade accounts receivable	21	1
Bills receivable	21	
Inventories	22	10
Prepaid expenses and other current assets	23	2
Total current assets		16
Current liabilities		
Short-term debts	25	6
Loans from Sinopec Group Company and fellow subsidiaries	25	
Trade accounts payable	26	5
Bills payable	26	2
Accrued expenses and other payables	27	6
Income tax payable		
Total current liabilities		21
Net current liabilities		
		(4)
Total assets less current liabilities		
		37
Non-current liabilities		
Long-term debts	25	6
Loans from Sinopec Group Company and fellow subsidiaries	25	3
Deferred tax liabilities	24	
Other liabilities		
Total non-current liabilities		11
Equity		
Share capital	28	8
Reserves		15
Total equity attributable to equity shareholders of the Company		23
Minority interests		2

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-----  
 Total equity 25  
 =====

Approved and authorised for issue by the board of directors on 25 August 2006.

CHEN TONGHAI  
 Chairman

WANG TIANPU  
 Director and President

DAI HOULIANG  
 Director, Senior Vice President  
 and Chief Financial Officer

The notes on pages 82 to 109 form part of these interim financial statements.

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CONSOLIDATED CASH FLOW STATEMENT for the six-month period ended 30 June 2006  
 (Amounts in millions)

	Note
Net cash generated from operating activities	(a)
Investing activities	
Capital expenditure	(
Exploratory wells expenditure	
Capital expenditure by jointly controlled entities	
Purchase of investments and investments in associates	
Proceeds from disposal of investments and investments in associates	
Proceeds from disposal of property, plant and equipment	
Acquisitions of minority interests in subsidiaries	(
Purchase of time deposits with financial institutions	
Maturity of time deposits with financial institutions	
Net cash used in investing activities	(
Financing activities	
Proceeds from bank and other loans	3

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Proceeds from bank and other loans of jointly controlled entities	
Proceeds of issuance of corporate bonds	
Repayments of bank and other loans	(3)
Repayments of corporate bonds	(
Distributions to minority interests	
Contributions from minority interests	
Dividend paid	
Distributions to Sinopec Group Company	
Net cash generated from financing activities	
Net decrease in cash and cash equivalents	
Effect of foreign exchange rate changes	
Cash and cash equivalents at 1 January	
Cash and cash equivalents at 30 June	

The notes on pages 82 to 109 form part of these interim financial statements.

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NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT  
for the six-month period ended 30 June 2006  
(Amounts in millions)

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

	Si
	2006 RMB
Operating activities	
Profit before taxation	31,674
Adjustments for:	
Depreciation, depletion and amortisation	16,504

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Dry hole costs	1,398
Share of profits less losses from associates	(447)
Investment income	(131)
Interest income	(250)
Interest expense	3,542
Unrealised foreign exchange gains	(54)
Loss on disposal of property, plant and equipment, net	13
Impairment losses on long-lived assets	34
Operating profit before changes in working capital	52,283
Increase in trade accounts receivable	(2,710)
Increase in bills receivable	(662)
Increase in inventories	(15,615)
Increase in prepaid expenses and other current assets	(3,778)
Decrease/(increase) in lease prepayments	26
Increase in long-term prepayments and other assets	(672)
(Decrease)/increase in trade accounts payable	(2,540)
Increase/(decrease) in bills payable	3,900
Increase in accrued expenses and other payables	5,845
Increase/(decrease) in other liabilities	2
Cash generated from operations	36,079
Interest received	251
Interest paid	(4,035)
Investment and dividend income received	380
Income tax paid	(11,197)
Net cash generated from operating activities	21,478

The notes on pages 82 to 109 form part of these interim financial statements.

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	Share capital RMB	Capital reserve RMB	Sha premi R
Balance at 1 January 2005	86,702	(19,217)	18,0
Profit for the period	-	-	
Final dividend for 2004 (Note 12)	-	-	
Appropriation (Note (a) and (b))	-	-	
Revaluation surplus realised	-	-	
Realisation of deferred tax on land use rights	-	-	
Acquisitions of minority interests in subsidiaries	-	-	
Distributions to minority interests net of contributions	-	-	
Balance at 30 June 2005	86,702	(19,217)	18,0
Balance at 1 January 2006	86,702	(19,217)	18,0
Profit for the period	-	-	
Final dividend for 2005 (Note 12)	-	-	
Appropriation (Note (a))	-	-	
Statutory public welfare fund transferred to statutory surplus reserve (Note (b))	-	-	
Revaluation surplus realised	-	-	
Realisation of deferred tax on land use rights	-	-	
Acquisitions of minority interests in subsidiaries (Note 16)	-	-	
Distributions to minority interests net of contributions	-	-	
BALANCE AT 30 JUNE 2006	86,702	(19,217)	18,0

[table continued 1]

	Statutory public welfare fund RMB	Discretionary surplus reserve RMB
Balance at 1 January 2005	9,558	7,000
Profit for the period	-	-
Final dividend for 2004 (Note 12)	-	-
Appropriation (Note (a) and (b))	1,804	-
Revaluation surplus realised	-	-
Realisation of deferred tax on land use rights	-	-
Acquisitions of minority interests in subsidiaries	-	-
Distributions to minority interests net of contributions	-	-

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Balance at 30 June 2005	11,362	7,000
Balance at 1 January 2006	13,514	7,000
Profit for the period	-	-
Final dividend for 2005 (Note 12)	-	-
Appropriation (Note (a))	-	-
Statutory public welfare fund transferred to statutory surplus reserve (Note (b))	(13,514)	-
Revaluation surplus realised	-	-
Realisation of deferred tax on land use rights	-	-
Acquisitions of minority interests in subsidiaries (Note 16)	-	-
Distributions to minority interests net of contributions	-	-
<b>BALANCE AT 30 JUNE 2006</b>	<b>-</b>	<b>7,000</b>

[table continued 2]

	Total equity attributable to equity shareholders of the Company RMB	Minority interests
Balance at 1 January 2005	193,040	31
Profit for the period	19,653	2
Final dividend for 2004 (Note 12)	(6,936)	
Appropriation (Note (a) and (b))	-	
Revaluation surplus realised	-	
Realisation of deferred tax on land use rights	-	
Acquisitions of minority interests in subsidiaries	-	(2)
Distributions to minority interests net of contributions	-	(1)
Balance at 30 June 2005	205,757	29
Balance at 1 January 2006	223,556	29
Profit for the period	21,406	
Final dividend for 2005 (Note 12)	(7,803)	
Appropriation (Note (a))	-	
Statutory public welfare fund transferred to statutory surplus reserve (Note (b))	-	
Revaluation surplus realised	-	
Realisation of deferred tax on land use rights	-	
Acquisitions of minority interests in subsidiaries (Note 16)	-	(9)
Distributions to minority interests net of contributions	-	
<b>BALANCE AT 30 JUNE 2006</b>	<b>237,159</b>	<b>20</b>

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### Notes:

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

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital. During the six-month period ended 30 June 2006, the Company transferred RMB 2,068 million (2005: RMB 1,804 million), being 10% of the current period's net profit determined in accordance with the PRC Accounting Rules and Regulations, to this reserve.

- (b) Before 1 January 2006, according to the Company's Articles of Association, the Company was required to transfer 5% to 10% of its net profit, as determined in accordance with the PRC Accounting Rules and Regulations, to the statutory public welfare fund. This fund could only be utilised on capital items for the collective benefits of the Company's employees such as the construction of dormitories, canteen and other staff welfare facilities. The transfer to this fund must be made before distribution of a dividend to shareholders.

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

According to the Company Law of the PRC which was revised on 27 October 2005, the Company is no longer required to make profit appropriation to the statutory public welfare fund commencing from 1 January 2006. Pursuant to the notice OCai Qi [2006] No. 670 issued by the Ministry of Finance, the balance of this fund as at 31 December 2005 was transferred to the statutory surplus reserve.

- (c) The usage of the discretionary surplus reserve is similar to that of statutory surplus reserve.
- (d) According to the Company's Articles of Association, the amount of retained earnings available for distribution to equity shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IFRS. At 30 June 2006, the amount of retained earnings available for distribution was RMB 52,337 million (2005: RMB 20,591 million), being the amount determined in accordance with IFRS. Interim dividend of RMB 3,468 million (2005: RMB 3,468 million) proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.
- (e) The capital reserve represents (i) the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from Sinopec Group Company in connection with the Reorganisation and (ii) the difference between the considerations paid over the amount of the net assets acquired from Sinopec National Star, Sinopec Maoming, Xi'an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical, Guangzhou Petrochemical and Catalyst Plants.

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

The notes on pages 82 to 109 form part of these interim financial statements.

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NOTES ON THE INTERIM FINANCIAL STATEMENTS  
for the six-month period ended 30 June 2006

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

#### Principal activities

China Petroleum & Chemical Corporation (the OCompanyO) is an energy and chemical company that, through its subsidiaries (hereinafter collectively referred to as the OGroupO), engages in fully integrated oil and gas and chemical operations in the People's Republic of China (the OPRCO). 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 OReorganisationO) of China Petrochemical Corporation (OSinopec Group CompanyO), the ultimate holding company of the Group and a ministry-level enterprise under the direct supervision of the State Council of the PRC. Prior to the incorporation of the Company, the oil and gas and chemical operations of the Group were carried on by oil administration bureaux, petrochemical and refining production enterprises and sales and marketing companies of Sinopec Group Company.

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

#### Basis of presentation

Pursuant to the resolution passed at the Extraordinary General Meeting held on 24 August 2001, the Company acquired the entire equity interest of Sinopec National Star Petroleum Company (OSinopec National StarO) from

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Sinopec Group Company for a consideration of RMB 6.45 billion (hereinafter referred to as the OAcquisition of Sinopec National StarO).

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 (OSinopec MaomingO) from Sinopec Group Company, for a consideration of RMB 3.3 billion which was paid in 2004 (hereinafter referred to as the OAcquisition of Ethylene AssetsO).

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 (OXi'an PetrochemicalO) and Tahe Oilfield Petrochemical Factory (OTahe PetrochemicalO) 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 OAcquisition of Refining AssetsO).

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 (OTianjin PetrochemicalO), Sinopec Group Luoyang Petrochemical General Plant (OLuoyang PetrochemicalO), Zhongyuan Petrochemical Company Limited. (OZhongyuan PetrochemicalO), Sinopec Group Guangzhou Petrochemical General Plant (OGuangzhou PetrochemicalO) and certain catalyst plants (OCatalyst PlantsO) from Sinopec Group Company for a total consideration of RMB 3,128 million which was paid in 2005 (hereinafter referred to as the OAcquisition of Petrochemical and Catalyst AssetsO).

As the Group, Sinopec National Star, Sinopec Maoming, Xi'an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical, Guangzhou Petrochemical and Catalyst Plants are under the common control of Sinopec Group Company, the Acquisition of Sinopec National Star, the Acquisition of Ethylene Assets, the Acquisition of Refining Assets and the Acquisition of Petrochemical and Catalyst Assets are considered as Ocombination of entities under common controlO which are accounted in a manner similar to a pooling-of-interests (Oas-if pooling-of-interests accountingO). 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. In connection with these acquisitions, certain assets, primarily property, plant and equipment and construction in progress, were retained by Sinopec Group Company. The assets retained by Sinopec Group Company and the considerations paid by the Company for these acquisitions were treated as equity transactions.

The accompanying interim financial statements have been prepared in accordance with IFRS promulgated by the International Accounting Standards Board (OIASBO). IFRS includes International Accounting Standards (OIASO) and related interpretations. These interim financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the principal accounting policies adopted by the Group is set out in Note 2. These accounting policies have been consistently applied by the Group.

The accompanying interim financial statements are prepared on the historical cost basis as modified by the revaluation of certain property, plant and equipment (Note 14).

The preparation of the interim financial statements in accordance with IFRS requires management to make judgement, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim financial statements and the reported amounts of revenues and

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expenses during the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

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

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

Key assumptions and estimation made by management in the application of IFRS that have significant effect on the interim financial statements and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year are disclosed in Note 35.

### 2 PRINCIPAL ACCOUNTING POLICIES

#### (a) Basis of consolidation

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

#### (i) Subsidiaries

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

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

The particulars of the Group's principal subsidiaries are set out in Note 33.

#### (ii) Interest in associates

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

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

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

Investments in jointly controlled entities are accounted for in the consolidated interim 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.

- (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 period are translated into Renminbi at the applicable rates of exchange quoted by the People's Bank of China (OPBOCO) prevailing on the transaction dates. Foreign currency monetary assets and liabilities are translated into Renminbi at the PBOC's rates at the balance sheet date.

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

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

- (d) Trade accounts and other receivables Trade accounts and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (Note 2(1)).

## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

- (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

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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(1)). 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 14), which was based on depreciated replacement costs, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluations are performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other expenditure is recognised as an expense in the income statement in the period in which it is incurred.

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

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

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

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

(g) Oil and gas properties

The Group uses the successful efforts method of accounting for its oil and gas producing activities. Under this method, costs of development wells and the related support equipment are capitalised. The cost of exploratory wells is initially capitalised as construction in progress pending determination of whether the well has found proved reserves. The impairment of exploratory well costs occurs upon the determination that the well has not found proved reserves. Exploratory wells that find oil and gas reserves in any area requiring major capital

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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(1)). Amortisation is provided to write off the cost of lease prepayments on a straight-line basis over the respective periods of the rights.

(i) Construction in progress

Construction in progress represents buildings, oil and gas properties, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses (Note 2(1)). 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.

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## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Goodwill

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (Note 2(1)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in associates.

(k) Investments

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Investments in equity securities, other than investments in associates, 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(1)).

(1) Impairment of assets

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

Trade accounts receivable, other receivables and investment in equity securities other than investments in associates 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 and investments in associates, 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 recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

The Group assesses at each balance sheet date whether there is any

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

- (m) Trade accounts and other payables  
Trade accounts and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.
- (n) Interest-bearing borrowings  
Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of borrowings using the effective interest method.
- (o) Provisions and contingent liability  
A provision is recognised for liability of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

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

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## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

- (p) 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

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into account the effective yield on the asset.

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

- (q) **Borrowing costs**  
Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being attributable to the construction of an asset which necessarily takes a period of time to get ready for its intended use.
- (r) **Repairs and maintenance expenditure**  
Repairs and maintenance expenditure is expensed as incurred.
- (s) **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.

- (t) **Research and development costs**  
Research and development costs are recognised as expenses in the period in which they are incurred.
- (u) **Operating leases**  
Operating lease payments are charged to the income statement on a straight-line basis over the period of the respective leases.
- (v) **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 31.
- (w) **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

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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.

(x) Dividends

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

(y) Segmental reporting

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

3 TURNOVER

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

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4 OTHER OPERATING REVENUES

	Six-month periods ended 30 June	
	2006 RMB millions	2005 RMB millions
Sale of materials, service and others	11,046	9,117
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Rental income	94	89
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	11,140	9,206
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5 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

	Six-month periods ended 30 June	
	2006 RMB millions	2005 RMB millions
Research and development costs	1,120	736
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Operating lease charges	2,426	2,101
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Impairment losses:		
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- trade accounts receivable	77	76
<hr style="border-top: 1px dashed black;"/>		
- other receivables	22	218
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6 PERSONNEL EXPENSES

	Six-month periods ended 30 June	
	2006 RMB millions	2005 RMB millions
Wages and salaries	6,834	6,339
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Staff welfare	923	794
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Contributions to retirement schemes	959	930
-----		
Social security contributions	481	473
-----		
	9,197	8,536
=====		

7 EMPLOYEE REDUCTION EXPENSES

In accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 48 million (2005: RMB 100 million) during the six-month period ended 30 June 2006 in respect of the voluntary termination of approximately 1,000 (2005: 1,800) employees.

8 TAXES OTHER THAN INCOME TAX

	Six-month periods ended 30 June	
	2006 RMB millions	2005 RMB millions
Consumption tax	6,644	5,906
-----		
Special oil income levy	3,652	--
-----		
City construction tax	1,409	1,332
-----		
Education surcharge	694	649
-----		
Resources tax	407	221
-----		
Business tax	112	96
-----		
	12,918	8,204
=====		

Consumption tax is levied on producers of gasoline, diesel, naphtha, fuel oil, jet fuel, lubricant oil and solvent oil based on a tariff rate applied to the volume of sales. Effective 26 March 2006, a special oil income levy has been levied on oil exploration and production entities based on the progressive ad valorem rates on the excess of sale at a price which exceeds USD 40 per barrel. City construction tax is levied on an entity based on its total amount of value-added tax, consumption tax and business tax.

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9 OTHER OPERATING EXPENSES, NET

	Six-month periods ended 30 June	
	2006 RMB millions	2005 RMB millions
Fines, penalties and compensations	35	108
-----		
Donations	40	128
-----		
Loss on disposal of property, plant and equipment, net	13	20
-----		
Impairment losses on long-lived assets (Note)	34	397
-----		
Others	372	223
-----		

## Note:

Impairment losses recognised on long-lived assets of the Chemicals Segment were RMB 29 million (2005: RMB 392 million) for the six-month period ended 30 June 2006. These impairment losses relate to certain 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 on the appraised values of the production facilities. The primary factor resulting in the impairment losses on long-lived assets of the Chemicals Segment was due to higher operating and production costs caused by the increase in the prices of raw materials that are not expected to be recovered through an increase in selling price.

Impairment losses recognised on long-lived assets of the Marketing and Distribution Segment of RMB 5 million (2005: RMB 5 million) for the six-month period ended 30 June 2006 primarily relate to certain service stations that were closed during the period. In measuring the amounts of impairment charges, the carrying amounts of these assets were compared to the present value of the expected future cash flows of the assets, as well as information about sales and purchases of similar properties in the same geographic area.

## 10 INTEREST EXPENSE

	Six-month periods ended 30 June	
	2006	2005
	RMB millions	RMB millions
Interest expense incurred	4,176	3,399
Less: Interest expense capitalised*	(634)	(554)
INTEREST EXPENSE	3,542	2,845
* Interest rates per annum at which borrowing costs were capitalised for construction in progress	3.6% to 5.9%	3.4% to 6.1%

## 11 TAXATION

Taxation in the consolidated income statement represents:

	Six-month periods ended 30 June	
	2006	2005
	RMB millions	RMB millions
Current tax		
- Provision for the period	9,819	9,608
- Under-provision in prior years	240	477
Deferred taxation	51	(140)
	10,110	9,945

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

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	Six-month periods ended 30 June	
	2006 RMB millions	2005 RMB millions
Profit before taxation	31,674	31,714
-----		
Expected PRC income tax expense at a statutory tax rate of 33%	10,453	10,466
-----		
Tax effect of non-deductible expenses	379	234
-----		
Tax effect of non-taxable income	(400)	(222)
-----		
Tax effect of differential tax rate on subsidiaries' income (Note)	(1,161)	(870)
-----		
Tax effect of tax losses not recognised for deferred tax	600	15
-----		
Under-provision in prior years	240	477
-----		
Tax credit for domestic equipment purchases	(1)	(155)
-----		
Actual tax expense	10,110	9,945
=====		

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

Note:

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

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12 DIVIDENDS

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

	Six-month periods ended 30 June	
	2006 RMB millions	2005 RMB millions
Interim dividends declared after the balance sheet date of RMB 0.04 per share (2005: RMB 0.04 per share)	3,468	3,468
-----		

Pursuant to the Company's Articles of Association and a resolution passed at the Directors' meeting on 25 August 2006, the directors authorised to declare the interim dividends for the year ending 31 December 2006 of RMB 0.04 (2005: RMB 0.04) per share totalling RMB 3,468 million (2005: RMB 3,468 million). Interim dividend of RMB 3,468 million (2005: RMB 3,468 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

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

	Six-month periods ended 30 June	
	2006	2005
	RMB millions	RMB millions
Final dividends in respect of the previous financial year, approved and paid during the period of RMB 0.09 per share (2005: RMB 0.08 per share)	7,803	6,936

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

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.

### 13 BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the six-month period ended 30 June 2006 is based on the profit attributable to equity shareholders of the Company of RMB 21,406 million (2005: RMB 19,653 million) and the weighted average number of shares of 86,702,439,000 (2005: 86,702,439,000) during the period.

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

### 14 PROPERTY, PLANT AND EQUIPMENT

By segment:

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemical RMB millions
COST/VALUATION:				
Balance at 1 January 2005	192,076	116,910	65,345	163,200
Additions	8	85	77	
Transferred from construction in progress	3,386	3,173	5,918	15,400
Proportionate share of a new jointly controlled entity	-	-	-	1,000
Disposals	(97)	(84)	(220)	(1,000)
<b>BALANCE AT 30 JUNE 2005</b>	<b>195,373</b>	<b>120,084</b>	<b>71,120</b>	<b>179,600</b>
Balance at 1 January 2006	211,112	121,866	77,021	180,100

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Additions	14	92	168	1
Transferred from construction in progress	4,747	4,632	4,097	1,8
Acquisition of a subsidiary	2,071	-	-	
Reclassification	-	557	-	(5
Disposals	(36)	(96)	(101)	(1
BALANCE AT 30 JUNE 2006	217,908	127,051	81,185	181,4
ACCUMULATED DEPRECIATION:				
Balance at 1 January 2005	94,028	56,580	13,465	92,0
Depreciation charge for the period	5,233	3,296	1,372	4,8
Impairment losses for the period	-	-	5	3
Written back on disposals	(87)	(58)	(95)	(
BALANCE AT 30 JUNE 2005	99,174	59,818	14,747	97,2
Balance at 1 January 2006	102,210	61,132	14,812	100,3
Depreciation charge for the period	6,119	3,469	1,637	4,7
Acquisition of a subsidiary	592	-	-	
Impairment losses for the period	-	-	5	
Reclassification	-	1,235	-	(1,2
Written back on disposals	(16)	(60)	(45)	(1
BALANCE AT 30 JUNE 2006	108,905	65,776	16,409	103,7
NET BOOK VALUE:				
At 1 January 2005	98,048	60,330	51,880	71,1
AT 30 JUNE 2005	96,199	60,266	56,373	82,4
At 1 January 2006	108,902	60,734	62,209	79,8
AT 30 JUNE 2006	109,003	61,275	64,776	77,6

14 PROPERTY, PLANT AND EQUIPMENT (Continued)

By asset class:

Oil depots,

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	Buildings RMB millions	Oil and gas properties RMB millions	storage tanks and service stations RMB millions
COST/VALUATION:			
Balance at 1 January 2005	44,854	173,564	60,533
Additions	43	1	63
Transferred from construction in progress	1,222	3,130	5,219
Proportionate share of a new jointly controlled entity	182	-	-
Disposals	(117)	(59)	(156)
BALANCE AT 30 JUNE 2005	46,184	176,636	65,659
Balance at 1 January 2006	46,154	191,927	73,117
Additions	243	-	136
Transferred from construction in progress	345	4,653	5,822
Acquisition of a subsidiary	519	1,313	-
Reclassification	1,415	1	(1,238)
Disposals	(75)	(3)	(41)
BALANCE AT 30 JUNE 2006	48,601	197,891	77,796
ACCUMULATED DEPRECIATION:			
Balance at 1 January 2005	20,308	85,143	11,781
Depreciation charge for the period	761	4,902	1,209
Impairment losses for the period	-	-	5
Written back on disposals	(42)	(50)	(60)
BALANCE AT 30 JUNE 2005	21,027	89,995	12,935
Balance at 1 January 2006	21,404	93,364	13,730
Depreciation charge for the period	886	5,768	1,656
Acquisition of a subsidiary	49	468	-
Impairment losses for the period	29	-	5
Reclassification	151	2	(129)
Written back on disposals	(20)	(3)	(20)
BALANCE AT 30 JUNE 2006	22,499	99,599	15,242

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NET BOOK VALUE:

At 1 January 2005	24,546	88,421	48,752
AT 30 JUNE 2005	25,157	86,641	52,724
At 1 January 2006	24,750	98,563	59,387
AT 30 JUNE 2006	26,102	98,292	62,554

The Group's proportionate share of the jointly controlled entities' net book value of property, plant and equipment at 30 June 2006 in the exploration and production and the Chemicals Segments were RMB 377 million (2005: RMB 398 million) and RMB 14,720 million (2005: RMB 14,889 million), respectively.

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

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

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.

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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.

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15 CONSTRUCTION IN PROGRESS

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemical RMB million
Balance at 1 January 2005	9,262	8,459	13,781	13,17
Additions	11,352	3,366	6,307	2,14
Additions by jointly controlled entities	396	-	-	1,50
Proportionate share of a new jointly controlled entity	-	-	-	5,46
Dry hole costs written off	(1,325)	-	-	
Transferred to property, plant and equipment	(3,386)	(3,173)	(5,918)	(15,42
BALANCE AT 30 JUNE 2005	16,299	8,652	14,170	6,85
Balance at 1 January 2006	10,884	14,339	10,336	10,56
Additions	13,060	5,029	6,517	5,74
Additions by jointly controlled entities	73	-	-	10
Acquisition of a subsidiary	89	-	-	
Dry hole costs written off	(1,398)	-	-	
Transferred to property, plant and equipment	(4,747)	(4,632)	(4,097)	(1,86
BALANCE AT 30 JUNE 2006	17,961	14,736	12,756	14,55

The Group's proportionate share of the jointly controlled entities' construction in progress at 30 June 2006 in the exploration and production and the Chemicals Segments were RMB 2,961 million (2005: RMB 2,888 million)

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and RMB 592 million (2005: RMB 504 million), respectively.

As at 30 June 2006, the amount of capitalised cost of exploratory wells included in the Group's construction in progress in the Exploration and Production Segment was RMB 5,313 million (2005: RMB 3,573 million). The geological and geophysical costs paid during the six-month period ended 30 June 2006 were RMB 1,732 million (2005: RMB 2,083 million).

### 16 GOODWILL

	2006 RMB millions	2005 RMB millions
COST:		
Balance at 1 January	2,203	383
Additions	11,731	1,358
<b>BALANCE AT 30 JUNE</b>	<b>13,934</b>	<b>1,741</b>
ACCUMULATED IMPAIRMENT LOSSES:		
Balance at 1 January and 30 June	--	--
NET BOOK VALUE:		
Balance at 1 January	2,203	383
<b>BALANCE AT 30 JUNE</b>	<b>13,934</b>	<b>1,741</b>

Impairment tests for cash-generating units containing goodwill

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

	At 30 June 2006 RMB millions	At R
Sinopec Beijing Yanshan Branch (OSinopec YanshanO)	1,157	
Sinopec Zhenhai Refining and Chemical Company Limited (OSinopec ZhenhaiO)	3,952	
Sinopec Qilu Petrochemical Company Limited (OSinopec QiluO)	2,159	
Sinopec Yangzi Petrochemical Company Limited (OSinopec YangziO)	2,737	
Sinopec Zhongyuan Petroleum Company Limited (OSinopec ZhongyuanO)	1,391	
Shengli Oil Field Dynamic Company Limited (ODynamicO)	1,361	
Multiple units without significant goodwill	1,177	
	<b>13,934</b>	

During the six-month period ended 30 June 2006, the Group acquired additional equity interests in Sinopec Zhenhai, Sinopec Qilu, Sinopec Yangzi, Sinopec Zhongyuan and Dynamic of 28.7%, 17.7%, 14.8%, 28.5% and

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71.4%, respectively. The total consideration paid by the Group was approximately RMB 21,971 million which was settled in cash. The excess of the cost of purchase over the fair value of the underlying assets and liabilities (on a proportionate share) in Sinopec Zhenhai, Sinopec Qilu, Sinopec Yangzi, Sinopec Zhongyuan and Dynamic were RMB 3,952 million, RMB 2,159 million, RMB 2,737 million, RMB 1,391 million and RMB 1,361 million, respectively, which were recorded as goodwill.

The recoverable amounts of each of the above cash-generating units will be determined based on value in use calculations. These calculations will use cash flow projections primarily based on respective financial budgets, covering a one-year period, approved by management and pre-tax discount rates that reflect current market assessments of the time value of money and specific risks relating to the relevant business segment.

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

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### 17 INVESTMENTS

	At 30 June 2006	At 31 December 2005
	RMB millions	RMB millions
Unlisted investments, at cost	3,510	3,253
Less: Impairment losses	(360)	(327)
	3,150	2,926

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 six-month period ended 30 June 2006 amounted to RMB 41 million (2005: RMB 40 million).

### 18 INTEREST IN ASSOCIATES

	At 30 June 2006	At 31 December 2005
	RMB millions	RMB millions
Share of net assets	10,693	9,217

The Group's investments in associates are with companies primarily engaged in the oil and gas and chemical operations in the PRC. These investments are individually and in the aggregate not material to the Group's financial condition or results of operations for all periods presented. The share of associates' taxation for the six-month period ended 30 June 2006 was RMB 180 million (2005: RMB 170 million). The principal investments in associates, all of which are incorporated in the PRC, are as follows:

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Name of company	Form of business structure	Particulars of issued and paid up capital	Percentage of equity held by the Company %	Percentage equity of the Company's subsidiaries
Sinopec Shandong Taishan Petroleum and Company Limited (Taishan) *	Incorporated	480,793,320 ordinary shares of RMB 1.00 each	38.68	
Sinopec Finance Company Limited	Incorporated	Registered capital RMB 6,000,000,000	49.00	
Shanghai Petroleum National Gas Corporation	Incorporated	Registered capital RMB 900,000,000	30.00	
Shanghai Chemical Industry Park Development Company Limited	Incorporated	Registered capital RMB 2,372,439,000	-	
China Shipping & Sinopec Suppliers Company Limited	Incorporated	Registered capital RMB 876,660,000	-	
China Aviation Oil Supply Company Limited	Incorporated	Registered capital RMB 3,800,000,000	-	

During the six-month period ended 30 June 2006, the Group acquired 71.38% equity interests in Dynamic, which was previously an associate of the Group and, thereafter, Dynamic became a subsidiary of the Group (Note 16).

\* Shares of 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 Taishan based on the quoted market price was RMB 1,068 million (2005: RMB 547 million) at 30 June 2006.

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19 INTEREST IN JOINTLY CONTROLLED ENTITIES

The Group's principal interests 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 equity of the Company's subsidiaries
-----------------	----------------------------	---	--	---

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			%
Shanghai Secco Petrochemical Company Limited	Incorporated	Registered capital USD 901,440,964	30.00
-----			
BASF-YPC Company Limited	Incorporated	Registered capital RMB 8,793,000,000	30.00
-----			
Yueyang Sinopec and Shell Coal Gasification Company Limited	Incorporated	Registered capital USD 45,588,700	50.00
-----			
Block A Oil Field in the Western Area Chengdao in Bohai Bay	Unincorporated -		-
-----			

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

Results of operations:

-----  
Operating revenue  
Expenses

-----  
Net profit/(loss)  
=====

Financial conditions:

-----  
Current assets

-----  
Non-current assets, primarily property, plant and equipment and construction in progress with net book values of RMB 15,097 million (2005: RMB 15,287 million) and RMB 3,553 million (2005: RMB 3,392 million), respectively

-----  
Current liabilities

-----  
Non-current liabilities, primarily long-term bank loans of RMB 9,778 million (2005: RMB 10,006 million)

-----  
Net assets  
-----

RMB

Cash flows:

-----  
 Net cash generated from/(used in) operating activities  
 -----

Net cash used in investing activities  
 -----

Net cash generated from financing activities  
 -----

20 LONG-TERM PREPAYMENTS AND OTHER ASSETS

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

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21 TRADE ACCOUNTS AND BILLS RECEIVABLES

A

RMB

Amounts due from third parties  
 -----

Amounts due from Sinopec Group Company and fellow subsidiaries  
 -----

Amounts due from associates  
 -----

Amounts due from jointly controlled entities  
 -----

-----  
 Less: Impairment losses for bad and doubtful debts  
 -----

-----  
 Bills receivable  
 -----

=====

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

A

RMB

Within one year  
 -----

Between one and two years  
 -----

Between two and three years  
 -----

Over three years

-----  
 =====  
 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.

22 INVENTORIES

Crude oil and other raw materials

-----  
 Work in progress

-----  
 Finished goods

-----  
 Spare parts and consumables

-----  
 Less: Allowance for diminution in value of inventories

-----  
 =====  
 The cost of inventories recognised as an expense in the consolidated income statement amounted to RMB 416,865 million for six-month period ended 30 June 2006 (2005: RMB 293,438 million), including the write-down of inventories amounted to RMB 250 million (2005: RMB 131 million) and the reversal of write-down of inventories made in prior years amounted to RMB 250 million (2005: RMB 101 million) mainly arising from the sales of inventories.

23 PREPAID EXPENSES AND OTHER CURRENT ASSETS

Advances to third parties

-----  
 Amounts due from Sinopec Group Company and fellow subsidiaries

-----  
 Other receivables

-----  
 Purchase deposits

-----  
 Prepayments in connection with construction work and equipment purchases

-----  
 Prepaid value-added tax and customs duty

-----  
 Amounts due from associates

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### 24 DEFERRED TAX ASSETS AND LIABILITIES

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

	Assets		Liabilities	
	AT 30 JUNE 2006 RMB MILLIONS	At 31 December 2005 RMB millions	AT 30 JUNE 2006 RMB MILLIONS	At 31 December 2005 RMB million
Current				
Receivables and inventories	4,122	3,904	--	--
Non-current				
Property, plant and equipment	1,557	1,642	(1,656)	(1,611)
Accelerated depreciation	--	--	(4,392)	(4,211)
Tax value of losses carried forward, net of valuation allowances	97	128	--	--
Lease prepayments	355	359	--	--
Others	36	39	--	(6)
Deferred tax assets/(liabilities)	6,167	6,072	(6,048)	(5,907)

As at 30 June 2006, certain subsidiaries of the Company had tax value of losses carried forward for PRC income tax purpose of RMB 5,890 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, RMB 1,154 million and RMB 1,818 million expire in 2006, 2007, 2008, 2009, 2010 and 2011, respectively. As at 30 June 2006, the Group recognised deferred tax assets, net of valuation allowances, of RMB 97 million (2005: RMB 128 million) with respect to these tax value of losses carried forward.

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 600 million (2005: RMB 15 million) were provided for the six-month period ended 30 June 2006. 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

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amount that is probable to be realised.

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

Short-term debts represent:

	AT 30 JUNE 2006 RMB MILLIONS
THIRD PARTIES' DEBTS	
-----	
Short-term bank loans	39,664
Current portion of long-term bank loans	14,363
Current portion of long-term other loans	28
Current portion of long-term bank loans of jointly controlled entities	253
	14,644
Corporate bonds (a)	10,891
	65,199
-----	
LOANS FROM SINOPEC GROUP COMPANY AND FELLOW SUBSIDIARIES	
-----	
Short-term loans	7,121
Current portion of long-term loans	174
	7,295
	72,494
=====	

The Group's weighted average interest rate on short-term loans was 4.1% at 30 June 2006 (2005: 4.0%).

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

Long-term debts comprise:

	A RMB
Interest rate and final maturity	
THIRD PARTIES' DEBTS	
-----	

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### LONG-TERM BANK LOANS

Renminbi denominated	Interest rates ranging from interest free to 6.3% per annum at 30 June 2006 with maturities through 2013
Japanese Yen denominated	Interest rates ranging from 2.6% to 5.8% per annum at 30 June 2006 with maturities through 2024
US Dollar denominated	Interest rates ranging from interest free to 7.4% per annum at 30 June 2006 with maturities through 2031
Euro denominated	Fixed interest rate at 6.7% per annum at 30 June 2006 with maturities through 2010
Hong Kong Dollar denominated	Floating rate at Hong Kong Prime Rate plus 0.8% to 1.1% per annum at 30 June 2006 with maturities through 2007

### LONG-TERM OTHER LOANS

Renminbi denominated	Interest rates ranging from interest free to 5.0% per annum at 30 June 2006 with maturities through 2008
US Dollar denominated	Interest rates ranging from interest free to 2.0% per annum at 30 June 2006 with maturities through 2015

### CORPORATE BONDS

Renminbi denominated	Fixed interest rate at 4.61% per annum at 30 June 2006 with maturity in February 2014 (b)
----------------------	---

### LONG-TERM BANK LOANS OF JOINTLY CONTROLLED ENTITIES

Renminbi denominated	Floating rate at 90% of PBOC's base lending rate per annum at 30 June 2006 with maturities through 2021
US Dollar denominated	Floating rate at London Interbank Offer Rate plus 0.4% to 0.7% per annum at 30 June 2006 with maturities through 2021

### TOTAL THIRD PARTIES' LONG-TERM DEBTS

Less: Current portion

### LONG-TERM LOANS FROM SINOPEC GROUP COMPANY AND FELLOW SUBSIDIARIES

Renminbi denominated	Interest rates ranging from interest free to 5.4% per annum at 30 June 2006 with maturities through 2020
----------------------	--



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

	At 30 June 2006 RMB millions	At 31 December 2005 RMB millions
US Dollars	USD 1,204	USD 2,158
-----		
Japanese Yen	JPY 45,816	JPY 50,507
-----		
Euro	EUR 11	EUR 12
-----		
Hong Kong Dollars	HKD 7,802	HKD 128
=====		

### 26 TRADE ACCOUNTS AND BILLS PAYABLES

	At 30 June 2006 RMB millions	At 31 December 2005 RMB millions
Amounts due to third parties	47,728	49,962
-----		
Amounts due to Sinopec Group Company and fellow subsidiaries	2,175	2,304
-----		
Amounts due to jointly controlled entities	725	650
-----		
Amounts due to associates	8	51
-----		
	50,636	52,967
-----		
Bills payable	27,198	23,243
-----		
	77,834	76,210
=====		

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

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

	AT 30 JUNE 2006 RMB MILLIONS	At 31 December 2005 RMB millions
Due within 1 month or on demand	48,219	44,194
-----		
Due after 1 month but within 6 months	29,381	31,704
-----		
Due after 6 months	234	312
-----		
	77,834	76,210
=====		

### 27 ACCRUED EXPENSES AND OTHER PAYABLES

	AT 30 JUNE 2006 RMB MILLIONS	At 31 December 2005 RMB millions
Amounts due to Sinopec Group Company and fellow subsidiaries	12,128	7,144

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Accrued expenditures	20,245	19,566
Taxes other than income tax	7,222	3,090
Receipts in advance	13,156	12,368
Advances from third parties	1,243	1,226
Others	6,909	4,773
	60,903	48,167

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28 SHARE CAPITAL

	AT 30 JUNE 2006 RMB MILLIONS	At 31 Dec RMB mil
REGISTERED, ISSUED AND FULLY PAID		
67,121,951,000 domestic state-owned A shares of RMB 1.00 each	67,122	6
16,780,488,000 overseas listed H shares of RMB 1.00 each	16,780	1
2,800,000,000 domestic listed A shares of RMB 1.00 each	2,800	
	86,702	8

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 (OADSSs, 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.

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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.

### 29 COMMITMENTS AND CONTINGENT LIABILITIES

#### Operating lease commitments

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

At 30 June 2006 and 31 December 2005, the future minimum lease payments under operating leases are as follows:

	At 30 June 2006 RMB millions	At 31 December 2005 RMB millions
Within one year	3,665	3,593
-----		
Between one and two years	3,480	3,442
-----		
Between two and three years	3,417	3,388
-----		
Between three and four years	3,383	3,357
-----		
Between four and five years	3,318	3,353
-----		
Thereafter	93,831	95,176
-----		
	111,094	112,309
=====		

#### Capital commitments

At 30 June 2006 and 31 December 2005, capital commitments are as follows:

	At 30 June 2006 RMB millions	At 31 December 2005 RMB millions
The Group		
-----		
Authorised and contracted for	61,682	71,666
-----		
Authorised but not contracted for	64,617	84,213
-----		
	126,299	155,879
-----		
Jointly controlled entities		
-----		
Authorised and contracted for	2,018	2,160
-----		
Authorised but not contracted for	4	60
-----	2,022	2,220
=====		

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.

## 29 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

## Exploration and production licenses

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

The Group is required to make payments of exploration license fees and production right usage fees to the Ministry of Land and Resources annually which are expensed as incurred. Payments incurred were approximately RMB 12 million for the six-month period ended 30 June 2006 (2005: RMB 25 million).

Estimated future annual payments are as follows:

	At 30 June 2006 RMB millions	At 31 December 2005 RMB millions
Within one year	158	107
-----		
Between one and two years	101	112
-----		
Between two and three years	64	59
-----		
Between three and four years	63	67
-----		
Between four and five years	31	56
-----		
Thereafter	236	239
-----		
	653	640
=====		

## Contingent liabilities

- (a) The Company has been advised by its PRC lawyers that, except for liabilities constituting or arising out of or relating to the business assumed by the Company in the Reorganisation, no other liabilities were assumed by the Company, and the Company is not jointly and severally liable for other debts and obligations incurred by Sinopec Group Company prior to the Reorganisation.
- (b) At 30 June 2006 and 31 December 2005, guarantees given to banks in respect of banking facilities granted to the parties below were as follows:

	At 30 June 2006 RMB millions	At 31 December 2005 RMB millions
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The Group monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognise any such losses under guarantees when those losses are estimable. At 30 June 2006 and 31 December 2005, it is not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Group's obligation under these guarantee arrangements.

#### Environmental contingencies

To date, the Group has not incurred any significant expenditures for environmental remediation, is currently not involved in any environmental remediation, and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved, and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include i) the exact nature and extent of the contamination at various sites including, but not limited to refineries, oil fields, service stations, terminals and land development areas, whether operating, closed or sold, ii) the extent of required cleanup efforts, iii) varying costs of alternative remediation strategies, iv) changes in environmental remediation requirements, and v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. The Group paid normal routine pollutant discharge fees of approximately RMB 667 million for the six-month period ended 30 June 2006 (2005: RMB 107 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.

#### 30 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.

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

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

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

	Note	Six-month ended 2006 RMB millions
Sales of goods	(i)	54,716
Purchases	(ii)	30,243
Transportation and storage	(iii)	777
Exploration and development services	(iv)	9,490
Production related services	(v)	4,795
Ancillary and social services	(vi)	842
Operating lease charges	(vii)	1,715
Agency commission income	(viii)	33
Intellectual property license fee paid	(ix)	--
Interest received	(x)	21
Interest paid	(xi)	487
Net deposits withdrawn from related parties	(xii)	3,483
Net loans obtained from/(repaid to) related parties	(xiii)	5,983

The amounts set out in the table above in respect of the six-month periods ended 30 June 2006 and 2005 represent the relevant costs to the Group as determined by the corresponding contracts with the related parties.

At 30 June 2006 and 31 December 2005, 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 29.

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

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agreements governing such transactions.

### Notes:

- (i) Sales of goods represent the sale of crude oil, intermediate petrochemical products, petroleum products and ancillary materials.
- (ii) Purchases represent the purchase of materials and utility supplies directly related to the Group's operations such as the procurement of raw and ancillary materials and related services, supply of water, electricity and gas.
- (iii) Transportation and storage represent the cost for the use of railway, road and marine transportation services, pipelines, loading, unloading and storage facilities.
- (iv) Exploration and development services comprise direct costs incurred in the exploration and development such as geophysical, drilling, well testing and well measurement services.
- (v) Production related services represent ancillary services rendered in relation to the Group's operations such as equipment repair and general maintenance, insurance premium, technical research, communications, fire fighting, security, product quality testing and analysis, information technology, design and engineering, construction which includes the construction of oilfield ground facilities, refineries and chemical plants, manufacture of replacement parts and machinery, installation, project management and environmental protection.
- (vi) Ancillary and social services represent expenditures for social welfare and support services such as educational facilities, media communication services, sanitation, accommodation, canteens, property maintenance and management services.
- (vii) Operating lease charges represent the rental paid to Sinopec Group Company for operating leases in respect of land, buildings and equipment.
- (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 for trademarks, patents, technology and computer software.
- (x) Interest received represents interest received from deposits placed with Sinopec Finance Company Limited, a finance company controlled by Sinopec Group Company. The applicable interest rate is determined in accordance with the prevailing saving deposit rate. The balance of deposits at 30 June 2006 was RMB 1,106 million (2005: RMB 4,589 million).

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### 30 RELATED PARTY TRANSACTIONS (Continued)

- (a) Transactions with Sinopec Group Company and fellow subsidiaries,

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associates and jointly controlled entities (Continued)

- (xi) Interest paid represents interest charges on the loans and advances obtained from Sinopec Group Company and Sinopec Finance Company Limited.
- (xii) Deposits withdrawn from related parties represent net deposits withdrawn from Sinopec Finance Company Limited.
- (xiii) The Group obtained loans from/repaid loans to Sinopec Group Company and Sinopec Finance Company Limited.

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

- (a) The Company has entered into a non-exclusive Agreement for Mutual Provision of Products and Ancillary Services (OMutual Provision AgreementO) 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:
  - o the government-prescribed price;
  - o where there is no government-prescribed price, the government-guidance price;
  - o where there is neither a government-prescribed price nor a government-guidance price, the market price; or
  - o where none of the above is applicable, the price to be agreed between the parties, which shall be based on a reasonable cost incurred in providing such services plus a profit margin not exceeding 6%.
- (b) The Company has entered into a non-exclusive Agreement for Provision of Cultural and Educational, Health Care and Community Services with Sinopec Group Company effective from 1 January 2000 in which Sinopec Group Company has agreed to provide the Group with certain cultural, educational, health care and community services on the same pricing terms and termination conditions as agreed to in the above Mutual Provision Agreement.
- (c) The Company has entered into a 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, however such amount cannot exceed the market price as determined by an independent third party. The Group has the option to terminate these leases upon six months notice to Sinopec Group Company.

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- (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.

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

	At 30 June 2006 RMB millions
Trade accounts receivable	3,038
Prepaid expenses and other current assets	3,829
Total amounts due from Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities	6,867
Trade accounts payable	2,908
Accrued expenses and other payables	12,128
Short-term loans and current portion of long-term loans from Sinopec Group Company and fellow subsidiaries	7,295
Long-term loans excluding current portion from Sinopec Group Company and fellow subsidiaries	39,453
Total amounts due to Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities	61,784

Amounts due from/to Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities, other than short-term loans and long-term loans, bear no interest, are unsecured and are repayable in accordance with normal commercial terms. The terms and conditions associated with short-term loans and long-term loans payable to Sinopec Group Company and fellow subsidiaries are set out in Note 25.

As at and for the six-month period ended 30 June 2006, and 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.

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

	Six-month periods ended 30 June	
	2006	2005
	RMB'000	RMB'000
Short-term employee benefits	1,977	1,209
Retirement scheme contributions	68	54
	2,045	1,263

Total emoluments are included in Opersonnel expensesO as disclosed in Note 6.

- (c) Contributions to defined contribution retirement plans The Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The details of the Group's employee benefits plan are disclosed in Note 31. As at 30 June 2006 and 31 December 2005, there was no material outstanding contribution to post-employment benefit plans.
- (d) Transactions with other state-controlled entities in the PRC The Group is a state-controlled energy and chemical enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government through its government authorities, agencies, affiliations and other organisations (collectively referred as Ostate-controlled entitiesO).

Apart from transactions with Sinopec Group Company and fellow subsidiaries, the Group has transactions with other state-controlled entities include but not limited to the following:

- o sales and purchase of goods and ancillary materials;
- o rendering and receiving services;
- o lease of assets;
- o depositing and borrowing money; and
- o use of public utilities.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled. The Group has established its procurement policies, pricing strategy and approval process for purchases and sales of products and services which do not depend on whether the counterparties are state-controlled entities or not.

Having considered the transactions potentially affected by related party relationships, the entity's pricing strategy, procurement policies and approval processes, and the information that would be necessary for an understanding of the potential effect of the related party relationship on the financial statements, the directors are of the opinion that the following related party transactions require

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disclosure of numeric details:

- (i) Transactions with other state-controlled energy and chemical companies

The Group's major domestic suppliers of crude oil and refined petroleum products are China National Petroleum Corporation and its subsidiaries (OCNPC Group) and China National Offshore Oil Corporation and its subsidiaries (OCNOOC Group), which are state-controlled entities.

During the six-month period ended 30 June 2006, the aggregate amount of crude oil purchased by Refining Segment and refined petroleum purchased by Marketing and Distribution Segment from CNPC Group and the amount of crude oil purchased by Refining Segment from CNOOC Group was RMB 31,112 million (2005: RMB 25,205 million).

The aggregate amounts due from/to CNPC Group and CNOOC Group are summarised as follows:

	At 30 June 2006 RMB millions	At 31 December 2005 RMB millions
Trade accounts receivable	603	213
Prepaid expenses and other current assets	237	120
Total amounts due from CNPC Group and CNOOC Group	840	333
Trade accounts payable	1,244	1,237
Accrued expenses and other payables	162	127
Total amounts due to CNPC Group and CNOOC Group	1,406	1,364

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### 30 RELATED PARTY TRANSACTIONS (Continued)

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

- (ii) Transactions with state-controlled banks

The Group deposits its cash with several state-controlled banks in the PRC. The Group also obtains short-term and long-term loans from these banks in the ordinary course of business. The interest rates of the bank deposits and loans are regulated by the PBOC. The Group's interest income from and interest expenses to these state-controlled banks in the PRC are as follows:

Interest income

---

Interest expenses

---

The amounts of cash deposited at and loans from state-controlled banks in the PRC are summarised as follows:

Cash and cash equivalents

---

Time deposits with financial institutions

---

Total deposits at state-controlled banks in the PRC

---

Short-term loans and current portion of long-term loans

---

Long-term loans excluding current portion of long-term loans

---

Total loans from state-controlled banks in the PRC

---

31 EMPLOYEE BENEFITS PLAN

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The Group is required to make contributions to the retirement plans at rates ranging from 17.0% to 30.0% of the salaries, bonuses and certain allowances of its staff. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the six-month period ended 30 June 2006 were RMB 959 million (2005: RMB 930 million).

32 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.

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

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

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

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### 32 SEGMENTAL REPORTING (Continued)

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

#### Turnover

---

#### Exploration and production

---

External sales

---

Inter-segment sales

---

#### Refining

---

External sales

---

Inter-segment sales

---

#### Marketing and distribution

---

External sales

---

Inter-segment sales

---

RMB

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Chemicals

External sales

Inter-segment sales

Corporate and others

External sales

Inter-segment sales

Elimination of inter-segment sales

Turnover

Other operating revenues

Exploration and production

Refining

Marketing and distribution

Chemicals

Corporate and others

Other operating revenues

Turnover and other operating revenues

Result

Operating profit

By segment

- Exploration and production

- Refining

- Marketing and distribution

- Chemicals

- Corporate and others

Total operating profit

RMB

-----  
 Share of profits less losses from associates  
 -----

- Exploration and production  
 -----

- Refining  
 -----

- Marketing and distribution  
 -----

- Chemicals  
 -----

- Corporate and others  
 -----

Aggregate share of profits less losses from associates  
 -----

Finance costs  
 -----

Interest expense  
 -----

Interest income  
 -----

Foreign exchange losses  
 -----

Foreign exchange gains  
 -----

Net finance costs  
 -----

Investment income  
 -----

Profit before taxation  
 -----

Taxation  
 -----

Profit for the period  
 -----

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32 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.

Interests in and share of profits from associates are included in the segments in which the associates operate. Information on associates is included in Note 18. Additions to long-lived assets by operating segment are included in Notes 14 and 15.

A  
 RMB

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Assets

Segment assets

- Exploration and production
- Refining
- Marketing and distribution
- Chemicals
- Corporate and others

Total segment assets

Interest in associates

- Exploration and production
- Refining
- Marketing and distribution
- Chemicals
- Corporate and others

Aggregate interest in associates

Unallocated assets

Total assets

Liabilities

Segment liabilities

- Exploration and production
- Refining
- Marketing and distribution
- Chemicals
- Corporate and others

Total segment liabilities

Unallocated liabilities

Total liabilities

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one year.

Capital expenditure

-----  
 Exploration and production

-----  
 Refining

-----  
 Marketing and distribution

-----  
 Chemicals

-----  
 Corporate and others

=====  
 Capital expenditure of jointly controlled entities

-----  
 Exploration and production

-----  
 Chemicals

=====  
 Depreciation, depletion and amortisation

-----  
 Exploration and production

-----  
 Refining

-----  
 Marketing and distribution

-----  
 Chemicals

-----  
 Corporate and others

-----  
 Impairment losses on long-lived assets

-----  
 Marketing and distribution

-----  
 Chemicals

33 PRINCIPAL SUBSIDIARIES

At 30 June 2006, the following list contains the particulars of subsidiaries which principally affected the results or assets of the Group.

Particulars of issued	Type of	Percentage of equi held held by the Com
--------------------------	---------	---

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Name of company	capital (millions)	legal entity	Company %	subs
China Petrochemical International Company Limited	RMB 1,704	Limited company	100.00	
Sinopec Sales Company Limited	RMB 1,700	Limited company	100.00	
Sinopec Zhenhai Refining and Chemical Company Limited (Note 16)	RMB 2,524	Limited company	100.00	
Sinopec Qilu Petrochemical Company Limited (Note 16)	RMB 1,950	Limited company	99.76	
Sinopec Yangzi Petrochemical Company Limited (Note 16)	RMB 2,330	Limited company	99.81	
Sinopec Zhongyuan Petroleum Company Limited (Note 16)	RMB 875	Limited company	99.35	
Shengli Oil Field Dynamic Company Limited (Note 16)	RMB 364	Limited company	97.71	
Sinopec Fujian Petrochemical Company Limited (i)	RMB 2,253	Limited company	50.00	
Sinopec Shanghai Petrochemical Company Limited	RMB 7,200	Limited company	55.56	
Sinopec Shijiazhuang Refining-Chemical Company Limited	RMB 1,154	Limited company	79.73	
Sinopec Kantons Holdings Limited	HK\$ 104	Limited company	-	
Sinopec Wuhan Petroleum Group Company Limited (i)	RMB 147	Limited company	46.25	
Sinopec Wuhan Phoenix Company Limited (i)	RMB 519	Limited company	40.72	

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Sinopec Yizheng Chemical Fibre Company Limited (i)	RMB 4,000	Limited company	42.00
Sinopec Zhongyuan Petrochemical Company Limited	RMB 2,400	Limited company	93.51
Sinopec Shell (Jiangsu) Petroleum Marketing Company Limited	RMB 830	Limited company	60.00
BP Sinopec (Zhejiang) Petroleum Company Limited	RMB 800	Limited company	60.00
Sinopec Qingdao Refining and Chemical Company Limited	RMB 800	Limited company	85.00

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

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

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### 34 FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, time deposits with financial institutions, investments, trade accounts receivable, bills receivable, amounts due from Sinopec Group Company and fellow subsidiaries, advances to third parties, amounts due from associates, and other receivables. Financial liabilities of the Group include bank and other loans, loans from Sinopec Group Company and fellow subsidiaries, trade accounts payable, bills payable, amounts due to Sinopec Group Company and fellow subsidiaries, receipts in advance, and advances from third parties. The Group has no derivative instruments that are designated and qualified as hedging instruments at 30 June 2006 and 31 December 2005.

#### 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 allowance for doubtful accounts and actual losses have been within management's expectations. No single customer accounted for greater than 10% of total revenues.

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

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### Currency risk

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

With the authorisation from the PRC government, the PBOC announced that the PRC government reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies on 21 July 2005. The 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 25, the amounts of other financial assets and liabilities of the Group are substantially denominated in the functional currency of respective entity of the Group.

### Interest rate risk

The interest rates and terms of repayment of short-term and long-term debts of the Group are disclosed in Note 25.

### 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 following table presents the carrying amount and fair value of the Group's long-term indebtedness other than loans from Sinopec Group Company and fellow subsidiaries at 30 June 2006 and 31 December 2005:

	At 30 June 2006 RMB millions	At 31 December 2005 RMB millions
Carrying amount	82,923	82,157
Fair value	82,437	82,161

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.

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35 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 Oproved0. 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 Oimpaired0, and an impairment loss may be recognised in accordance with IAS 36 OImpairment of

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

### Depreciation

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

### Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the 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.

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- 36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDING 31 DECEMBER 2006  
Up to the date of issue of these interim financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the annual accounting period ending 31 December 2006 and which have not been adopted in these interim financial statements:

	Eff account beginning o
IFRS 7, Financial instruments: disclosures	1 Ja
-----	
IFRIC 7, Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies	1
-----	
IFRIC 8, Scope of IFRS 2	
-----	
IFRIC 9, Reassessment of Embedded Derivatives	1

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IFRIC 10, Interim Financial Reporting and Impairment	1 Nov
Amendment to IAS 1, Presentation of financial statements: capital disclosures	1 Ja

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

### 37 POST BALANCE SHEET EVENT

On 10 July 2006, one of the subsidiaries of the Group, Sinopec Kantons Holdings Limited, entered into two equity acquisition agreements with Guangzhou Petrochemical Plant (OGPCO), a wholly owned subsidiary of Sinopec Group Company, and Guangzhou Zhong Guan An Tai Petrochemical Company Limited (OGZGATO), a wholly-owned subsidiary of GPC. Pursuant to the agreements, the Group will acquire 30% of the equity interests of Hua De Petrochemical Company Limited (OHuadeO) from GPC at a cash consideration of RMB 594 million and the remaining 10% of the equity interests of Kantons Gas Station Investment and Management Company Limited (OKGSIMO) from GZGAT at a cash consideration of RMB 17 million. These transactions were approved by the independent shareholders of Sinopec Kantons Holdings Limited on 18 August 2006 and are subject to the approval from the relevant PRC governmental and regulatory bodies.

### 38 PARENT AND ULTIMATE HOLDING COMPANY

The directors consider the parent and ultimate holding company of the Group as at 30 June 2006 is Sinopec Group Company, a state-owned enterprise established in the PRC. This entity does not produce financial statements available for public use.

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### (C) DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS AND IFRS

Other than the differences in the classifications of certain financial statements captions and the accounting for the items described below, there are no material differences between the Group's financial statements prepared under the PRC Accounting Rules and Regulations and IFRS. The reconciliation presented below is included as supplemental information, is not required as part of the basic financial statements and does not include differences related to classification, display or disclosures. Such information has not been subject to independent audit or review. The major differences are:

#### (i) Equity investment differences

Under the PRC Accounting Rules and Regulations, equity investment difference, being the excess of the initial investment cost over the investor's share of equity of the investee enterprise, is amortised on a straight-line basis. The amortisation period is determined according to the investment period as stipulated in the relevant agreement, or less than ten years if the investment period is not specified in the

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agreement.

Under IFRS, goodwill, being the excess of the cost of the business combination over the investor's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities, is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstance indicate that it might be impaired.

(ii) Capitalisation of general borrowing costs

Under the PRC Accounting Rules and Regulations, only borrowing costs on funds that are specifically borrowed for construction are capitalised as part of the cost of property, plant and equipment. Under IFRS, to the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the borrowing costs should be capitalised as part of the cost of that asset.

(iii) Depreciation of oil and gas properties

Under the PRC Accounting Rules and Regulations, oil and gas properties are depreciated on a straight-line basis. Under IFRS, oil and gas properties are depreciated on the unit of production method.

(iv) Acquisitions of Sinopec National Star

Under the PRC Accounting Rules and Regulations, the acquisition of Sinopec National Star (the OAcquisitionO) is accounted for by the acquisition method. Under the acquisition method, the income of an acquiring enterprise includes the operations of the acquired enterprise subsequent to the acquisition. The difference between the cost of acquiring Sinopec National Star and the fair value of the net assets acquired is capitalised as an exploration and production right, which is amortised over 27 years.

Under IFRS, as the Group and Sinopec National Star are under the common control of Sinopec Group Company, the Acquisition is considered Ocombination of entities under common controlO which is accounted in a manner similar to a pooling-of-interests (Oas-if pooling-of-interests accountingO). Accordingly, the assets and liabilities of Sinopec National Star acquired have been accounted for at historical cost and the financial statements of the Group for periods prior to the Acquisition have been restated to include the financial condition and results of operations of Sinopec National Star on a combined basis. The consideration paid by the Group is treated as equity transactions.

(v) Revaluation of land use rights

Under the PRC Accounting Rules and Regulations, land use rights are carried at revalued amount. Under IFRS, land use rights are carried at historical cost less amortisation. Accordingly, the surplus on the revaluation of land use rights, credited to revaluation reserve, was eliminated.

(vi) Unrecognised losses of subsidiaries

Under the PRC Accounting Rules and Regulations, the results of subsidiaries are included in the Group's consolidated income statement to the extent that the subsidiaries' accumulated losses do not result in their carrying amount being reduced below zero. Further losses are debited to a separate reserve in the shareholders' funds. Any profits earned by the subsidiaries subsequently are firstly credited to this

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reserve before being included in the Group's consolidated income statement to the extent that the aggregate amounts credited do not exceed the accumulated losses debited to this reserve previously for that same subsidiary.

Under IFRS, the results of subsidiaries are included in the Group's consolidated income statement from the date that control effectively commences until the date that control effectively ceases.

(vii) Government grants

Under the PRC Accounting Rules and Regulations, government grants relating to the purchase of equipment used for technology improvements should be credited to capital reserve. Under IFRS, government grants relating to the purchase of equipment used for technology improvements are initially recorded as long-term liabilities and are offset against the cost of assets to which the grants related when construction commences. Upon transfer to property, plant and equipment, the grants are recognised as an income over the useful life of the property, plant and equipment by way of reduced depreciation charge.

(viii) Pre-operating expenditures

Under the PRC Accounting Rules and Regulations, expenditures incurred during the start-up period are aggregated in long-term deferred expenses and charged to the income statement when operations commence. Under IFRS, expenditures on start-up activities are recognised as an expense when they are incurred.

(ix) Disposal of oil and gas properties

Under the PRC Accounting Rules and Regulations, gains and losses arising from the retirement or disposal of an individual item of oil and gas properties are recognised as an income or expense in the income statement and are measured as the difference between the estimated net disposal proceeds and the carrying amount of the asset.

Under IFRS, gains and losses on the retirement or disposal of an individual item of proved oil and gas properties are not recognised unless the retirement or disposal encompasses an entire property. The costs of the asset abandoned or retired are charged to accumulated depreciation with the proceeds received on disposals credited to the carrying amounts of oil and gas properties.

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(x) Minority interests

Under the PRC Accounting Rules and Regulations, minority interests at the balance sheet date are presented in the consolidated balance sheet separately from liabilities and as deduction from the shareholders' funds. Minority interests in the results of the Group for the period are also separately presented in the consolidated income statement as deduction before arriving at the net profit.

Under IFRS, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity shareholders of the Company, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the

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minority interests and the equity shareholders of the Company.

Effects of major differences between the net profit under the PRC Accounting Rules and Regulations and the profit for the period under IFRS are analysed as follows:

	Note		Six RMB
Net profit under the PRC Accounting Rules and Regulations			
-----			
Adjustments:			
-----			
Equity investment differences	(i)		
-----			
Capitalisation of general borrowing costs, net of depreciation effect	(ii)		
-----			
Depreciation of oil and gas properties	(iii)		
-----			
Acquisition of Sinopec National Star	(iv)		
-----			
Reduced amortisation on revaluation of land use rights	(v)		
-----			
Unrecognised losses of subsidiaries	(vi)		
-----			
Reduced depreciation on government grants	(vii)		
-----			
Pre-operating expenditures	(viii)		
-----			
Disposal of oil and gas properties, net of depreciation effect	(ix)		
-----			
Effects of the above adjustments on taxation			
-----			
Minority interests	(x)		
-----			
Profit for the period under IFRS*			
=====			

Effects of major differences between the shareholders' funds under the PRC Accounting Rules and Regulations and the total equity under IFRS are analysed as follows:

	Note		A RMB
Shareholders' funds under the PRC Accounting Rules and Regulations			
-----			
Adjustments:			
-----			
Equity investment differences	(i)		
-----			
Capitalisation of general borrowing costs	(ii)		
-----			
Depreciation of oil and gas properties	(iii)		
-----			
Acquisition of Sinopec National Star	(iv)		
-----			
Revaluation of land use rights	(v)		
-----			

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Government grants	(vii)
<hr style="border-top: 1px dashed black;"/>	
Pre-operating expenditures	(viii)
<hr style="border-top: 1px dashed black;"/>	
Disposal of oil and gas properties	(ix)
<hr style="border-top: 1px dashed black;"/>	
Effects of the above adjustments on taxation	
<hr style="border-top: 1px dashed black;"/>	
Minority interests	(x)
<hr style="border-top: 1px dashed black;"/>	
Total equity under IFRS*	
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\* The above figure is extracted from the financial statements prepared in accordance with IFRS which have been audited by KPMG.

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### (D) SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS

The Group's accounting policies conform with IFRS which differ in certain significant respects from accounting principles generally accepted in the United States of America (OUS GAAP). Information relating to the nature and effect of such differences are set out below. The US GAAP reconciliation presented below is included as supplemental information, is unaudited, is not required as part of the basic financial statements and does not include differences related to classification, display or disclosures. Such information has not been subject to independent audit or review.

#### (a) Foreign exchange gains and losses

In accordance with IFRS, foreign exchange differences on funds borrowed for construction are capitalised as property, plant and equipment to the extent that they are regarded as an adjustment to interest costs during the construction period. Under US GAAP, all foreign exchange gains and losses on foreign currency debt are included in current earnings. For the periods presented herein, the US GAAP adjustments represent the amortisation effect of such originating adjustments described above. Accordingly, the carrying amount of property, plant and equipment under IFRS was higher than the amount under US GAAP by RMB 218 million (2005: RMB 241 million) as of 30 June 2006.

#### (b) Revaluation of property, plant and equipment

As required by the relevant PRC regulations with respect to the Reorganisation, the property, plant and equipment of the Group were revalued at 30 September 1999. In addition, the property, plant and equipment of Sinopec National Star, Sinopec Maoming, Refining Assets, and Petrochemical and Catalyst Assets were revalued at 31 December 2000, 30 June 2003, 31 October 2003 and 30 June 2004, respectively, in connection with the acquisitions of Sinopec National Star, Sinopec Maoming, Refining Assets, and Petrochemical and Catalyst Assets. Under IFRS, such revaluations result in an increase in equity with respect to the increase in carrying amount of certain property, plant and equipment above their historical cost bases and a charge to income with respect to the reduction in carrying amount of certain property, plant and equipment below their historical cost bases.

Under US GAAP, property, plant and equipment are stated at their historical cost less accumulated depreciation. However, as a result of the tax deductibility of the net revaluation surplus, a deferred tax asset related to the reversal of the revaluation surplus is created under US GAAP with a corresponding increase in equity.

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In addition, under IFRS, on disposal of a revalued asset, the related revaluation surplus is transferred from the revaluation reserve to retained earnings. Under US GAAP, the gain and loss on disposal of an asset is determined with reference to the asset's historical carrying amount and included in current earnings.

Accordingly, the carrying amount of property, plant and equipment under IFRS was higher than the amount under US GAAP by RMB 148 million (2005: RMB 1,838 million) as of 30 June 2006.

(c) Exchange of assets

During 2002, the Company and Sinopec Group Company entered into an asset swap transaction. Under IFRS, the cost of property, plant and equipment acquired in an exchange for a dissimilar item of property, plant and equipment is measured at fair value. Under US GAAP, as the exchange of assets was between entities under common control, the assets received from Sinopec Group Company are measured at historical cost. The difference between the historical cost of the net assets transferred and the net assets received is accounted for as an equity transaction. For the periods presented herein, the US GAAP adjustments represent the amortisation effect of such originating adjustments described above. Accordingly, the carrying amount of property, plant and equipment under IFRS was higher than the amount under US GAAP by RMB 497 million (2005: RMB 509 million) as of 30 June 2006.

(d) Reversal of impairment of long-lived assets

Under IFRS, impairment charges are recognised when a long-lived asset's carrying amount exceeds the higher of an asset's fair value less costs to sell and value in use, which incorporates discounting the asset's estimated future cash flows.

Under US GAAP, determination of the recoverability of a long-lived asset held for use is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognised. Measurement of an impairment loss for a long-lived asset is based on the difference between the asset's carrying value and the fair value of the asset.

In addition, under IFRS, a subsequent increase in the recoverable amount of an asset is reversed to the consolidated income statement to the extent that an impairment loss on the same asset was previously recognised as an expense when the circumstances and events that led to the write-down or write-off cease to exist. The reversal is reduced by the amount that would have been recognised as depreciation had the write-off not occurred. Under US GAAP, an impairment loss establishes a new cost basis for the impaired asset and the new cost basis should not be adjusted subsequently other than for further impairment losses.

For the periods presented herein, the US GAAP adjustment represents the effect of reversing the recovery of previous impairment charges recorded under IFRS. Accordingly, the carrying amount of property, plant and equipment under IFRS was higher than the amount under US GAAP by RMB 429 million (2005: RMB 456 million) as of 30 June 2006.

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(e) Capitalised interest on investment in associates

Under IFRS, an investment accounted for by the equity method is not considered a qualifying asset for which interest is capitalised. Under US

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GAAP, an investment accounted for by the equity method while the investee has activities in progress necessary to commence its planned principal operations, provided that the investee's activities include the use of funds to acquire qualifying assets for its operations, is a qualifying asset for which interest is initially capitalised and subsequently amortised when the operation of the qualifying assets begin. Accordingly, the carrying amount of the interest in associates under IFRS was lower than the amount under US GAAP by RMB 466 million (2005: RMB 486 million) as of 30 June 2006.

(f) Goodwill

Under IFRS, with reference to IFRS 3, *Business Combination*, goodwill arising from a business combination for which the purchase agreement date is on or after 31 March 2004 is not amortised, or goodwill arising from a business combination for which the purchase agreement date was before 31 March 2004 is no longer amortised from the first annual reporting period beginning on or after 31 March 2004. Instead, goodwill is tested for impairment annually.

Under US GAAP, with reference to Statement of Financial Accounting Standards No.142, *Goodwill and Other Intangible Assets* (SFAS No.1420), goodwill is no longer amortised beginning 1 January 2002. Instead, goodwill is reviewed for impairment at least annually.

As a result, there is no difference in respect of goodwill amortisation effective 1 January 2005. Accordingly, the carrying amount of the goodwill under IFRS was lower than the amount under US GAAP by RMB 43 million (2005: RMB 43 million) as of 30 June 2006 due to the continued amortisation of goodwill under IFRS until the end of 2004.

(g) Presentation of minority interests

Under IFRS, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity shareholders of the Company, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the profit for the period between the minority interests and the equity shareholders of the Company. Under US GAAP, minority interests at the balance sheet date are presented in the consolidated balance sheet either as liabilities or separately from liabilities and equity. Minority interests in the results of the Group for the period are also separately presented in the consolidated income statement as a component of net income.

The effect on profit attributable to equity shareholders of the Company of significant differences between IFRS and US GAAP is as follows:

	Reference in note above	2006 US\$ millions	Six-month 2006 RMB
Profit attributable to equity shareholders of the Company under IFRS		2,678	
-----			
US GAAP adjustments:			
-----			
Foreign exchange gains and losses	(a)	3	
-----			
Depreciation on revalued property, plant and equipment	(b)	204	
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Disposal of property, plant and equipment	(b)	7
Exchange of assets	(c)	2
Depreciation effect of reversal of impairment of long-lived assets	(d)	3
Capitalised interest on investments in associates, net of amortisation effect	(e)	(3)
Deferred tax effect of US GAAP adjustments		(67)
Minority interests	(g)	(23)
Profit attributable to equity shareholders of the Company under US GAAP		2,804
Basic and diluted earnings per share under US GAAP		US\$0.03
Basic and diluted earnings per ADS under US GAAP*		US\$3.23

\* Basic and diluted earnings per ADS is calculated on the basis that one ADS is equivalent to 100 H shares.

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The effect on the total equity attributable to equity shareholders of the Company of significant differences between IFRS and US GAAP is as follows:

	Reference in note above	At 30 Jun 2006 US\$ millions	RMB
Total equity attributable to equity shareholders of the Company under IFRS		29,667	
US GAAP adjustments:			
Foreign exchange gains and losses	(a)	(27)	
Revaluation of property, plant and equipment	(b)	(19)	
Exchange of assets	(c)	(62)	
Reversal of impairment of long-lived assets	(d)	(54)	
Capitalised interest on investments in associates	(e)	58	
Goodwill	(f)	5	
Effect of US GAAP adjustments on deferred tax assets		47	
Effect of US GAAP adjustments on deferred			

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tax liabilities		(16)
-----		-----
Minority interests	(g)	6
-----		-----
Total equity attributable to equity shareholders of the Company under US GAAP		29,605
=====		=====

Note: United States dollar equivalents

For the convenience of readers, amounts in Renminbi have been translated into United States dollars at the rate of US\$1.00 = RMB 7.9943 being the noon buying rate in New York City on 30 June 2006 for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the Renminbi amounts could have been, or could be, converted into United States dollars at that rate.

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DOCUMENTS FOR INSPECTION

The following documents will be available for inspection during normal business hours at the legal address of Sinopec Corp. from Friday, 25 August 2006 by the relevant regulatory authorities and shareholders in accordance with the Articles of Association of Sinopec Corp. and the laws and regulations of the PRC:

- 1 The original interim report for the first half of 2006 signed by the Chairman of Sinopec Corp.;
- 2 The original audited financial statements and audited consolidated financial statements of Sinopec Corp. prepared in accordance with IFRS and the PRC Accounting Rules and Regulations for the six-month period ended 30 June 2006 signed by Mr. Chen Tonghai (Chairman of Sinopec Corp.), Mr. Wang Tianpu (Director, President of Sinopec Corp.), Mr. Dai Houliang (Director, Senior Vice President and Chief Financial Officer of Sinopec Corp.) and Mr. Liu Yun (Head of the Accounting Department of Sinopec Corp.);
- 3 The original auditors' reports on the above financial statements signed by the auditors; and
- 4 All original documents and announcements published by Sinopec Corp. in the newspapers specified by the China Securities Regulatory Commission during the reporting period.

By Order of the Board  
CHEN TONGHAI  
Chairman

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Beijing, PRC, 25 August 2006

CONFIRMATION FROM THE DIRECTORS AND SENIOR MANAGEMENT

As the Board Directors and Senior Management of Sinopec Corp., we have carefully

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reviewed the 2006 interim report and accounts of Sinopec Corp. and concluded that this interim report truly and objectively represents the Company's business performance in the first half 2006, contains no false representations, misleading statements or material omissions and complies with the requirements of the China Securities Regulatory Commission and other relevant regulatory bodies.

### Signatures of the Directors and Senior Management

/s/ Chen Tonghai

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Chen Tonghai

/s/ Zhou Yuan

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Zhou Yuan

/s/ Wang Tianpu

-----

Wang Tianpu

/s/ Zhang Jianhua

-----

Zhang Jianhua

/s/ Wang Zhigang

-----

Wang Zhigang

/s/ Dai Houliang

-----

Dai Houliang

/s/ Liu Zhongli

-----

Liu Zhongli

/s/ Shi Wanpeng

-----

Shi Wanpeng

/s/ Li Deshui

-----

Li Deshui

/s/ Yao Zhongmin

-----

Yao Zhongmin

/s/ Fan Yifei

-----

Fan Yifei

/s/ Cai Xiyou

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Cai Xiyou

/s/ Zhang Kehua

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Zhang Kehua

/s/ Zhang Haichao

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Zhang Haichao

/s/ Chen Ge

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Chen Ge

25 August 2006

THIS INTERIM REPORT IS PUBLISHED IN BOTH ENGLISH AND CHINESE. SHOULD ANY CONFLICT REGARDING MEANING ARISES, THE CHINESE VERSION SHALL PREVAIL.