CHINA PETROLEUM & CHEMICAL CORP
Form 6-K
April 04, 2011

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 March, 2011

CHINA PETROLEUM & CHEMICAL CORPORATION
22 Chaoyangmen North Street,
Chaoyang District, Beijing, 100728
People's Republic of China
Tel: (8610) 59960114

(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	ü	Form 40-F

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

Yes	No	ü

(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:

1. the annual report for the Year 2010 of China Petroleum & Chemical Corporation (the "Registrant");
2. an announcement on the results for the Year 2010 of the Registrant;
3. an announcement on continuing connected transaction of the Registrant; and
4. a notice of annual general meeting for the Year 2010;

Each made by the Registrant on March 25, 2011.

Document 1

CONTENTS

This annual report includes forward-looking statements. All statements, other than statements of historical facts, that address 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 Company's actual results or developments 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 March 2011 and unless required by regulatory authorities, the Company undertakes no obligation to update these statements.

1

COMPANY PROFILE

IMPORTANT: THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD OF CHINA PETROLEUM & CHEMICAL CORPORATION ("SINOPEC CORP.") AND ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT WARRANT THAT THERE ARE NO MATERIAL OMISSIONS FROM, OR MISREPRESENTATIONS OR MISLEADING STATEMENTS CONTAINED IN THIS ANNUAL REPORT, AND JOINTLY AND SEVERALLY ACCEPT FULL RESPONSIBILITY FOR THE AUTHENTICITY, ACCURACY AND COMPLETENESS OF THE INFORMATION CONTAINED IN THIS ANNUAL REPORT. THERE IS NO OCCUPANCY OF NON-OPERATING FUNDS BY THE SUBSTANTIAL SHAREHOLDERS OR THEIR AFFILIATED PARTIES, AND NO EXTERNAL GUANRANTEE THAT VIOLATES DECISION-MAKING PROCEDURES IS MADE. MR. CAO YAOFENG AND MR. WU XIAOGEN, DIRECTORS OF SINOPEC CORP., COULD NOT ATTEND THE TWELVETH MEETING OF THE FOURTH SESSION OF THE BOARD FOR REASONS OF OFFICIAL DUTIES. MR. CAO YAOFENG AUTHORISED MR. WANG ZHIGANG, AND MR. WU XIAOGEN AUTHORISED MR. XIE ZHONGYU TO VOTE ON HIS BEHALF IN RESPECT OF THE RESOLUTIONS PUT FORWARD IN THE MEETING OF THE BOARD. MR. SU SHULIN, CHAIRMAN OF THE BOARD, MR. WANG TIANPU, VICE CHAIRMAN AND PRESIDENT AND MR. WANG XINHUA, CHIEF FINANCIAL OFFICER AND HEAD OF THE CORPORATE FINANCE DEPARTMENT WARRANT THE AUTHENTICITY AND COMPLETENESS OF THE FINANCIAL STATEMENTS CONTAINED IN THIS ANNUAL REPORT. THE AUDIT COMMITTE OF SINOPEC CORP. HAS REVIEWED THIS ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2010.

THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 OF SINOPEC CORP. AND ITS SUBSIDIARIES (THE "COMPANY") PREPARED IN ACCORDANCE WITH CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES ("ASBE"), 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 ANNUAL FINANCIAL STATEMENTS CONTAINED IN THIS ANNUAL REPORT.

Exploration and Production Refining
Marketing and Distribution Chemicals

COMPANY PROFILE

Sinopec Corp. is an integrated energy and chemical companies with upstream, midstream and downstream operations. The principal operations of the Company include: the exploration and production, pipeline transportation and sales of petroleum and natural gas; the sales, storage and transportation of petroleum products, petrochemical products, synthetic fiber, fertilizer and other chemical products; import & export, as well as import and export agency business of oil, natural gas, petroleum products, petrochemical and chemical products, and other commodities and technologies; and research, development and application of technologies and information. Sinopec Corp. is China's largest manufacturer and supplier of petroleum products (including gasoline, diesel and aviation kerosene, etc.) and major petrochemical products (including synthetic resin, synthetic fiber monomer and polymer, synthetic fiber, synthetic rubber, chemical fertilizer and the intermediary petrochemical products). The Company is the second largest producer of crude oil in China. It's refining capacity is ranked No.2 in the world, and its ethylene capacity is ranked No.4 in the World. Sinopec Corp. owns the largest sales network of oil products, chemical products and the second largest number of service stations in the world.

Sinopec holds true to its mission of "Enterprise development, Contribution to the Country, Shareholder value creation, social responsibility and Employee wellbeing". It operates to the highest standard of integrity and work ethics, builds mutual success with partners through collaboration. Through dedication and passion to build Sinopec as a national flagship, together with thorough professionalism and a deliverable-driven spirit, we will strive to realize the group's vision of becoming a "globally competitive energy corporation".

PRINCIPAL FINANCIAL DATA AND INDICATORS

1 FINANCIAL DATA AND INDICATORS PREPARED IN ACCORDANCE WITH CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES ("ASBE")

(1) Principal financial data

	For the years ended 31 December			
	2010	2009	Change	2008
Items	RMB millions	RMB millions	%	RMB millions
Operating income	1,913,182	1,345,052	42.2	1,444,291
Operating profit/(loss)	101,352	86,238	17.5	(17,440)
Profit before taxation	102,178	86,112	18.7	33,351
Net profit attributable to equity shareholders of the Company	70,713	62,677	12.8	31,119
Net profit attributable to equity shareholders of the Company before extraordinary gain and loss	68,345	61,258	11.6	29,307
Net cash flow from operating activities	171,262	166,009	3.2	87,113

	At 31 December			
	2010	2009	Change	2008
Items	RMB millions	RMB millions	%	RMB millions
Total assets	–985,389	886,896	11.1	784,471
Shareholders' equity attributable to equity shareholders of the Company	421,127	380,461	10.7	331,194

(2) Principal financial indicators

	For the years ended 31 December			
	2010	2009	Change	2008
Items	RMB	RMB	%	RMB
Basic earnings per share	0.816	0.723	12.8	0.359
Diluted earnings per share	0.808	0.718	12.5	0.318
Basic earnings per share (before extraordinary gain and loss)	0.788	0.707	11.6	0.338
Fully diluted return on net assets (%)	16.79	16.47	0.32 percentage point	9.40
Weighted average return on net assets (%)	17.43	17.52	(0.09) percentage point	9.65
Fully diluted return (before extraordinary gain and loss) on net assets (%)	16.23	16.10	0.13 percentage point	8.85
	16.94	17.24	(0.30)	9.13

Weighted average return (before extraordinary gain and loss) on net assets (%)			percentage point	
Net cash flow from operating activities per share	1.975	1.915	3.2	1.005

	At 31 December			
	2010	2009	Change	2008
Items	RMB	RMB	%	RMB
Net assets attributable to equity shareholders of the Company per share	4.857	4.388	10.7	3.820

(3) Extraordinary items and corresponding amounts

Items		For the year ended 31 December 2010 (Income)/expense RMB millions
Gain on disposal of non-current fixed assets		(253)
Donations		177
Gain on holding and disposal of various investments		(71)
Net profit of subsidiaries generated from a business combination involving entities under common control before acquisition date		(3,043)
Other non-operating income and expenses, net		(734)
Subtotal		(3,924)
Tax effect		220
Total		(3,704)
Attributable to:	Equity shareholders of the Company	(2,368)
	Minority interests	(1,336)

3

(4) Significant changes of items in the financial statements

The table below sets forth reasons for those changes where the fluctuation was more than 30% during the reporting period, or such changes which constituted 5% or more of total assets at the balance sheet date or more than 10% of profit before taxation:

Items	At 31 December 2010 RMB millions	2009 RMB millions	Increase/(decrease) Amount RMB millions	Percentage (%)	Reasons for change
Cash at bank and on hand	18,140	10,018	8,122	81.1	The Company prepared some cash in advance to cope with tightening liquidity in the market and pressure of payment before the spring festival.
Bills receivable	15,950	2,110	13,840	655.9	Due to the increase in scale of operations, lowered willingness to cash out and increased discount rate
Accounts receivable	43,093	26,592	16,501	62.1	Due to increase in scale of operations and prices of major products
Other receivables	9,880	4,505	5,375	119.3	Mainly due to the Company's increased accounts receivables from the new joint ventures and increased financial assets acquired within the period
Prepayments	5,247	3,614	1,633	45.2	Mainly due to increased purchasing costs of prepaid steel and other commodities
Inventories	156,546	141,727	14,819	10.5	Due to increase in scale of operations and prices of crude oil as compared with the end of 2009
Long-term equity investments	45,037	33,503	11,534	34.4	Please refer to Note 11 to the financial statements prepared in accordance with ASBE
Fixed assets	540,700	484,815	55,885	11.5	Please refer to Note 12 to the financial statements prepared in accordance with ASBE
	89,599	120,375	(30,776)	(25.6)	

Construction in Progress					Please refer to Note 13 to the financial statements prepared in accordance with ASBE
Goodwill	8,298	14,163	(5,865)	(41.4)	Please refer to Note 15 to the financial statements prepared in accordance with ASBE
Short term debentures payable	1,000	31,000	(30,000)	(96.8)	Repayment of short term debentures of RMB30 billion due
Bills payable	3,818	23,111	(19,293)	(83.5)	Due to adjustment of debt structure and the control of notes issued
Accounts payable	132,528	96,762	35,766	37.0	Due to increase in scale of operations, prices of crude oil, other materials and purchasing volume
Advances from customers	57,324	37,270	20,054	53.8	Mainly due to increase in revenue from advanced sales
Employee benefits payable	7,444	4,526	2,918	64.5	Mainly due to increase in balances of salary payables, social insurance, corporate pension fund and housing subsidies
Taxes payable	33,814	16,777	17,037	101.5	Please refer to Note 24 to the financial statements prepared in accordance with ASBE
Non-current liabilities due within one year	5,530	9,316	(3,786)	(40.6)	Please refer to Note 26 to the financial statements prepared in within one year accordance with ASBE
Provisions	15,573	11,860	3,713	31.3	Please refer to Note 29 to the financial statements prepared in accordance with ASBE
Deferred tax liabilities	15,017	9,707	5,310	54.7	Please refer to Note 17 to the financial statements prepared in accordance with ASBE
Long term loans	58,895	58,962	(67)	(0.1)	Please refer to Note 27 to the financial statements prepared in accordance with ASBE
Debentures payable	115,180	93,763	21,417	22.8	Please refer to Note 28 to the financial statements prepared in accordance

					with ASBE
Operating income	1,913,182	1,345,052	568,130	42.2	Due to increase in scale of operations, prices of crude oil and petrochemical products and sales volume
Operating costs	1,537,131	1,029,443	507,688	49.3	Due to increase in scale of operations, prices of feedstock, other materials and purchasing volume
Sales taxes and surcharges	157,189	132,884	24,305	18.3	Please refer to Note 34 to the financial statements prepared in accordance with ASBE
Impairment losses	15,445	7,453	7,992	107.2	Please refer to Note 37 to the financial statements prepared in accordance with ASBE
Investment income	5,671	3,589	2,082	58.0	Please refer to Note 39 to the financial statements prepared in accordance with ASBE

2 FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

Unit: RMB millions

	For the years ended 31 December				
Items	2010	2009	2008	2007	2006
Turnover, other operating revenues and other income	1,913,182	1,345,052	1,495,148	1,205,860	1,061,588
Operating profit	105,004	90,699	38,581	87,320	81,245
Profit before taxation	103,693	86,604	33,442	84,246	79,068
Profit attributable to equity shareholders of the Company	71,800	63,147	31,199	56,168	53,771
Basic earnings per share (RMB)	0.828	0.728	0.360	0.648	0.620
Diluted earnings per share (RMB)	0.820	0.724	0.319	0.648	0.620
Return on capital employed (%)	12.96	11.69	5.94	12.04	12.66
Return on net assets (%)	17.13	16.66	9.46	18.23	20.30
Net cash generated from operating activities per share (RMB)	1.965	1.909	0.997	1.431	1.146

Unit: RMB millions

	At 31 December				
Items	2010	2009	2008	2007	2006
Non-current assets	734,925	696,784	634,821	579,953	490,499
Net current liabilities	76,177	114,442	126,570	88,686	77,694
Non-current liabilities	208,380	177,526	156,263	157,613	125,584
Non-controlling interests	31,321	25,876	22,205	25,521	22,318
Total equity attributable to equity shareholders of the Company	419,047	378,940	329,783	308,133	264,903
Net assets per share (RMB)	4.833	4.371	3.804	3.554	3.055

3 MAJOR DIFFERENCES BETWEEN THE AUDITED FINANCIAL STATEMENTS PREPARED UNDER ASBE AND IFRS PLEASE REFER TO PAGE 195 OF THE REPORT.

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS

1 CHANGES IN THE SHARE CAPITAL OF SINOPEC CORP.

Unit: 1,000 Shares

	Before change		Increase/(decrease)					After change	
	Number	Percentage %	New share issued	Bonus issued	Conversion from reserve	Others	Sub-total	Number	Percentage %
RMB ordinary shares	69,921,951	80.65	—	—	—	8.9	8.9	69,922,040	80.65
Foreign shares listed domestically	—	—	—	—	—	—			
Foreign shares listed overseas	16,780,488	19.35	—	—	—	—	—	16,780,488	19.35
Others	—	—	—	—	—	—	—	—	—
Total Shares	86,702,439	100	—	—	—	8.9	8.9	86,702,528	100.00

Note: Between 25 February 2010 to 3 March 2010, Sinopec Corp's RMB ordinary shares increased by 88,774 as a result of partial excercise of the warrants embedded in its RMB 30 billion Bond with Warrants.

2 NUMBER OF SHAREHOLDERS AND SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS

Number of shareholders of Sinopec Corp. as at 31 December 2010 was 920,003 including 912,986 holders of A Shares and 7,017 holders of H Shares. The public float of Sinopec Corp. satisfied the requirement of the Rules Governing The Listing of Securities on the Stock Exchange of Hong Kong Limited.

(1) Top ten shareholders

Unit: 1,000 Shares

Name of Shareholders	Nature of shareholders	As a percentage of total shares in issue at the end of reporting period %	Number of shares held at the end of reporting period	Changes in holding	Number of pledges or lock-ups
China Petrochemical Corporation	A Shares	75.84	65,758,044	—	0
HKSCC (Nominees) Limited	H Shares	19.21	16,658,226	4,585	N/A
Guotai Junan Securities Co. Ltd.	A Shares	0.30	256,081	375	0

China Life Insurance Company Limited Dividend Individual Dividend-005L-FH002 Shanghai	A Shares	0.16	140,750	5,232	0
Postfund Core Growth Equity Investment Fund	A Shares	0.07	62,871	11,000	0
Postfund Core Selected Equity Investment Fund	A Shares	0.06	55,854	9,854	0
Shanghai Stock Exchange Traded Open-ended Index 50 Fund	A Shares	0.04	38,625	(4,711)	0
E-Fund 50 Index Equity Investment Fund	A Shares	0.04	35,344	6,000	0
Changsheng Tongqing Detachable Trading Equity Investment Fund	A Shares	0.04	33,899	1,382	0
PICC Life Insurance Company Limited Dividend Individual Dividend	A Shares	0.04	32,747	3,647	0

Statement on the connected party relationship or acting in concert among the above mentioned shareholders:

We are not aware of any connected party relationship or acting in concert among or between the top ten shareholders, except that Postfund Core Growth Equity Investment Fund and Postfund Core Selected Equity Investment Fund are managed by China Post & Capital Fund Management Co. Ltd..

6

(2) Information disclosed by the shareholders of H Shares according to the Securities and Futures Ordinance

Name of shareholders	Capacity of interests held	Number of share interests held or regarded as held	As a approximate percentage of Sinopec Corp.'s interests (H Share) (%)
JPMorgan Chase & Co.	Beneficial owner	124,668,228(L)	0.74(L)
	95,093,718(S)	0.57(S)	
	Investment manager	651,494,015(L)	3.88(L)
	0(S)	0.00(S)	
	Custodian corporation	537,968,475(L)	3.21(L)
	0(S)	0.00(S)	
Blackrock, Inc.	Interest of corporation controlled	1,218,331,032(L)	7.26(L)
	by the substantial shareholder	56,380,142(S)	0.34(S)
Templeton Asset Management Ltd.	Investment manager	1,009,069,203(L)	6.01(L)

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

3 CHANGES IN THE CONTROLLING SHAREHOLDERS AND THE DE FACTO CONTROLLER

There was no change in the controlling shareholders or the de facto controller of Sinopec Corp. during the reporting period.

(1) Controlling shareholder

The controlling shareholder of Sinopec Corp. is China Petrochemical Corporation. Established in July 1998, China Petrochemical Corporation is a state authorised investment organisation and a state-owned company. Its registered capital is RMB 182.0 billion, and the legal representative is Mr. Su Shulin. Through reorganisation in 2000, China Petrochemical Corporation injected its principal petroleum and petrochemical operations into Sinopec Corp. and retained certain petrochemical facilities and small-scale refineries. It provides well-drilling services, well logging services, downhole operation services, services in connection with manufacturing and maintenance of production equipment, engineering construction, utility services including water and power and social services.

(2) Except for HKSCC (Nominees) Limited, no other legal person shareholders hold 10% or more of the shares of Sinopec Corp.

(3) Except for HKSCC (Nominees) Limited, no other legal person shareholders hold 10% or more of the shares of Sinopec Corp.

China Petrochemical Corporation is the de facto controller of Sinopec Corp.

(4) Except for HKSCC (Nominees) Limited, no other legal person shareholders hold 10% or more of the shares of Sinopec Corp.

4 ISSUANCE AND LISTING OF SECURITIES

Please refer to "Significant Events" of this annual report.

CHAIRMAN'S STATEMENT

Mr. Su Shulin, Chairman

Dear Shareholders:

Capitalizing on China's steady economic growth, Sinopec Corp. achieved remarkable performance across all businesses and recorded a historical high in operational results despite a challenging operating environment. In 2010, we expanded our resources and markets, optimized operations and enhanced management. In Exploration & Production ("E&P") business, we accelerated the implementation of our resource strategy, devoted greater efforts in exploration and development and realized continuous increase in reserves and production. Since the official launch of the Sichuan-East China Gas project, our natural gas business has achieved robust growth. In Refining business, we maintained high-load operation, upgraded oil products quality and met the increasing demands from the marketplace. Our Chemicals business took a faster pace to adjust product mix and develop new products and through introducing new capacities and reaping benefits from our centralized sales system, the segment recorded satisfying profit. In Marketing business, we further developed our business by entering new geographic areas, consolidating our existing networks and connections, and rapidly expanding the non-fuel business. We enhanced our ability in global sourcing to ensure crude supply and made a breakthrough in overseas oil and gas business. Our debt structure has also been optimized, thus improving the financial position and asset quality.

In 2010, the Company's total turnover, other operating income and other revenues increased by 42.2% year-on-year to approximately RMB1,913.182 billion. In accordance with the Chinese Accounting Standards for Business Enterprises, net profit attributable to equity shareholders of the Company was RMB70.71 billion, a year-on-year growth of 12.8%. Under the International Financial Reporting Standards, profit attributable to equity shareholders of the Company was RMB71.8 billion, up 13.7% compared to 2009. The Board of Directors recommended a full year dividend of RMB0.21 per share for 2010. The final dividend for 2010 was RMB0.13 per share after deducting the interim dividend of RMB0.08 per share.

In 2010, the Company adjusted the composition of the Board of Directors. Mr. Liu Zhongli and Mr. Ye Qing, the independent directors of the Board were succeeded by Mr. Ma Weihua and Mr. Wu Xiaogen. We would like to extend our heart-felt gratitude to Mr. Liu and Mr. Ye for their diligent work and contributions, and at the same time, welcome Mr. Ma and Mr. Wu, who have brought great vitality to the Board as esteemed specialists in finance and accounting in China. In line with our consistent efforts to enhance management, a comprehensive plan to shape Sinopec's management model was developed. We optimized internal control system with clearly set internal roles and responsibilities, and carried out standardization and IT upgrading programs for the system. The Company enhanced comprehensive budget management, the centralized treasury management, and the Company-wide cost management involving all employees to ensure efficient management results. Moreover, the Company attached great importance to investor relations and information disclosure, and has maintained effective communications with our shareholders.

In 2010, the Company promoted innovation in science and technology to support its core business, putting in place a system designed to incentivize creativity of our R&D staff. As a result, a series of important research goals were reached. These technological advancements were instrumental to an increase in our production and reserves of oil and gas, and helped improve our refinery processing technology standards. Applications of alternative energy also made progress. The Company was awarded 771 domestic patents out of 2,499 applications, and 72 international patents out of 114 applications. We also won 12 national awards in science and technology progress and invention, with one First Prize of National Science and Technology Progress Awards granted.

In 2010, the Company took solid steps in its corporate social responsibility and established good corporate image. In alignment with our CSR slogan "Making Every Drop Count", our CSR program spanned from ensuring energy supply, premium services to green and safe operations, low carbon development, staff care and rewarding society. The Company supplied 149 million tonnes of oil products and 43.5 million tonnes of petrochemical products throughout the year to support national economic development and meet consumer demands. In addition, the Company took various measures to ensure fuel supply for disaster relief, Shanghai World Expo, Guangzhou Asian Games, and the agricultural peak seasons in the summer and autumn (referred to as "Three-Summers" and "Three-Autumns"). We also effectively relieved market tension for diesel and natural gas in some domestic regions in the fourth quarter of 2010. We actively participated in public welfare activities, including poverty alleviation and Tibet aid programs, sponsorship of "Lifeline Express", donation to education and disaster relief programs, all of which yielded positive responses from the public.

All the aforementioned achievements in 2010 showcased the Company's accomplishment of all targets set for the 11th Five-Year Plan. The company's total turnover, other operating income and other revenues, reached approximately RMB1,913.182 billion, representing an increase of 129.8% against RMB832.532 billion recorded in 2005; total assets increased by 85.2% to RMB995.154 billion from RMB537.321 billion in 2005; equity attributable to equity shareholders of the Company increased by 87.45% to RMB419.047 billion from RMB223.556 billion in 2005. Over the five year span, crude production increased to 328 million barrels from 279 million barrels, up 17.6%; natural gas production increased by 98.9% from 221.9 billion cubic feet to 441.4 billion cubic feet; refinery throughput jumped from 140 million tonnes to 211 million tonnes, becoming the 2nd largest refiner globally; total sales of oil products went up 41.9% from 105 million tonnes to 149 million tonnes with company-operated service stations increasing to 29,601 from 27,367, thus positioning us as the world's 2nd largest gas station network. Ethylene production went up 70.3% from 5.319 million tonnes to 9.059 million tonnes, ranking us fourth across the globe. Cumulative corporate tax amounted to RMB705.7 billion, and our cumulative dividend to our shareholders reached RMB72.0 billion. In short, Sinopec achieved multiple corporate development targets, contributed to the country, created value to shareholders, fulfilled social responsibilities and benefited staff.

We attribute the above achievements to the trust and support of all our shareholders and all walks of society, as well as the hard work and concerted efforts of the Board of Directors, the Board of Supervisors, the management team and all employees. Therefore, on behalf of the Board of directors, I would like to express my sincere gratitude for the support and perseverance of all parties involved.

Looking into the 12th Five-Year Plan, the Chinese government will look to sustain steady economic growth as a long term goal, but in the mean time, there are opportunities globally for China to take. We believe the next five years is a period for Sinopec to step up to the next level, to accelerate growth by means of alternative development channels and to further enhance quality and profitability. We will grasp these opportunities, speed up our development in order to establish ourselves as an international energy and chemicals group with a globally strong and competitive positioning. Taking into consideration the nature and maturity of our business in the context of the 12th Five-Year Plan announced by the government, we are determined to transform our business under the guiding principles that emphasis stronger business fundamentals alongside pursuit for larger scale. We shall continue to leverage our strengths while minimizing and addressing our weaknesses when implementing the integration and globalization strategy linking resources with end market. We aim to move forward by improving our strategic structure adjustment including oil and gas reserves, refineries, petrochemical feedstock and products. The Company will place great emphasis on the strategic development of new energy and alternative material, strengthening our marketing and sales networks for oil and chemical products, and development of the natural gas business to create further value. We will continue to focus on resource optimization, energy conservation and emissions reduction, and on improving our energy utilization in order to preserve the environment. The Company will increase its efforts to build a stronger position in international trade and overseas development. We will take concrete steps toward technological and management innovation, and the attraction and retention of talent, such efforts will pave the way for sustainable development of the Company in the future.

Our primary targets to achieve by 2015, the end of the 12th Five-Year Plan include the following: domestic crude production of 43.5 to 45 million tonnes, gas production of 20 to 24 billion cubic meters, refinery throughput of 255 million tonnes, domestic oil product sales over 170 million tonnes with direct sales and retail accounting for over 80%, production of oil products reaching 156 million tonnes, ethylene production capacity reaching 12.5 to 13.5 million tonnes per year and total sales of chemical products reaching 55 to 60 million tonnes.

2011 is the first year of the "12th Five-Year" Plan, and the Company plans to execute its annual development plans in accordance with the overall five year targets. Our capital expenditure for the year is expected to reach approximately RMB124.1 billion, primarily for our E&P and LNG projects in Shandong province, refinery business optimization and upgrading of oil and diesel products, the building, acquisition and renovation of service stations, and logistics projects including crude and oil product pipelines, etc.

My fellow members of the Board of Directors and I believe that, with the support of all our shareholders and the concerted efforts of the Board of Directors, the Board of Supervisors, the management team and all staff members, the Company will achieve greater development, create new value for shareholders, and contribute to the building of a harmonious society during the 12th Five-Year Plan.

Su Shulin
Chairman

Beijing, China
25 March, 2011

BUSINESS REVIEW AND PROSPECTS

Mr. Wang Tianpu, President

BUSINESS REVIEW

In 2010, the Chinese government accelerated the transformation of economic development pattern and structural adjustment, and realized relatively rapid economic growth with GDP growing by 10.3% year on year. Domestic demand for refined oil and chemical products grew steadily. The Company continued to monitor market developments and made every effort to capture this growth by expanding market, reinforcing fine management and improving its operational structure according to the market conditions. These changes enabled the Company to realize good financial results.

1 REVIEW OF THE MARKET ENVIRONMENT

(1) Crude Oil Market

International crude oil prices fluctuated within an upward range between USD70/barrel to USD95/barrel in 2010. The annual average Platts global spot price for Brent crude oil was USD79.47/barrel, representing a year-on-year increase of 29.2%. The price trends of domestic crude oil are in line with international markets. In 2010, the Chinese government adjusted the benchmark wellhead price for domestic onshore natural gas and carried out a reform of oil and gas resource tax in western provinces and cities.

(2) Refined oil Products Market

In 2010, domestic demand for refined oil products maintained relatively fast increase. Domestic oil product supply was sufficient at the beginning of the year, but became tight in the latter half, particularly in the fourth quarter due to strong demand for diesel. According to official statistics, the domestic apparent consumption of oil products throughout the year (including gasoline, diesel and kerosene) reached 230 million tonnes, a year-on-year increase of 11.4%.

(3) Chemicals Market

The domestic demand for chemical products in the first quarter of 2010 extended the recovery trends seen in 2009, remained steady in the second quarter, and saw strong growth in the latter half of the year. According to the Company's statistics, the domestic apparent consumption of synthetic resin, synthetic fiber and synthetic rubber saw a year-on-year increase of 9.4%, 12.9% and 11.8% respectively, while the domestic apparent consumption of ethylene equivalent increased by 11.8% year on year to 29.87 million tonnes. Domestic chemical product prices bottomed in the second quarter and rallied gradually later in the year.

2 PRODUCTION AND OPERATION

(1) Exploration and Production

The Company further implemented its oil and gas resource strategy in 2010. In exploration, we enhanced integrated geological research, increased exploration investment, optimized exploration scheme, promoted the integration of exploration and development, consolidated the resource basis and intensified reserve traps. New discoveries were made following the exploration of Tarim Basin's Maigaiti Slope, Tahe Oilfield and Jiyang Depression. The marine-facies natural gas exploration in southeast and west Sichuan made further progress. The Company completed 23,483 kilometers of 2D seismic and 6,373 square kilometers of 3D seismic, and drilled 621 exploration wells with 1,774 kilometers of footage in China throughout the year. In development, the Company focused on enhancing reserve development ratio, oil recovery rate and single-well output. We also intensified our efforts in making technological breakthroughs and capacity building, and stably increased oil and gas production. The Sichuan-East China Gas Transmission Project has been running smoothly since it was put into operation, with a substantial increase in production of natural gas. Material progress was achieved in the Company's expansion into overseas upstream business.

OPERATION SUMMARY OF EXPLORATION AND PRODUCTION SEGMENT

		2010	2009	2008	Change from 2009 to 2010 (%)
Crude oil production (mmbbls)		327.85	327.62	322.02	0.1
Including:	China	302.18	301.15	296.80	0.3
	Africa	25.67	26.47	25.22	(3.0)
Natural gas production (bcf)		441.39	299.01	293.07	47.6
Total oil and gas production (mmboe)		401.42	377.45	370.87	6.4

	As at 31 31 December,	As at 31 31 December,	As at 31 31 December,	Changes at the year and of the the report period compared with that at the end of

	2010	2009	2008	the last year (%)
Proved reserve of crude oil (mmbbls)	2,888	2,920	2,961	(1.1)
Proved reserve of natural gas (bcf)	6,447	6,739	6,959	(4.3)
Proved reserve of crude oil and natural gas (mmboe)	3,963	4,043	4,121	(2.0)

Note: 1. Inclusive of 100% of production and reserve of SSI.

2. For crude oil produced in China, 1 tonne=7.1 barrels; for natural gas, 1 cubic meter=35.31 cubic feet; for crude oil produced in Africa, 1 tonne=7.27 barrels.

(2) Refining

In 2010, the Company adhered to the market-oriented principle, strived to adjust product mix, and operated refining facilities at high load. We enhanced the optimization of resources, operation and management, and spared no efforts in reducing costs and improving efficiency. The Company successfully started up the upgrading and expanding projects and completed the company-wide gasoline quality upgrading for GB III Standard. The Company, based on changes in the market, timely adjusted the product mix, increased the output of jet fuel and light chemical feedstock, and enhanced the marketing efforts for asphalt, LPG and petroleum coke. Facing a sudden tight supply of diesel in some regions in the fourth quarter, we effectively eased the market tension by making every effort to increase diesel production. In 2010, refinery throughput amounted to 211 million tonnes, representing a year-on-year increase of 13.2%, and 124 million tonnes of oil products were produced up by 9.4% over the previous year.

SOURCES OF CRUDE OIL PROCESSED BY THE COMPANY

UNIT: MILLION TONNES

	2010	2009	2008	Change from 2009 to 2010 (%)
Company produced crude oil in China	35.13	35.22	34.57	(0.3)
PetroChina	5.10	7.05	6.13	(27.7)
CNOOC LIMITED	6.91	6.49	9.04	6.5
Import	165.00	138.82	128.38	18.9
Total	212.14	187.58	178.13	13.1

PRODUCTION SUMMARY OF THE REFINING SEGMENT

		2010	2009	2008	Change from 2009 to 2010 (%)
Refinery throughput (million tonnes)		211.13	186.58	175.73	13.2
Gasoline, diesel and kerosene production (million tonnes)		124.38	113.69	107.36	9.4
including:	Gasoline (million tonnes)	35.87	34.43	29.65	4.2
	Diesel (million tonnes)	76.09	68.86	69.74	10.5
	Kerosene (million tonnes)	12.42	10.39	7.99	19.5
Light chemical feedstock (million tonnes)		35.00	26.87	23.12	30.3
Light products yield (%)		75.79	75.54	74.75	Up by 0.25 percentage point
Refining yield (%)		94.83	94.53	94.05	Up by 0.30 percentage point

Note: 1. Refinery throughput includes natural gas condensates and heavy oil throughput. The data of 2008 and 2009 were adjusted retrospectively. For unit conversion of refinery throughput, 1 tonne=7.35 barrels:

2. The operation data include 100% of the production of the joint venture.

(3) Marketing and Distribution

In 2010, the Company has enhanced customer service awareness, reinforced quality control, expanded sales volume and provided customers with premium oil products. For the abnormal increase of diesel demand in the fourth quarter within some regions of China, we took multiple measures which effectively alleviated the market tension. Aiming to build all Sinopec service stations as ÒReliable Posts of Automobile LifeÓ, the Company realized significant growth in non-fuel business. The total domestic sales volume of oil products for the year reached 140 million tonnes with a year-on-year increase of 13.3%.

OPERATION SUMMARY OF MARKETING AND DISTRIBUTION SEGMENT

		2010	2009	2008	Change from 2009 to 2010 (%)
Total domestic sales volume of oil products (million tonnes)		140.49	124.02	122.98	13.3
Including:	Retail (million tonnes)	87.63	78.90	84.10	11.1
	Direct sales (million tonnes)	32.40	25.61	19.63	26.5
	Wholesale (million tonnes)	20.47	19.52	19.25	4.9
Average annual throughput per station (tonne/station)		2,960	2,715	2,935	9.0

		As at December 31, 2010	As at December 31, 2009	As at December 31, 2008	Changes at the end of the report period compared with that at the end of the last year (%)
Total number of service stations under Sinopec brand		30,116	29,698	29,279	1.4
Including:	Number of company-operated service stations	29,601	29,055	28,647	1.9
	Number of franchised service stations	515	643	632	(19.9)

12

(4) Chemicals

In 2010, the Company, under the market-oriented principle, further reinforced the combination of production, marketing and research, optimized production management, achieved safe and smooth commissioning of the newly built ethylene projects in Tianjin and Zhenhai, fully brought into play of the new ethylene capacity and guaranteed the safe operation of facilities at full-load. We intensified supply chain management and accelerated the development of new products and adjustment of product mix. While putting customers first, we took full advantage of concentrated marketing and sold all we produced. Thus good results were achieved. In 2010, the Company produced 9.059 million tonnes of ethylene with a year-on-year increase of 34.9%, and the sales volume of chemical products reached 43.50 million tonnes.

PRODUCTION SUMMARY OF MAJOR CHEMICAL PRODUCTS

Unit: thousand tonnes

	2010	2009	2008	Change from 2009 to 2010 (%)
Ethylene	9,059	6,713	6,289	34.9
Synthetic resin	12,949	10,287	9,643	25.9
Synthetic rubber	967	884	834	9.4
Synthetic fiber monomers and polymers	8,864	7,798	7,264	13.7
Synthetic fiber	1,393	1,302	1,260	7.0
Urea	1,223	1,752	1,649	(30.2)

Note: 100% production of joint ventures was included.

(5) Technology Research and Development

The Company placed great emphasis on the ÒPropellerÓ function of scientific research and development and achieved good results. Exploration technologies were improved, resulting in new discoveries in Yuanba and Tarim’s Maigaiti Slope. Water injection technology for the development of key oilfields in east China was successfully developed. We promoted the application of selective hydrogenation technology and absorption desulphurization technology for catalytic gasoline, leading to the upgraded quality of oil products. 150,000-tonne-per-year ethylene cracker was successfully installed in one-million-tonne-per-year ethylene plants. The 300,000-tonne-per-year cumene unit using self-developed technologies came on stream successfully. The first bromobutyl rubber production unit in China was built up and is at the stage of commissioning. Twelve self-developed technologies were granted the National Science and Technology Progress Awards and the National Technology Invention Awards, among which the exploration and development technology for Ordovician carbonate rocks in Tahe Oilfield was granted the First Prize of National Science and Technology Progress Awards, catalytic oxidation new material-hollow Ti-Si molecular sieve won the Second Prize of National Technology Invention Awards and another 10 technologies won the Second Prize of National Science and Technology Progress Accords. The Company made 2,499 domestic patent applications with 771 patents granted, and 114 foreign patent applications with 72 granted throughout the year.

(6) Health, Safety and Environment

The Company always pursues to the coordinated and sustainable development of the enterprise, society and the environment and promotes the HSE management system throughout the Company. We put people first and care for our employees. We always stick to the HSE principle of ÒPutting Safety First, Focusing on Prevention and Comprehensive ImprovementÓ, and set up a cascade responsibility system for safe production. We actively promote energy saving and emission reduction and develop low-carbon economy. Various measures have been taken for CO2 emission cut, clean production and the manufacturing of clean products. In 2010, energy intensity dropped by 0.24% year on year, industrial water demand decreased by 2% year-on-year, COD in waste water discharged shrank by 2.1%, sulfur dioxide emission fell by 6.9%, and industrial water recycling rate remained at 95%. The Company accomplished the energy saving and emission cut target set in the Ò11th Five-Year PlanÓ. Please refer to Sinopec 2010 Sustainable Development Report for detailed information.

(7) Capital Expenditure

The Company's capital expenditure reached RMB113.651 billion in 2010, of which RMB52.68 billion was used in Exploration and Production segment mainly for the exploration, development and capacity construction of key oilfields in Tahe, Shengli and Angola Block 18 and gasfields in Puguang and Erdos, as well as for the pipeline construction of Sichuan-East China Gas Transmission Project; RMB20.015 billion was used in Refining segment mainly for refinery revamping projects to process low-grade crude oil, oil product quality upgrading, and the construction of crude oil terminals and transfer systems; RMB26.168 billion was used in Marketing and Distribution segment mainly for the construction and acquisition of service stations and CNG stations in key areas such as highways, core cities and newly planned regions, for expediting the construction of pipelines and oil depots and for the improvement of oil products sales network; RMB12.894 billion was used in Chemicals segment mainly for ethylene projects in Tianjin, Zhenhai, and Wuhan and for butyl rubber project in Yanshan, etc.; and RMB1.894 billion was used for Corporate and others mainly for the construction of technology research facilities and IT projects.

BUSINESS PROSPECTS

1. Market Analysis

With the recovery of the world economy, demand in international oil market will resume increase in 2011. The average crude oil prices in 2011 are expected to be higher than that of 2010 due to the influences of geopolitical and other factors.

The Chinese government will continue to expand domestic demands, adjust economic structure, improve people's well-being, and adopt pro-active fiscal policies and stable monetary policies, and the economy growth is expected to remain stable and relatively fast. Thus, the domestic demands for oil products, natural gas and chemical products are expected to increase steadily.

2. Production and Operation

In 2011, the Company will continue to increase resources, expand markets, cut costs and improve efficiency, while pursuing economic benefits, reinforcing internal management, elaborately organizing production, and emphasizing safe production, energy conservation and consumption reduction. The following work will be carried out:

Exploration and Production segment: In terms of oil exploration, the Company will continue to advance exploration of subtle reservoirs of mature blocks in east China and intensify exploration efforts in frontier blocks for new discoveries based on Tarim, Junggar and Erdos basins in west China. In terms of natural gas exploration, the Company will speed up the exploration in key areas and strive for breakthroughs in frontier blocks based on Sichuan and Erdos basins to consolidate the resource basis for the substantial growth of our natural gas output. In terms of development, the Company will make continuous efforts to enhance reserve development ratio, oil recovery and single-well production, stabilize production in the east and increase production in the west to achieve sustainable development of oilfields. Meanwhile, the Company will steadily promote the exploration and development of oversea oilfields. In terms of natural gas, we will ensure the safe and stable operation of Puguang gasfield and expedite the capacity building in Dawan block, accelerate the exploration and development evaluation of Yuanba area and intensify the capacity building of the gas reserves in west Sichuan and Daniudi gasfield to increase natural gas production to a new level. The Company plans to produce 45.59 million tonnes of crude oil and 14.1 billion cubic meters of natural gas in 2011.

Refining segment: The Company will maintain the high-load operation of refining facilities, promote quality upgrading of diesel for vehicles to meet GB III standards, optimize product mix and supply feedstock for chemical production. We will reduce costs and increase efficiency through crude oil procurement and transportation optimization. Greater efforts will be made in the marketing of asphalt, LPG and petroleum coke, etc. to improve refining profitability. Refinery throughput is expected to reach 222 million tonnes and oil products output is expected to be 132 million tonnes in 2011.

Marketing and Distribution segment: The Company will closely track supply-demand changes in oil products market, timely adjust operation strategy and exert more efforts in market development. Great efforts will be made to expand sales volume to ensure adequate supply in the market. The Company will enhance service awareness and intensify quality management. We will also strengthen resource allocation and optimize the storage location to guarantee oil supply in key areas. Domestic sales volume of oil products is expected to reach 147 million tonnes in 2011.

Chemicals segment: The Company will make great efforts in safe production and removal of potential hazards to ensure safe and stable operation of the chemical plants. We will focus on technological progress, constantly promote energy saving and emission cut, optimize processes and further improve plant operation. The Company will guarantee the supply of raw materials, optimize the production organization and constantly adjust product mix of the three synthetic materials to meet market demands. Under the market-oriented principle, we will take action to improve services to establish a highly-efficient innovative system with the combination of production, marketing and research. The Company plans to produce 9.85 million tonnes of ethylene in 2011.

Technology Research and Development: The Company will constantly improve the efficiency of technology research and development, make great efforts in independent innovation, strive for breakthroughs in key areas and give full play to the ÒpropellerÓ function of technology research and development. We will focus on the research on exploration and development of oil and gas resources both at home and abroad, enhance improvement and application of key technologies for higher development ratio of reserves, enhanced oil recovery and single-well production and carry out technology development for the exploration of unconventional resources. We will actively develop new technologies to process low-grade crude oil and heavy oil, continue to improve production technologies for GB IV standard oil products and form technological reserves for GB V standard oil products. The Company will continuously enhance production technologies for ethylene and polyolefin and support the technology development for high value-added products. We will continue to develop and promote the application of technologies for energy saving and environmental protection and speed up the technology development for alternative energy and low-carbon economy.

Capital Expenditure: The Company will adopt strict investment management procedures, and elaborately organize engineering construction on the principle of financial outcome foremost and key projects in priority. The total capital expenditure is expected to reach RMB124.1 billion, of which the expenditure for Exploration and Production segment will reach RMB54.3 billion mainly for the exploration and development of mature oil fields in the east, Tahe oilfield and Angola Block 18 and natural gas filed in Yuanba area and for the construction of LNG project in Shandong Province. The capital expenditure for Refining segment will reach RMB26.5 billion mainly for refinery upgrading projects in Changling and Beihai and the upgrading of diesel quality, and for the construction of Rizhao-Yizheng and Zhanjiang-Beihai crude oil pipeline and supporting projects. The capital expenditure for Marketing and Distribution segment will reach RMB21.3 billion mainly for the construction, acquisition and renovation of service (CNG) stations and for the construction of oil products pipelines and supporting oil depots. The capital expenditure for Chemicals segment will reach RMB19.2 billion mainly for Wuhan ethylene, Zhongyuan methanol to olefins, Yanshan butyl-rubber and Qilu synthetic resin projects and for the construction of logistics facilities for chemical feedstock and products. The capital expenditure for Corporate and others is scheduled at RMB2.8 billion mainly for the construction of technology research facilities and IT projects.

In the new year, Sinopec Corp. will continue to implement the scientific development outlook, enhance fine management, actively adjust structure, substantially explore the market, improve economic benefits and strive for new achievements in production and operation to make a good start for the 12th Five-Year Plan period.

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. PARTS OF THE FOLLOWING CONCERNED FINANCIAL DATA WERE ABSTRACTED FROM THE COMPANY'S AUDITED FINANCIAL STATEMENTS THAT HAVE BEEN PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (ÒIFRSÓ), UNLESS OTHERWISE STATED.

1 CONSOLIDATED RESULTS OF OPERATIONS

In 2010, the Company's turnover and other operating revenues were RMB 1,913.2 billion, and the operating profit was RMB 105.0 billion, representing an increase of 42.2%, and 15.8% respectively over the year of 2009. This mainly attributed to the fast growth of domestic economy, growing demand for petroleum and petrochemical products, and continuous expansion of the Company's operational scale, and the increase in the price of crude oil, oil products and petrochemical products. The Company took the advantage of business scale and integration, strove to expand the market and improve marketing and service, which contributed a good operation results.

	Years ended 31 December		
	2010	2009	Change
	RMB millions		(%)
Turnover and other operating revenues	1,913,182	1,345,052	42.2
Of which:			
Turnover	1,876,758	1,315,915	42.6
Other operating revenues	36,424	29,137	25.0
Operating expenses	(1,808,178)	(1,254,353)	44.2
Of which:			
Purchased crude oil, products, and operating supplies and expenses	(1,482,484)	(980,564)	51.2
Selling, general and administrative expenses	(51,048)	(40,539)	25.9
Depreciation, depletion and amortisation	(59,223)	(54,016)	9.6
Exploration expenses (including dry holes)	(10,955)	(10,545)	3.9
Personnel expenses	(33,672)	(28,895)	16.5
Taxes other than income tax	(157,189)	(132,884)	18.3
Other operating expenses, (net)	(13,607)	(6,910)	96.9
Operating profit	105,004	90,699	15.8
Net finance costs	(6,974)	(7,466)	(6.6)
Investment income and share of profit less losses from associates and jointly controlled entities	5,663	3,371	68.0
Profit before taxation	103,693	86,604	19.7
Tax expense	(25,689)	(19,599)	31.1
Profit for the year	78,004	67,005	16.4
Attributable to:			
Equity shareholders of the Company	71,800	63,147	13.7
Non-controlling interests	6,204	3,858	60.8

(1) Turnover and other operating revenues

In 2010, the Company's turnover was RMB 1,876.8 billion, representing an increase of 42.6% over 2009. This mainly attributed to the active expansion of the markets; sale volume and higher prices of crude oil, oil products and chemical products.

The following table sets forth the external sales volume, average realized prices and respective rates of change from 2009 to 2010 for the Company's major products:

	Sales volume (thousand tonnes)			Average realised price (RMB/tonne, RMB/thousand cubic meters)		
	Years ended 31 December		Change	Years ended 31 December		Change
	2010	2009	(%)	2010	2009	(%)
Crude oil	5,554	4,915	13.0	3,349	2,303	45.4
Natural gas (million cubic meters)	9,951	6,486	53.4	1,155	933	23.8
Gasoline	43,467	39,035	11.4	7,297	6,367	14.6
Diesel	90,827	82,344	10.3	5,992	5,092	17.7
Kerosene	14,758	11,353	30.0	4,758	3,918	21.4
Basic chemical feedstock	17,821	13,272	34.3	5,598	4,359	28.4
Monomer and polymer for synthetic fiber	5,772	4,650	24.1	8,211	6,530	25.7
Synthetic resin	9,871	8,667	13.9	9,243	8,072	14.5
Synthetic fiber	1,512	1,418	6.6	11,644	9,140	27.4
Synthetic rubber	1,222	1,116	9.5	16,436	11,448	43.6
Chemical fertilizer	1,299	1,769	(26.6)	1,641	1,657	(1.0)

Most of crude oil and a portion of natural gas produced by the Company were internally used for refining and chemical production and the remaining were sold to other customers. In 2010, the turnover from crude oil, natural gas and their upstream products sold externally amounted to RMB 35.0 billion, increased by 81.1% over 2009, accounting for 1.8% of the Company's turnover and other operating revenues. The change was mainly due to the increase in sales volume and prices of crude oil and natural gas.

In 2010, the refining segment marketing and distribution segment sold petroleum products (mainly consisting of refined oil products and other refined petroleum products), achieving external sales revenue of RMB 1,192.8 billion, representing an increase of 36.4% over 2009, accounting for 62.3% of the Company's turnover and other operating revenues. This mainly the Company took the price-up opportunity of refined oil products and other refined petroleum products, and actively enlarged the sales volume of refined oil products and other refined petroleum products. The sales revenue of gasoline, diesel and kerosene was RMB 931.6 billion, representing an increase of 30.8% over 2009, accounting for 78.1% of the total revenue of petroleum products. Turnover of other refined petroleum products was RMB 261.2 billion, representing an increase of 61.3% over 2009, accounting for 21.9% of the total revenue of petroleum products.

The Company's external sales revenue of chemical products was RMB 285.6 billion, representing an increase of 48.2% over 2009, accounting for 14.9% of the Company's turnover and other operating revenues. This was mainly due to the increase in prices of chemical products, the Company's efforts in taking the opportunity of putting newly built plants into production through active expansion of the markets and increasing the sales volume of products.

(2) Operating expenses

In 2010, the Company's operating expenses were RMB 1,808.2 billion, representing an increase of 44.2% over 2009. The operating expenses mainly consisted of the following:

Purchased crude oil, products and operating supplies and expenses were RMB 1,482.5 billion, representing an increase of 51.2% over 2009, accounting for 82.0% of the total operating expenses, of which:

Crude oil purchasing expenses were RMB 606.0 billion, increase 49.5% over 2009. The total throughput of crude oil purchased externally in 2010 was 155.1 million tonnes (excluding the amount processed for third parties) , an increase 14.8% over 2009. The average unit processing cost of crude oil purchased externally was RMB 3,907 per tonne, increased 30.2% 2009.

The Company's other purchasing expenses were RMB 876.5 billion, representing an increase of 52.4% over 2009. This was mainly due to the higher cost of oil products and other feedstock purchased externally and higher procurement cost by the Company's trading subsidiaries.

Selling, general and administrative expenses of the Company totaled RMB 51.0 billion, representing an increase of 25.9% over 2009. This was mainly due to the increased sales expenses such as the freight and miscellaneous charges caused by expanded sales volume, the growth of operational rental fee and research and development costs.

Depreciation, depletion and amortisation expenses of the Company were RMB 59.2 billion, representing an increase of 9.6% over 2009. This was mainly due to the depreciation resulting from the Company' continuously increased investment in property, plant and equipment.

Exploration expenses, including dry holes were RMB 11.0 billion, representing an increase of 3.9% over 2009, which were mostly spent on enhancing exploration activities in regions as Northeast, West of Sichuan and Erdos.

Personnel expenses were RMB 33.7 billion, representing an increase of 16.5% over 2009, mainly because the Company has employed more workers in line with its business growth and the provision for enterprise's performance salary, annuity fund, and housing subsidy for employees who joined the Company after 31 December 1998, in accordance with related requirements.

Taxes other than income tax totaled RMB 157.2 billion, representing an increase of 18.3% over 2009. It was mainly due to the increase of special oil income levy by RMB 12.6 billion caused by rising crude oil price, as compared with 2009. Meanwhile, as a result of increased sales volume, the consumption tax, city construction tax and educational surcharge increased by RMB 11.1 billion over 2009.

Other operation expenses, net were 13.6 billion, representing an increase of 96.9% over 2009. This was mainly due to the provisions for impairment loss of long-term assets which were regarded as low efficient such as chemical fertilizer plants, increased by RMB 7.2 billion compared with 2009.

(3) Operating profit was RMB 105.0 billion, representing an increase of 15.8% over 2009.

(4) Net finance costs were RMB 7.0 billion, representing a decrease of 6.6% compared with 2009. This was due to the Company's continuous improvement in its financing structure and enlarged direct financing scale, which resulted in decrease of its financing cost; Moreover, the Company increased its short-term loans in US dollar, which enjoyed a lower interest rate, and continuously strengthened the supervision on the management of funds, compressed and controlled the occupation of funds, which resulted in cost saving in the finance activities.

(5) Profit before taxation was RMB 103.7 billion, representing an increase of 19.7% compared with 2009.

(6) Tax expense was RMB 25.7 billion, an increase of 31.1% over 2009. This mainly attributed to the increase of profit which resulted in an increase of income tax.

(7) Profit attributable to non-controlling interests of the Company was RMB 6.2 billion, representing an increase of 60.8% over 2009. This was mainly due to increase of profits from the subsidiaries of Sinopec Corp. compared with 2009.

(8) Profit attributable to equity shareholders of the Company was RMB 71.8 billion, representing an increase of 13.7% over 2009.

2 DISCUSSION ON THE RESULTS OF SEGMENT OPERATION

The Company manages its operations by four business segments, namely exploration and production segment, refining segment, marketing and distribution segment and chemicals segment, and the corporate and others. Unless otherwise specified herein, 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".

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 years indicated.

	Operating revenues		As a percentage of consolidated operating revenue before elimination of inter-segment sales		As a percentage of consolidated operating revenue after elimination of inter-segment sales	
	Years ended 31 December		Years ended 31 December		Years ended 31 December	
	2010	2009	2010	2009	2010	2009
	RMB millions		(%)		(%)	
Exploration and Production Segment						
External sales (note)	53,454	36,827	1.6	1.6	2.8	2.7
Inter-segment sales	133,691	97,981	4.0	4.1		

Operating revenues	187,145	134,808	5.6	5.7		
Refining Segment						
External sales (note)	165,873	99,701	5.0	4.2	8.7	7.4
Inter-segment sales	805,704	603,870	24.2	25.6		
Operating revenues	971,577	703,571	29.2	29.8		
Marketing and Distribution Segment						
External sales (note)	1,037,440	780,719	31.2	33.1	54.2	58.0
Inter-segment sales	3,258	2,372	0.1	0.1		
Operating revenues	1,040,698	783,091	31.3	33.2		
Chemicals Segment						
External sales (note)	292,041	197,332	8.8	8.4	15.3	14.7
Inter-segment sales	35,581	21,125	1.1	0.9		
Operating revenues	327,622	218,457	9.9	9.3		
Corporate and Others						
External sales (note)	364,374	230,473	11.0	9.7	19.0	17.2
Inter-segment sales	432,415	291,396	13.0	12.3		
Operating revenues	796,789	521,869	24.0	22.0		
Operating revenues before elimination of inter-segment sales	3,323,831	2,361,796	100.0	100.0		
Elimination of inter-segment sales	(1,410,649)	(1,016,744)				
Consolidated operating revenues	1,913,182	1,345,052			100.0	100.0

Note: Other operating revenues are included.

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 years indicated, and the change rates of 2010 compared to 2009.

	Years ended 31 December		
	2010	2009	Change
	RMB millions		(%)
Exploration and Production Segment			
Operating revenues	187,145	134,808	38.8
Operating expenses	139,996	110,914	26.2
Operating profit	47,149	23,894	97.3
Refining Segment			
Operating revenues	971,577	703,571	38.1
Operating expenses	955,722	676,063	41.4
Operating profit	15,855	27,508	(42.4)
Marketing and Distribution Segment			
Operating revenues	1,040,698	783,091	32.9
Operating expenses	1,009,938	752,791	34.2
Operating profit	30,760	30,300	1.5
Chemicals Segment			
Operating revenues	327,622	218,457	50.0
Operating expenses	312,585	204,652	52.7
Operating profit	15,037	13,805	8.9
Corporate and others			
Operating revenues	796,789	521,869	52.7
Operating expenses	799,131	524,074	52.5
Operating loss	(2,342)	(2,205)	6.2
Elimination of inter-segment profit	(1,455)	(2,603)	(44.1)

(1) Exploration and Production Segment

Most of the crude oil and a small portion of the natural gas produced by the exploration and production segment were used for the Company's refining and chemical operations. Most of the natural gas and a portion of crude oil produced by the Company were sold externally to other customers.

In 2010, the operating revenues of this segment were RMB 187.1 billion, representing an increase of 38.8% over 2009. This was mainly attributable to the factors such as significant increase of crude oil price, production of Puguang Gas Field and the growth of sales volume of natural gas.

In 2010, the segment sold 43.88 million tonnes of crude oil and 11.06 billion cubic meters of natural gas, representing an increase of 0.2% and 57.4% respectively compared with 2009. The average realized selling price of crude oil and natural gas were RMB 3,406 per tonne and RMB 1,174 per thousand cubic meters respectively, representing an increase of 38.2% and 22.4% respectively over 2009.

In 2010, the operating expenses of the segment were RMB 140.0 billion, representing an increase of 26.2% over 2009. The increase was mainly due to the followings:

Special oil income levy paid by the Company increased by RMB 12.6 billion compared with 2009 due to the significant increase of the selling price of crude oil;

Depreciation, depletion and amortisation expenses increased by RMB 3.3 billion over 2009, mainly caused by growth in depreciation and depletion of crude oil & natural gas assets resulting from investment;

Raw material, fuels and power expenses increased by RMB 2.1 billion, mainly due to the increase of procurement cost.

Impairment loss of assets increased by RMB 1.7 billion, mainly due to the decrease of reserve in small blocks and higher production and development cost.

Unit cash operating cost was RMB 674 per tonne, representing an increase of 8.5% over 2009. This mainly attributed to the increase in prices of externally purchased materials, fuels, power, as well as additional expenses on improving injection and production system in oil fields.

In 2010, the exploration and production segment made great efforts to keep stable production, and the operating profit was RMB 47.1 billion, 97.3% over 2009.

(2) Refining Segment

Business activities of the refining segment include purchasing crude oil from the third parties the exploration and production segment of the Company as well as processing crude oil into refined petroleum products, among which, gasoline, diesel and kerosene are internally sold to the marketing and distribution segment of the Company. Part of the chemical feedstock is sold to the chemicals segment of the Company; and other refined petroleum products are sold to both domestic and overseas customers through refinery segment.

In 2010, the operating revenues of this segment totaled RMB 971.6 billion, representing an increase of 38.1% over 2009. This was mainly attributable to the increase of sales volume and the price of refined oil products.

The following table sets forth the sales volumes, average realized prices and the respective changes of the Company's major refined oil products of the segment from 2009 and of 2010.

	Sales volume (thousand tonnes)			Average realised price (RMB/tonne)		
	Years ended 31 December		Change	Years ended 31 December		Change
	2010	2009	(%)	2010	2009	(%)
Gasoline	32,699	31,343	4.3	6,581	5,591	17.7
Diesel	69,535	63,095	10.2	5,554	4,646	19.5
Chemical feedstock	34,260	26,983	27.0	4,574	3,333	37.2
Other refined petroleum products	50,418	44,075	14.4	4,114	3,208	28.2

In 2010, the segment's sales revenues of gasoline were RMB 215.2 billion, representing an increase of 22.8% over 2009.

In 2010, the sales revenues of diesel were RMB 386.2 billion, representing an increase of 31.8% over 2009.

In 2010, the sales revenues of chemical feedstock were RMB 156.7 billion, representing an increase of 74.3% over 2009.

In 2010, the sales revenues of refined petroleum products other than gasoline, diesel and chemical feedstock were RMB 207.4 billion, representing an increase of 46.7% over 2009.

In 2010, this segment's operating expenses were RMB 955.7 billion, representing an increase of 41.4% over 2009, mainly attributable to the significant increase in crude oil prices and the refining throughput.

In 2010, the average unit cost of crude oil processed was RMB 387.6 per tonne, representing an increase of 32.1% over 2009. Refining throughput totaled 198.52 million tonnes (excluding volume processed for third parties), representing an increase of 12.3% over 2009. In 2010, the total costs of crude oil processed were RMB 769.6 billion, representing an increase of 48.4% over 2009.

In 2010, crude oil price increased significantly compared with 2009. Confronted with the difficult situation of increasing crude oil cost, the segment optimized the production scheme, adjusted product mix, and maintained a higher load of operation. The refining margin of the Company was RMB 290.5 per tonne, decreased by 12.7% over 2009. This was mainly due to the lower growth rate of product price than that of crude oil.

In 2010, the unit refining cash operating cost (defined as operating expenses less the processing cost of crude oil and refining feedstock, depreciation and amortisation, taxes other than income tax and other operating expenses, and divided by the throughput of crude oil and refining feedstock) was RMB 139.7 per tonne, representing an increase of 2.7% over 2009. This is mainly attributed to the corresponding processing cost increase caused by the price of externally purchased auxiliary materials, power and fuels, the added benefit caused by actively extending the other refined petroleum products businesses as well as the growth of sales expenses accordingly caused.

In 2010, the operating profit of the segment totaled RMB 15.9 billion, representing a decrease of 42.4% over 2009.

(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 sales to domestic customers; retailing, distributing oil products through the segment's retail and distribution network, providing related services through the segment's retail and distribution network, and extending and providing the multi-non-petroleum articles related to the daily life.

In 2010, the operating revenues of this segment were RMB 1,040.7 billion, increased by 32.9% over 2009.

In 2010, the sales revenues of gasoline totaled RMB 317.5 billion, with an increase of 27.6% over 2009; and the sales revenues of diesel and kerosene were respectively RMB 546.6 billion and RMB 70.3 billion, increased by 29.8% and 58.3% respectively over 2009.

The following table sets forth the sales volumes, average realized prices, and respective rate changes of the four product categories in 2010 and 2009, including detailed information of different sales channels for gasoline and diesel:

			Sales volume (thousand tonnes)			Average realised price (RMB/tonne)		
			Years ended 31 December		Change	Years ended 31 December		Change
			2010	2009	(%)	2010	2009	(%)
Gasoline			43,511	39,067	11.4	7,296	6,366	14.6
	Of which:	Retail	35,050	31,474	11.4	7,469	6,540	14.2
		Direct sales	2,489	2,377	4.7	6,424	5,554	15.7
		Wholesale	5,972	5,216	14.5	6,649	5,687	16.9
Diesel			91,257	82,701	10.3	5,990	5,091	17.7
	Of which:	Retail	46,357	41,941	10.5	6,243	5,374	16.2
		Direct sales	29,134	28,143	3.5	5,819	4,844	20.1
		Wholesale	15,766	12,617	25.0	5,560	4,697	18.4
Kerosene			14,770	11,330	30.4	4,759	3,919	21.4
Fuel oil			23,424	17,894	30.9	3,527	2,952	19.5

In 2010, the operating expenses of the segment were RMB 1,009.9 billion, representing an increase of 34.2% compared with that of 2009. This was mainly due to the increase of purchasing cost of oil products, which accounts for 94.8% in the total operating expenses, by 35.1% over last year.

In 2010, the segment's marketing cash operating cost (defined as the operating expenses less the purchase costs, taxes other than income tax, depreciation and amortisation, and then divided by the sales volume) was RMB 170.1 per tonne, representing an increase of 4.0% compared with that of 2009. This mainly attributed to the growth of various daily operational expenses and rental cost caused by the enlargement of operational scale.

In 2010, the operating profit of this segment was RMB 30.8 billion, representing an increase of 1.5% over 2009. This mainly attributed to improved operational performance as a result of the Company's efforts to expand the market and its sales volume.

(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 2010, the operating revenues of the chemicals segment were RMB 327.6 billion, representing an increase of 50.0% over 2009. This was primarily due to the increase in prices of chemical products, the Company took the opportunity of newly built-up plants put into the service to actively developed market and increase the sales volume.

The sales revenue generated from this segment's six major categories of chemical products (namely basic organic chemicals, synthetic resin, synthetic rubber, synthetic fiber monomer and polymer, synthetic fiber and chemical fertilizer) total approximately RMB308.4 billion, representing an increase of 53.4% over 2009, accounting for 94.1% of the operating revenues of the segment.

The following table sets forth the sales volume, average realized price and the respective changes of each of the segment's six categories of chemical products in 2010 and 2009.

	Sales volume (thousand tonnes)			Average realised price (RMB/tonne)		
	Years ended 31 December		Change	Years ended 31 December		Change
	2010	2009	(%)	2010	2009	(%)
Basic organic chemicals	23,339	16,663	40.1	5,547	4,296	29.1
Synthetic fiber monomer and polymer	5,820	4,692	24.0	8,194	6,519	25.7
Synthetic resin	9,880	8,682	13.8	9,243	8,073	14.5
Synthetic fiber	1,512	1,418	6.6	11,644	9,140	27.4
Synthetic rubber	1,222	1,119	9.2	16,435	11,448	43.6
Chemical fertilizer	1,329	1,769	(24.9)	1,641	1,657	(1.0)

In 2010, the operating expenses of the chemicals segment were RMB 312.6 billion, representing an increase of 52.7% over 2009. This was mainly attributable to the increase in volume of purchased feedstock and unit cost.

In 2010, the operating profit of this segment was RMB 15.0 billion, representing an increase of 8.9% over 2009 by developing the market, strengthening the integration of production and marketing as well as research, improving the customers' services, and enlarging the total operation volume.

(5) Corporate and Others

The business activities of the corporate and others mainly consisted of import and export business activities of the Company's subsidiaries, research and development activities of the Company, and managerial activities of the headquarters.

In 2010, the operating revenues generated from the corporate and others were RMB 796.8 billion, representing an increase of 52.7% over 2009. This mainly resulted from the trading revenues RMB 778.7 billion of crude oil, product oil and other products from the subsidiaries, representing an increase of 49.6% over 2009.

In 2010, the operating expenses was RMB 799.1 billion, representing an increase of 52.5% over 2009, of which, the trading expenses of crude oil and oil products from the subsidiaries were RMB 777.7 billion, representing an increase of 49.8% over 2009.

In 2010, the operating loss from the corporate and others was RMB 2.3 billion, representing an increase of 6.2% over 2009, of which, the Company realized the operation profit of RMB 1.0 billion from some segments such as the trading and so on, but the appropriation of expenditure from the research and the corporate was RMB 3.3 billion.

3 ASSETS, LIABILITIES, EQUITY AND CASH FLOWS

The major fund source of the Company is the operation activities and short-term & long-term finance, and the major use of funds includes operating expense, capital spending, and repayment of the short-term and long-term debts.

(1) Assets, liabilities and equity

Units: RMB millions

	At 31 December 2010	At 31 December 2009	Amount of Changes
Total assets	995,154	898,263	96,891
Current assets	260,229	201,479	58,750
Non-current assets	734,925	696,784	38,141
Total liabilities	544,786	493,447	51,339
Current liabilities	336,406	315,921	20,485
Non-current liabilities	208,380	177,526	30,854
Total equity attributable to equity shareholders of the Company	419,047	378,940	40,107
Share capital	86,702	86,702	0
Reserves	332,345	292,238	40,107
Non-controlling interests	31,321	25,876	5,445
Total equity	450,368	404,816	45,552

As at 31 December 2010, the Company's total assets were RMB 995.2 billion, representing an increase of RMB 96.9 billion compared with that at the end of 2009, of which:

Current assets were RMB 260.2 billion, increased by RMB 58.8 billion from that at the end of 2009, mainly attributable to the fact that the inventory of the Company increased by RMB 14.8 billion as a result of the rise in prices of crude oil and other raw materials, the receivables of the Company increased by RMB 30.3 billion as a result of the price rise of product oil and chemical products; and the prepaid expenses and other current assets increased by RMB 5.5 billion.

Non-current assets were RMB 734.9 billion, increased by RMB 38.1 billion from that at the end of 2009. This was mainly attributable to the fact that because of the implementation of its annual investment plan by the company. The net amount for the property, plant and equipment increased by RMB 55.9 billion, the rental cost prepaid for land use right increased by RMB 3.2 billion, some constructions in progress within this current year decreased by RMB 30.8 billion due to the transfer to fixed assets after the completion of some projects, some construction in progress sold to the jointly controlled entities, and the Company's interests in associates and jointly controlled entities increased by RMB 10.9 billion.

As at 31 December 2010, the Company's total liabilities were RMB 544.8 billion, representing an increase of RMB 51.3 billion compared with that at the end of 2009, of which:

Current liabilities were RMB 336.4 billion, increased by RMB 20.5 billion from that at the end of 2009, mainly because of the price-up of the raw materials such as crude oil and so on, the Company's trade accounts payables increased by RMB 35.8 billion; because of the Company's operation scale, the smooth growth of the Company's income, the other amount dues such as accrued expenses and other payables , income tax payable and so on, increase RMB 43.4 billion due to the Company strictly controlled the financing of bills and decreased the quantity of new making-out invoices, the bills payable within this year decreased by RMB 19.3 billion; due to decreasing the financial expenses, the compression of short-term debts and loans made by China Petrochemical Corporation and fellow subsidiaries decreased RMB 39.4 billion.

Non-current liabilities were RMB 208.4 billion, increased by RMB 30.9 billion from that at the end of 2009, mainly because of the performance of the annual Investment plan by the Company, the long-term debts and loans made by China Petrochemical Corporation and fellow subsidiaries increased by RMB 21.4 billion; and the Company increased the deferred tax liabilities and the provision of obligations for the dismantlement of its oil and gas properties by RMB 9.0 billion.

The total equity attributable to equity shareholders of the Company was RMB 419.0 billion, representing an increase of RMB 40.1 billion compared with that at the end of 2009, which was due to the increase of reserves.

(2) Cash flow

The following table sets forth the major items on the consolidated cash flow statements of 2010 and 2009.

Units: RMB million

Main items of cash flow	Years ended 31 December 2010	2009
Net cash generated from operating activities	170,333	165,513
Net cash used in investing activities	(105,788)	(117,355)
Net cash used in financing activities	(56,294)	(46,411)
Net increase in cash and cash equivalents	8,251	1,747

22

In 2010, the net cash generated from operating activities was RMB 170.3 billion, representing an increase of RMB 4.8 billion over 2009. This was mainly attributable to the fact that the profit before taxation increased by RMB 17.1 billion as compared with last year; the depreciation, depletion and amortisation expense increased by RMB 5.2 billion as compared with last year, the impairment of long-term assets increased by RMB 7.2 billion; and the increase of crude oil and other commodities prices and the expansion of business scale, the Company's working capital of bills receivable, trade accounts receivable, inventories and so on increased by RMB 22.0 billion as compared with 2009.

In 2010, the net cash used in investing activities was RMB 105.8 billion, representing a decrease of RMB 11.6 billion over 2009, which was mainly because of the increase of RMB 15.5 billion of cash inflow from the Company's sale of properties, plant and equipment in this year; the cash outflow of capital expenditure and exploration expenses from the completion of annual investment plan decreased by RMB 2.4 billion compared with 2009; the cash flow of the net investment in the associates and jointly controlled entities as well as financial instruments increased by RMB 7.0 billion compared with that of 2009.

In 2010, the net cash outflow from the financing activities was RMB 56.3 billion, representing an increase of cash outflow by RMB 9.9 billion over last year, which was mainly attributable to the fact that the Company bought the properties from the China Petrochemical Corporation, the cash outflow increased by RMB 11.9 billion, and the interest expenditure decreased by RMB 1.0 billion compared with that of 2009.

From the view of annual cash flow situation, the Company took the opportunity of international economy and domestic economy to continuously and steadily enlarge the operation scale, so the annual total profit amount and operation cash flow kept a continuous increase; the Company actively took actions to improve the integrated benefit of the Company by further strengthening the central control of the capital, strictly controlling the monetary capital and the scale of active debts, decreasing the financing deposition, and speeding up the turnover of funds.

(3) Contingent Liabilities

Please refer to "Material guarantee contracts and performance thereof" under "Significant Events".

(4) Capital Expenditures

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

(5) Research & development expenses and expenditures on environmental protection

Research & development expenses refer to the expenses recognized as expenditures when they occur. The Company continuously paid attention to the technological innovation and the increase of research investment to push the new clean energy production and the research & development of new energy by the technological innovation. In 2010, the expenditure for the research & development was RMB 4.835 billion, representing an increase of RMB 1.019 billion over 2009, the growth 26.7%.

The environmental protection expenditures refer to the standard sewage and sundries clearing expenses paid by the Company, capitalization expenses on pollution discharge equipment. The Company highlighted the environmental protection, paid more attention on the energy conservation and emission reduction, and actively carried out the pollution abatement, and developed the green production and cycling economy. Therefore, in 2010, the Company's environment protection expenditures were RMB 3.880 billion, representing an increase of RMB 0.684 billion over 2009, the growth 21.4%.

(6) Measurement of fair values of derivatives and relevant system

The Company established and completed a decision-making mechanism, business flow and internal control relevant to financial instrument accounting and information disclosure.

Items relevant to measurement of fair values Unit: RMB million

Items	Balance at the beginning of the year	Profits and losses from variation of fair values of the current year	Accumulated variation of fair values recorded into equity	Decrement of withdrawal of the current year	Balance at the end of the year
Financial assets					
Of which: 1. Financial assets at fair value through profit and loss	182	—	—	—	188
Of which: derivative financial assets	182	—	—	—	188
2. Financial assets held for trading	—	—	—	—	2,450
3. Available-for-sale financial assets	1,461	—	(9)	—	52
4. Cash flow hedging	142	—	—	—	148
Subtotal of financial assets	1,785	—	(9)	—	2,838
Financial liabilities	(976)	(179)	(221)	—	(1,803)
Investment real estate	—	—	—	—	—
Productive biological assets	—	—	—	—	—
Totals	809	(179)	(230)	—	1,035

Information concerning financial assets and liabilities held in foreign currencies; Unit: RMB million

Items			Balance at the beginning of the year	Profits and losses from variation of fair values of the current year	Accumulated variation of fair values recorded into equity	Decrement of withdrawal of the current year	Balance at the end of the year
Financial assets							
Of which:	1.	Financial assets at fair value through profit and loss	182	—	—	—	188
		Of which: derivative financial assets	182	—	—	—	188
	2.	Loans and receivables	24,999	—	—	—	28,364
	3.	Available-for-sale financial assets	36	—	(2)	—	34
	4.	Held-to-maturity investments	—	—	—	—	—
	5.	Cash flow hedges	142	—	—	—	148
Subtotal of financial assets			25,359	—	(2)	—	28,734
Financial liabilities			(95,186)	(179)	(221)	—	(102,129)

Note: The financial assets and liabilities held by the Company in foreign currencies were mostly those held by its overseas subsidiaries, which were calculated in their functional currencies.

4 ANALYSIS OF FINANCIAL STATEMENTS PREPARED UNDER ASBE

The major differences between the Company's financial statements prepared under ASBE and IFRS are set out in Section C of the financial statements of the Company from Page 195 of this report.

(1) Under ABSE, the operating income and operating profit or loss by reportable segments were as follows:

	Years ended 31 December 2010 RMB millions	2009 RMB millions
Operating income		
Exploration and Production Segment	187,145	134,808
Refining Segment	971,577	703,571
Marketing and Distribution Segment	1,040,698	783,091
Chemicals Segment	327,622	218,457
Corporation and Others	796,789	521,869
Elimination of inter-segment sales	(1,410,649)	(1,016,744)
Consolidated operating income	1,913,182	1,345,052
Operating profit/(loss)		
Exploration and Production Segment	46,725	24,143

Refining Segment	14,873	27,477
Marketing and Distribution Segment	30,622	30,280
Chemicals Segment	14,763	13,288
Corporation and Others	(2,821)	(2,323)
Elimination of inter-segment profit	(1,455)	(2,603)
Financial expenses, investment income and gain/(loss) from changes in fair value	(1,355)	(4,024)
Consolidated operating profit	101,352	86,238
Net profit attributable to equity shareholders of the Company	70,713	62,677

Operating profit: In 2010, the operating profit of the Company was RMB 101.4 billion, representing an increase of RMB 15.2 billion over 2009. This was mainly attributable to the fact that the prices of crude oil, product oil and chemical products rose as compared with 2009, and that the Company leveraged the advantages of scale and integration, made efforts to expand the market, and achieved satisfactory operational performance.

Net profit: In 2010, the net profit attributed to the equity shareholders of Sinopec Corp. was RMB 70.7 billion, representing an increase of RMB 8.0 billion over 2009, the growth 12.8%.

(2) Financial data prepared under ASBE:

Unit: RMB million

	As of 31 December of 2010 RMB millions	As of 31 December of 2009 RMB millions	Changes RMB millions
Total assets	985,389	886,896	98,493
Long-term liabilities	207,080	176,484	30,596
Shareholders' equity	452,682	406,548	46,134

Analysis of changes:

Total assets: At the end of 2010, the Company's total assets were RMB 985.4 billion, representing an increase of RMB 98.5 billion compared with that at the end of 2009, which was mainly attributed to the facts that the non-current assets, such as, fixed assets, long-term equity investments and so on, increased by RMB 38.5 billion caused from the implementation of annual investment plan; that the Company's current assets, such as, trade accounts receivable, net, bills receivable and so on, increased by RMB 60.0 billion caused from the stable increase of operation income and the great rise in the price of commodities such as crude oil, etc.

Long-term liabilities: At the end of 2010, the Company's long-term liabilities were RMB 207.1 billion, representing an increase of RMB 30.6 billion compared with that at the end of 2009, mainly attributed to the accrued liabilities and the deferred tax liabilities in this year by RMB 9.0 billion, and the Company had further adjusted the structure of liabilities and continuously strengthened the power of direct financing, corporate bond was issued RMB 20.0 billion in this year.

Shareholders' equity: At the end of 2010, the shareholders' equity of the Company was RMB 452.7 billion, representing an increase of RMB 46.1 billion compared with that at the end of 2009, mainly because of the increase in the profits of the Company.

(3) The results of the principal operations by segments

Segment	Income from principal operations (RMB millions)	Cost of principal operations (RMB millions)	Gross profit margin (%) Note	Increase of income from principal operations compared	Increase of cost of principal operations compared with the	Increase/ decrease of gross profit margin compared with the

				with the preceding year (%)	preceding year (%)	preceding year (%)
Exploration and Production	187,145	89,554	39.9	38.8	13.3	5.4
Refining	971,577	804,696	3.7	38.1	48.8	(2.2)
Marketing and Distribution	1,040,698	970,859	6.6	32.9	35.1	(1.5)
Chemicals	327,622	289,070	11.3	50.0	54.9	(2.8)
Corporate and others	796,789	792,146	0.6	52.7	52.7	0.1
Elimination of inter-segment sales	(1,410,649)	(1,409,194)	N/A	N/A	N/A	N/A
Total	1,913,182	1,537,131	11.4	42.2	49.3	(2.1)

Note: Gross profit margin= (Income from principal operations Cost of principal operations, tax and surcharges)/Income from principal operations.

SIGNIFICANT EVENTS

1 MAJOR PROJECTS

(1) Sichuan-to-East China Gas Project
This is a major project under China's 11th Five-Year Plan. The project consists of two parts, namely, exploration and production of Puguang Gas Field as well as gas purification project; natural gas long-distance transportation pipeline project from Puguang Gas Field to Shanghai. The project was completed on 29 March 2010 and put into commercial operation on 31 August 2010.

(2) Tianjin Ethylene Project
The project mainly includes 1 million tpa ethylene unit, 12.5 million tpa refinery expansion and downstream auxiliary utility units. With construction starting in June 2006, it was fully completed on 16 January 2010 and put into commercial operation on 11 May 2010.

(3) Zhenhai Ethylene Project
This project mainly consists of 1 million tpa ethylene unit, downstream auxiliary utility units. Commenced in November 2006, the project was put into commercial operation in June 2010.

(4) Wuhan Ethylene Project
The project mainly includes 0.8 million tpa ethylene unit and downstream auxiliary utility units. With construction starting in December 2007, it's expected to be put into operation in 2013.

(5) Shandong LNG Project
Shandong LNG project mainly includes constructing a 3-million tpa-capacity wharf and terminal, and auxiliary transportation pipeline. It's approved by the State in July 2010. With construction starting in September 2010, it's expected to be put into operation in 2013.

2 ISSUANCE OF RMB20 BILLION CORPORATE BONDS

On 21 May 2010, Sinopec Corp. successfully issued RMB 20 billion domestic corporate bonds, which consisted of RMB 11 billion 5-year bond (abbreviation: 10 Shihua 01, code: 122051), with a fixed coupon rate of 3.75%, and RMB 9 billion 10-year term bond (abbreviation: 10 Shihua 02, code: 122052), with a fixed coupon rate of 4.05%. On 9 June 2010, the aforementioned corporate bonds were listed on the Shanghai Stock Exchange. For further details, please refer to Sinopec Corp.'s issuance and listing announcements published in China Securities Journal, Shanghai Securities News, and Securities Times in Mainland China on 19 May 2010 and 8 June 2010 respectively. RMB10 billion of the proceeds from issuance of the bonds was used to repay loans from financial institutions and optimise the current debt structure of the Company by RMB 10 billion, and the remaining 10 billion was used to supplement working capital and improve the Company's funding position.

3 ISSURANCE OF A SHARE CONVERTIBLE BONDS

On 26 March 2010, the issuance of RMB23 billion A Share convertible bonds was approved at the Fifth Meeting of the Fourth Session of Board of Directors of Sinopec Corp. It's subsequently approved by the Annual General Meeting on 18 May, 2010 and approved by China Securities Regulatory Commission on 29 December 2010. The bonds are of six-year-term with annual interest rate of 0.5%,0.7%,1.0%,1.3%,1.8% and 2.0%. The conversion price is RMB 9.73. The bonds were issued on 23 February 2011 and listed on Shanghai Stock Exchange on 7 March 2011. For further details, please refer to Sinopec Corp.'s announcements published in China Securities Journal, Shanghai Securities News, and Securities Times in Mainland China on 28 February 2011 and 3 March 2011respectively. The proceeds will be used in Wuhan ethylene, Anqing refining, Shijiazhuang refining, Yulin-Jinan Pipeline and Rizhao-Yizheng pipeline projects.

4 CORPORATE BONDS INTEREST PAYMENTS

On 24 February 2004, Sinopec Corp. issued ten-year-term corporate bonds of RMB 3.5 billion in mainland China. The credit rating of bonds was AAA. The fixed annual interest rate is 4.61%. On 28 September 2004, the bonds were listed on Shanghai Stock Exchange. For details, please see the relevant announcements in China Securities Journal, Shanghai Securities News and Securities Times of mainland China as well as Economy Daily and South China Morning Post of Hong Kong on 24 February 2004 and 28 September 2004. Till 31 December 2010, the balance of principals for the bonds was RMB 3.5 billion. On 24 February 2011, Sinopec Corp. paid in full the interest for the sixth year of interest accrued.

On 20 February 2008, Sinope Corp. issued bonds with warrants of RMB 30 billion in domestic capital market. The term of bonds was six years and the fixed annual interest rate was 0.8%. On 4 March 2008, the bonds were listed on Shanghai Stock Exchange. The proceeds have been fully used in the projects in accordance with the prospectus. On 21 February 2011, Sinopec Corp. paid in full the interest for the second year of interest accrued.

5 HOLDERS OF HK$11.7 BILLION CONVERTIBLE BONDS ISSUED BY SINOPEC CORP.

Name of holder	As at 31 December 2010 Number of bonds held
Euroclear	670,984
Clearstream	499,016

Material changes of the Company's profitability, financial position and creditability

None

Information on the Company's liability and credit changes as well as the cash arrangement for the future annual debt repayment

At the end of 2010, the Company's liability to asset ratio was 54.7%. The debt ratio was kept stable and there was no material change in the structure. The Company's domestic credit rating remained AAA on a long-term basis. The Company will primarily use its own fund to repay the due bonds. The shortfall will be obtained through bank loans or direct financing in the capital market.

6 PERFORMANCE OF THE COMMITMENTS BY CHINA PETROCHEMICAL CORPORATION, WHICH HAS OVER 5% SHAREHOLDING OF SINOPEC CORP.

By the end of the reporting period, the major commitments made by China Petrochemical Corporation include:

i to comply with the connected transaction agreements;

ii to solve issues regarding legality of the land use rights certificates and property ownership rights certificates within a specified period of time;

iii to implement the Re-organisation Agreement (for definition, please refer to prospectus for issuing H shares);

iv to grant licenses for intellectual property rights;

v to refrain from competition within the industry of the Company;

vi to withdraw from business competition and conflict of interests with Sinopec Corp.

The details of the above-mentioned commitments were included in the prospectus for the issuance of A shares of Sinopec Corp., which was published in China Securities Journal, Shanghai Securities News and Securities Times on 22 June 2001.

Vii On 27 October 2010, Sinopec Corp. disclosed an announcement, in which China Petrochemical Corporation made commitments, as the major refining business of China Petrochemical Corporation has been injected to Sinopec Corp., it'll dispose of its existing refining business to eliminate competition with Sinopec Corp within five years.

During the reporting period, Sinopec Corp. was not aware of any breach of the above-mentioned major commitments by the aforesaid shareholder.

7 SHARES AND SECURITIES INVESTMENT IN OTHER LISTED COMPANIES AND FINANCIAL COMPANIES HELD BY SINOPEC CORP.

(1) Shares in other listed companies

Stock Code	Company Name Abbreviation	Initial Investment Cost	Number of Shares Held	Shares held as a percentage of total shares	Source of shares	Book value at the end of reporting period	Investment income for the year	Equity Owners' Equities Change during the reporting period	Accounting Entry
384 (HK)	Sino Gas International Holdings	RMB 136,426,500	210 million shares	4.79%	Acquisition	RMB 136,426,500	—	—	Long-term equity investment
Other securities investment held at end of the reporting period	—	—	—	—		—	—	—	—

(2) In the reporting period, Sinopec Corp. didn't hold any shares of financial institutions such as commercial banks, securities companies, insurance companies, trust companies or future companies etc.

8 MATERIAL GUARANTEE CONTRACTS AND PERFORMANCE THEREOF

Major guarantees externally (excluding guarantees for the non-wholly owned controlled subsidiarie

Guarantee provider	Relationship with the Company	Name of guaranteed company	Amount	Date of occurrence (date of signing)	Period of guarantee	Type	Whether completed or not	Whether overdue or not	Amou over guarar
Sinopec Corp.	the Company itself	Yueyang Sinopec Corp. Shell Coal Gasification Corporation	311	December 10, 2003	December 10, 2003 - December 10, 2017	joint obligations	No	No	
Sinopec Corp.	the Company itself	Shanghai Gaoqiao-SK Solvent Co., Ltd.	43	September 22, 2006	September 22, 2006 - April 16, 2012	joint obligations	No	No	
Sinopec Corp.	the Company itself	Fujian United Petrochemical Co.,Ltd.	4,583	September 6, 2007	September 6, 2007 - December 31, 2015	joint obligations	No	No	
Sinopec Yangzi Petrochemical Co., Ltd.	wholly-owned subsidiary	Sinopec Corp. Yangzi BP Petrochemical AcetylCo.,Ltd	479			joint obligations	No	No	
Sinopec Sales Co., Ltd.	wholly-owned subsidiary	Balance of Sinopec Corp. Sales Company Limited for its associates and joint ventures	109			joint obligations	No	No	
Total amount of guarantees provided during the reporting period Note 2									
Total amount of guarantees provided during the reporting period Note 2 (A)									

8 MATERIAL GUARANTEE CONTRACTS AND PERFORMANCE THEREOF (CONTINUED)

Major guarantees externally (excluding guarantees for the non-wholly owned controlled subsidiaries)

Guarantee provider	Relationship with the Company	Name of guaranteed company	Amount	Date of occurrence (date of signing)	Period of guarantee	Type	Whether completed or not	Whether overdue or not	Amounts of overdue guarantee	Counter guaranteed	W gua for pa or

Guarantees by the Company to controlled subsidiaries		
Total amount of guarantee provided to controlled subsidiaries during the reporting period		Non
Total amount of guarantee for controlled subsidiaries outstanding at the end of the reporting period (B)		Non
Total amount of guarantees of the Company (including those provided for controlled subsidiaries)		
Total amount of guarantees Note 3 (A+B)		5,5
The proportion of the total amount of guarantees to Sinopec Corp.'s net assets		1.3
Guarantees provided for shareholders, de facto controller and related parties (C)		Non
Amount of debt guarantees provided directly or indirectly to the companies with liabilities to assets ratio of over 70% (D)		43
The amount of guarantees in excess of 50% of the net assets (E)	None	
Total amount of the above three guarantee items Note 4 (C+D+E)	43	
Statement of guarantee undue that might be involved in any joint and several liabilities		Non
Statement of guarantee status		Non

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

Note 2: The amount of guarantees provided during the reporting period and the amount of guarantees outstanding at the end of the reporting period include the guarantees provided by the controlled subsidiaries to external parties. The amount of the guarantees provided by these subsidiaries is derived by multiplying the guarantees provided by Sinopec Corp.'s subsidiaries by the percentage of shares held by Sinopec Corp. in such subsidiaries.

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

Note 4: "Total amount of the above three guarantee items" is the aggregate of "guarantees provided for shareholders, effective controllers and connected parties", "amount of debt guarantees provided directly or indirectly to the companies with liabilities to assets ratio of over 70%" and "the amount of guarantees in excess of 50% of the net assets".

Material Guarantees under Performance

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

The eighth meeting of the Third Session of the Board of Directors of Sinopec Corp. approved the proposal to provide guarantee to Fujian United Petrochemical Company Limited for its Fujian Refining and Ethylene Joint Venture Project in the amount of RMB 9.166 billion. On 13 December 2010, the outstanding guarantees for Fujian

United Petrochemical Company Limited has been decreased to 50% of the original amount, i.e. RMB 4.583 billion.

Specific statement and independent opinions presented by independent directors regarding external guarantees provided by Sinopec Corp. accumulated up to and during 2010:

We, as independent directors of Sinopec Corp., hereby make the following statement after conducting a thorough checking of external guarantees provided by Sinopec Corp. accumulated up to and during 2010 in accordance with requirements of the domestic regulatory authorities:

Sinopec Corp. itself did not incur any additional external guarantee during the reporting period. The subsidiaries of Sinopec Corp. incurred RMB 44 million external guarantee. The external guarantee amount decreased by RMB 4.632 billion compared to last year. The balance of external guarantees provided by Sinopec Corp. accumulated up to the year of 2010 was RMB 5.525 billion, accounting for 1.31% of net assets approximately.

We hereby present the following opinions:

Sinopec Corp.' external guaranteehas decreased significantly, and the risk control maintains effective. Sinopec Corp. shall continue to follow the approval and disclosure procedures strictly for new external guarantees incurred thereafter in accordance with relevant provisions for guarantees and make preventions against risks.

9 GENERAL MEETINGS OF SHAREHOLDERS

During the reporting period, Sinopec Corp. held one general meeting of shareholders in strict compliance with the procedures of notification, convening, holding of shareholders' meetings as stipulated in relevant laws, rules and regulations and the Articles of Association of Sinopec Corp. i.e. the 2009 Annual General Meeting held in Beijing on 18 May 2010;

For details, please refer to resolution announcements published in China Securities Journal, Shanghai Securities News, Securities Times on 19 May 2010, and the websites of Hong Kong Stock Exchange on 18 May 2010.

10 ASSETS TRANSACTIONS

Please refer to the section "Other Significant Connected Transactions incurred during This Year".

11 MATERIAL LITIGATIONS AND ARBITRATIONS

During the reporting period, the Company was not involved in any material litigations or arbitrations.

12 INSOLVENCY AND RESTRUCTURING

During the reporting period, the Company was not involved in any such matters.

13 OTHER MATERIAL CONTRACTS

During the reporting period, the Company didn't have any omission from disclosure of any other material contracts that are subject to disclosure.

14 TRUSTEESHIP, CONTRACTING AND LEASE

During the reporting period, Sinopec Corp. was not involved in any events regarding significant trusteeship, contracting or lease of any other company's assets, nor placing its assets to or under any other companies' trusteeship, contracting or lease that is subject to disclosure.

15 ENTRUSTED CASH MANAGEMENT

During the reporting period, Sinopec Corp. didn't entrust or continue to entrust any others to carry out cash assets management on its behalf.

16 ASSETS MORTGAGE

During the reporting period, Sinopec Corp. didn't have material assets mortgage.

17 THE APPROPRIATION OF NON-OPERATIONAL FUNDS

Not applicable

18 THE DETAILED IMPLEMENTATION OF THE EQUITY INCENTIVE PROGRAM DURING THE REPORTING PERIOD

Sinopec Corp. didn't implement any equity incentive program during the reporting period.

19 WHETHER THE COMPANY IS INCLUDEED IN THE SERIOUS POLLUTION ENTERPRISE LIST BY ENVIRONMENTAL PROTECTION AUTHORITY

No

CONNECTED TRANSACTIONS

1 AGREEMENTS CONCERNING CONNECTED TRANSACTIONS BETWEEN THE COMPANY AND CHINA PETROCHEMICAL CORPORATION

Prior to overseas listing, in order to ensure the smooth continuation of production and business transacted between the Company and China Petrochemical Corporation, the two parties entered into a number of agreements on continuing connected transactions, details of which are as follows:

(1) Agreement for the mutual supply of ancillary services for products, production and construction services ("Mutual Supply Agreement").

(2) China Petrochemical Corporation provides trademarks, patents and computer softwares to the Company for use free of charge.

(3) China Petrochemical Corporation provides cultural and educational, hygienic and community services to the Company.

(4) China Petrochemical Corporation provides leasing service of lands and certain properties to the Company.

(5) China Petrochemical Corporation provides comprehensive insurance to the Company.

(6) China Petrochemical Corporation provides shareholders' loans to the Company.

(7) The Company provides franchise licences for service stations to China Petrochemical Corporation.

On 31 March 2006, Sinopec Corp. and China Petrochemical Corporation entered into Supplementary Agreement of Connected Transactions. The terms of Mutual Supply Agreement and Cultural, Hygienic and Community Services Agreement were extended to 31 December 2009.

On 21 August 2009, Sinopec Corp. and China Petrochemical Corporation entered into new Supplementary Agreement of Connected Transactions. The terms of Mutual Supply Agreement and Cultural, Hygienic and Community Services Agreement were extended 31 December 2012, and the term of each of the Intellectual Property Right Licence Agreement was extended to 31 December 2019.

The resolution in relation to the continuing connected transactions for the three years from 2010 to 2012 and the respective caps was approved at the First Extraordinary General Meeting for 2009 held on 15 October 2009. For details of the continuing connected transactions, please refer to relevant announcements published on 24 August 2009 in China Securities Journal, Shanghai Securities News, Securities Times and the websites of Shanghai Stock Exchange (http://www.sse.com.cn) and Hong Kong Stock Exchange (http://www.hkexnews.hk).

2 DISCLOSURE AND APPROVAL OF CONNECTED TRANSACTIONS BETWEEN THE COMPANY AND CHINA PETROCHEMICAL CORPORATION COMPLY WITH THE LISTING RULES OF THE HONG KONG AND SHANGHAI STOCK EXCHANGES

Pursuant to the Listing Rules of Hong Kong and Shanghai Stock Exchanges, the above continuing connected transactions are generally subject to full disclosure of their nature and the value of the transactions, with prior approvals from independent directors and/or independent shareholders.

There is no substantial change in the above agreements on continuing connected transactions during the reporting period. The accumulated amounts of the connected transactions for the year 2010 of Sinopec Corp. are in compliance with the relevant requirements of the Listing Rules of the Hong Kong and Shanghai Stock Exchanges. For detailed implementation of connected transaction agreements, please refer to Item 3 below.

3 ACTUAL RELATED TRANSACTIONS ENTERED INTO BY THE COMPANY DURING THE YEAR

The aggregate amount of related transactions actually incurred of the Company during the year was RMB 397.341 billion, of which, expenses amounted to RMB 166.300 billion, (including RMB 154.19 billion of purchase of goods and services, RMB 3.693 billion of auxiliary and community services, RMB 7.45 billion of operating lease fee, RMB 967 million of interest expenses). Among which, purchase from China Petrochemical Corporation and its subsidiaries amounted to RMB109.211 billion (including purchase of products and services, i.e. procurement, storage, exploration and production services and production-related services amounted to RMB 109.211 billion, representing 5.37% of the Company's operating expenses for the year 2010). The auxiliary and community services provided by China Petrochemical Corporation to the Company were RMB 3.693 billion, representing 0.20% of the operating expenses of the Company for 2010. In 2010, the housing rental paid by the Company was RMB 350 million, the land rental paid was RMB 6.731 billion, and the expenses for other lease were RMB 369 million. The interest expenses were RMB 967 million. In 2010, the revenue amounted to RMB 231.041 billion (including RMB 230.883 of sales of products and services, RMB 93 million of interest income, RMB 65 million of agency commission receivable), of which the sales to China Petrochemical Corporation amounted to RMB 61.361 billion, including RMB 61.203 billion of sales of products and services, representing 3.20% of operating revenues, RMB 93 million of interest income, and RMB 65 million of agency commission receivable..

The amount of each category of continuing connected transactions between the Company and China Petrochemical Corporation did not exceed its respective cap approved at the general meeting and by the Board of Directors.

Connected purchase table

Unit: RMB million

Connected party	Connected transaction	Amount incurred during the current period		Amount incurred during the previous period	
		Transaction amount	Percentage of the total amount of the type of transaction (%)	Transaction amount	Percentage of the total amount of the type of transaction (%)
China Petrochemical Corporation	purchase of goods and services from connected parties	108,244	5.99	93,393	7.45
Other related parties	purchase of goods and services from connected parties	57,089	3.16	29,547	2.36
Total		165,333	9.15	122,940	9.81

Connected sales table

Unit: RMB million

Connected party	Connected transaction	Amount incurred during the current period		Amount incurred during the previous period	
		Transaction amount	Percentage of the total amount of the type of transaction (%)	Transaction amount	Percentage of the total amount of the type of transaction (%)
China Petrochemical Corporation	Sales of goods and provision of services to connected parties	61,268	3.20	49,621	3.69
Other related parties	Sales of goods and provision of services to connected parties	169,680	8.87	113,095	8.41
Total		230,948	12.07	162,716	12.10

Notes:,,,,,Principle of pricing for connected transactions: (1) Government-prescribed prices and government-guided prices are adopted for products or projects if such prices are available; (2) Where there is no government-prescribed price or government-guided price for products or projects, the market price (inclusive of bidding price) will apply; (3) Where none of the above is applicable, the price will be decided based on the cost incurred plus a reasonable profit of not more than 6% of the price.

Other related parties: as defined under ASBE and IFRS but not under Chapter 14A of the Hong Kong Listing Rules nor under the listing rules of Shanghai Stock Exchange.

Decision-making procedures: in the course of business, main agreements on continuing connected transactions of the Company will be concluded based on general commercial terms and under the principle of being fair and reasonable to the company and shareholders. The Company, according to internal control procedures, adjusts the scope and amount of continuing connected transactions and upper limit for the amount exempted from disclosure every three years, and upon the approval of the Board of Directors and independent directors, makes an announcement to the public and put them in force. For the temporary connected transactions, the Company, in a strict compliance with domestic and foreign regulatory provisions, makes an announcement and bring them in force after delivering matters on connected transactions to the Board of Directors or general meeting of shareholders for review according to internal control procedures.

Please refer to Note 36 to the financial statements prepared under the IFRS in this annual report for details of the connected transactions actually incurred during this year.

The abovementioned connected transactions between Sinopec Corp. and China Petrochemical Corporation in 2010 have been approved at the 12th meeting of the Four Session of the Board of Directors of Sinopec Corp and had complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules.

The auditor of Sinopec Corp. was engaged to reporting on the Company's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagement Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions in accordance with Main Board Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

After reviewing the above connected transactions, the independent directors of Sinopec Corp. have confirmed that:

(a) The transactions have been entered into by Sinopec Corp. in its ordinary course of business;

(b) The transactions have been entered into based on either of the following terms:

i on normal commercial terms;

ii on terms not less favorable than those available from/to independent third parties, where there is no available comparison to determine whether such terms are on normal commercial term; and

(c) The transactions were in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of Sinopec Corp. as a whole.

4 OTHER SIGNIFICANT CONNECTED TRANSACTIONS OCCURRED DURING THIS YEAR

Sinopec Corp. acquired SSI's part of equity interest and liabilities from a wholly owned subsidiary of Sinopec International Exploration and Production Corporation.

–The 5th Meeting of the Fourth Session of the Board was held on 26 March 2010, at which the "Proposal Concerning the Acquisition of SSI's part of equity interest and liabilities from SIPC" was approved. Such proposal was approved at the general meeting of shareholders on 18 May 2010. Sinopec Corp. acquired 55% equity interest of SSI from SIPC through its wholly-owned subsidiary, with consideration on equity interest of USD 1.678 billion. At the same time, the Company assumed the liabilities for the loan granted by SIPC (through its wholly owned subsidiary) Petrochemical Corporation to SSI, with the consideration on liabilities of USD 779 million. SSI has 50% interest in Angola Block 18. For details, please refer to relevant announcements disclosed in China Securities Journal, Shanghai Securities News and Securities Times on 29 March 2010 and on the websites of Shanghai Stock Exchange (http://www.sse.com.cn) and Hong Kong Stock Exchange (http://www.hkex.com.hk). Such transaction has been approved by relevant governmental authorities and completed on 30 September, 2010.

5 FUNDS PROVIDED BETWEEN CONNECTED PARTIES

	Fund to connected parties		Fund from connected parties	
Connected Parties	Amount incurred	Balance	Amount incurred	Balance
China Petrochemical Corporation	(38)	520	(2,779)	8,245
Other related parties	2,437	2,458	0	0
Total	2,399	2,978	(2,779)	8,245

CORPORATE GOVERNANCE

1 IMPROVEMENT ON CORPORATE GOVERNANCE DURING THE REPORTING PERIOD

During the reporting period, Sinopec Corp. further enhanced the corporate governance by complying with regulatory regulations in listed places in and outside China and committing itself to standard operation. Mr. Ma Weihua and Mr. Wu Xiaogeng were elected as independent non-executive directors at 2009 Annual General Meeting of the Shareholders, and members of the committees of the Board of Directors were adjusted accordingly. Mr. Jiang Zhenying and Mr. Yu Renming were elected as employee representative supervisors by employees. Mr. Ling Yiqun was appointed as Vice President of Sinopec Corp.. Directors, supervisors and senior management were timely arranged by Sinopec Corp. to complete related trainings. Pursuant to "Basic Norms of Internal Control" and provisions of applicable guidelines, and based on its actual situations, Sinopec Corp. further revised the "Internal Control Manual". Sinopec Corp. won Information Disclosure Award for 2010 granted by Shanghai Stock Exchange due to its continuous efforts to strengthen information disclosure and investor relation.

According to regulatory requirements, Sinopec Corp. conducted a self-inspection of connected transactions, competition, insider dealings, and no violation has been found. Connected transactions between the Company and China Petrochemical Corporation have always been approved and disclosed to the public pursuant to regulatory provisions and Sinopec's specific management system since the listing of Sinopec (refer to the Section "Connected transaction" in the report for details). To minimize the negative impact of competition on the Company, Sinopec and China Petrochemical Corporation signed a Non-competition Agreement, specifying the same businesses owned by the Company and China Petrochemical Corporation, and according to the Agreement, Sinopec Corp. can acquire relevant competing business from China Petrochemical Corporation in a timely manner. At present, China Petrochemical Corporation still operates a few businesses competing with the Company in the refining and chemical sector, and has entrusted such businesses to Sinopec Corp. for management.

During the reporting period, Sinopec Corp., its Board of Directors, its current directors, supervisors, senior management, shareholders and actual controlling shareholder were not inspected by CSRC, or punished or criticized through circular by CSRC, Hong Kong Securities and Futures Commission and Securities and Exchange Commission of the United States or publicly condemned by Shanghai Stock Exchange, Hong Kong Stock Exchange, New York Stock Exchange and London Stock Exchange.

2 EQUITY INTERESTS OF DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT

During the year ended 31 December 2010, the directors, supervisors and other senior management of Sinopec Corp. have not held any shares of Sinopec.

During the reporting period, the directors, supervisors and other senior management of Sinopec Corp. and their associates did not hold shares, bonds or any interest or short position in the shares of Sinopec Corp. or any affiliated corporation (including any interest or short position in shares that is regarded or treated as being held in accordance with the "Securities and Futures Ordinance"), which, according to Section 7 and 8 of Part 15 of "Securities and Futures Ordinance", shall be informed to Sinopec Corp. and Hong Kong Stock Exchange, or pursuant to Section 352 of "Securities and Futures Ordinance", shall be registered on the indicated register as required by the ordinance, or subject to the "Standard Code for Securities Transactions by Directors of Listed Companies" contained in the Listing Rules, shall be informed to Sinopec Corp. or Hong Kong Stock Exchange.

3 CONFIRMATION OF INDEPENDENCE OF THE INDEPENDENT DIRECTORS AND OVERVIEW OF THEIR PERFORMANCE OF DUTIES

As required by the Hong Kong Stock Exchange, Sinopec Corp. makes the following confirmations concerning the independence of its independent directors: Sinopec Corp. has received annual confirmation letters from all the independent non-executive directors acknowledging full compliance with the relevant requirements in respect of their independence pursuant to Rule 3.13 of the Listing Rules. Sinopec Corp. takes the view that all independent non-executive directors are independent.

During the reporting period, the independent directors of Sinopec Corp. were committed to fulfilling their duties and fiduciary obligations in strict compliance with laws and regulations, Articles of Association and Independent Director System and safeguarded overall interests of the Company and legal interests of all shareholders, especially minority shareholders. They carefully studied regulatory rules and attended trainings held by regulatory departments. All independent non-executive directors have been continuously paying attention to the operating environment, operation and development. They inspected the subsidiaries of the Company on-site to have a deep knowledge of these subsidiaries. They enhanced communication between the management and external auditors, actively attended meetings of the Board of Directors and the professional committees to the Board of Directors, reviewed the relevant documents with due care, and took advantage of its expertise and experience to offer advices. Meanwhile, they rendered independent opinions on connected transactions, external guarantees, appointment of a certified accountant office, and appointment and dismissal of senior manager. In the decision-making progress, they especially kept an eye on legal rights and interests of minority shareholders and played their role fully as independent directors.

4 THE COMPANY’S INDEPENDENCE OF CONTROLLING SHAREHOLDER

The Company is independent of controlling shareholder in terms of, among other things, business, assets and finances. The Company has an independent and complete capacity of business and independent operation.

5 IMPROVEMENT AND IMPLEMENTATION OF INTERNAL CONTROL SYSTEM

For details of this issue, please refer to the Company's Self-evaluation Report on Internal Control.

6 SENIOR MANAGEMENT EVALUATION AND INCENTIVE SCHEMES

Sinopec Corp. has established and is continuously improving the fairness and transparency of its performance evaluation standard and incentive and constraint schemes for the directors, supervisors and other senior management. Sinopec Corp. implements various incentive schemes such as "Measures of Sinopec Corp. for the Implementation of Remuneration for Senior Management" and "Interim Measures of Sinopec Corp. for the Management of Annual Performance Evaluation".

7 CORPORATE GOVERNANCE REPORT (IN ACCORDANCE WITH THE LISTING RULES)

(1) Compliance with "Code on Corporate Governance Practices"

Sinopec Corp. commits itself to standard operation so as to improve its corporate governance and to achieve sustainable development. Sinopec Corp. has fully complied with the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules during the year ended 31 December 2010.

A	Board of Directors	
A.1	Board of Directors	
	a.	Board meetings shall be held at least once a quarter. The Board will generally communicate on meeting time and subject of matters 14 days in advance. The documents and materials for the meeting will generally be submitted 10 days in advance to each and every director. In 2010, Sinopec Corp. held 8 Board meetings. For information about attendance, please refer to the Report of the Board of Directors of this annual report.
	b.	Each Board member may submit proposals to be included in the agenda for Board meetings, and each and every director is entitled to request other related information.
	c.	The Secretary to the Board shall assist the directors in handling the routine tasks of the Board, continuously provide the directors with any regulation, policy and other requirements as demanded by domestic and overseas supervisory bodies in relation to corporate governance, and ensure that the directors observe domestic and overseas laws and regulations as well as the Articles of Association etc. when performing their duties and responsibilities.
A.2	Chairman and Executive President Mr. Su Shulin serves as the Chairman of the Board and Mr. Wang Tianpu serves as the President. The Company's Board Chairman is elected by a majority vote, while the President is nominated and appointed by the Board. The duties and responsibilities of the Chairman and the President are well-defined and the scope of their respective duties and responsibilities are set forth in the Articles of Association.	
A.3	Board composition	
a.		

Board of Directors of Sinopec Corp. consists of 15 members with extensive professional and management experiences (Please refer to the Section "Directors, Supervisors, Other Senior Manager and Employees in this report" for detailed information). Among the 15 members, 5 are executive directors and 10 are non-executive directors, among which, 5 are independent non-executive directors, which cover one third of the total number. The number of non-executive directors is more than half of the Board.

b. Sinopec Corp. has received from each independent non-executive director a letter of confirmation for 2010 regarding its compliance with relevant independence requirements set out in rule 3.13 of the Listing Rules. Sinopec Corp. considers that each of the independent non-executive directors is independent.

A.4 Appointment, re-election and dismissal

a. Term of each session of all the directors (including non-executive directors) is 3 years, and the consecutive term of office of an independent non-executive director shall not exceed 6 years.

b. All directors have been elected at the general meeting of shareholders, the Board has no right to appoint temporary directors.

c. For each newly appointed director, Sinopec appoints professional consultants to prepare detailed information and notify such director of regulatory provisions in listing places and of rights, obligations and liabilities as directors.

A.5 Responsibility of Directors

a. All the non-executive directors have equal duties and authorities to the executive directors. In addition, all the non-executive directors, especially the independent non-executive directors are entitled to certain specific authorities. The Articles of Association and the Rules and Procedures for Board of Directors' Meetings of Sinopec Corp. clearly provide for the authorities of directors and non-executive directors including independent non-executive directors, which are published on the website of Sinopec Corp. at http://www.sinopec.com.cn

b. Each of the directors can devote enough time and efforts to the affairs of Sinopec Corp.

c. Each of the directors confirmed that he has complied with the Model Code during the reporting period. In addition, the Company formulated the Model Code of Securities Transactions by Company Employees and the Rules governing shares and hold by Company Directors, Supervisors and Senior Management and changes in shares so as to regulate the activities of Sinopec Corp. personnel in purchase and sale of the securities of Sinopec Corp..

A.6 Supply of and Access to Information

a. The meeting agenda as well as other reference documents of the Board and each specialized committee will be distributed in advance prior to the meeting, which enables each member to have sufficient time to review them and discuss them comprehensively at meetings. Each and every director shall obtain all related information in a comprehensive and timely manner, and may seek advices from professional consultants if necessary.

b. The Secretary to the Board is responsible for organizing and preparing materials for Board meetings, including preparation of explanations for each proposed agenda to enable thorough understanding by each director. The President shall provide the directors with necessary information and materials. The director may request the President, or request, via the President, relevant departments to provide necessary information and explanation of Sinopec Corp..

B. Remuneration of directors and senior management

a. A Remuneration and Performance Evaluation Committee has been set up and the relevant rules has been formulated. Members of the Committee include director Li Deshui, director Chen Xiaojin, director Ma Weihua and director Li Chunguang, who are mainly responsible for giving a remuneration proposal of directors, supervisors and other senior manager to the Board.

b. The Remuneration and Performance Evaluation Committee has always consulted the Chairman and the President regarding proposed remuneration for other executive directors.

c. Committee members may obtain independent professional advices when performing their duties and obligations. Costs arising from or in connection with such consultation are borne by Sinopec Corp.. Meanwhile, the committee appoints consultants to provide suggestions to the committee. The working expenses of the committee are included in the budget of Sinopec Corp.. In addition, according to the policy of Sinopec Corp., the senior management and relevant departments of Sinopec Corp. shall actively cooperate with the work of the Remuneration and Performance Evaluation Committee.

C. Accountability and auditing

C.1 Financial reporting

a. Directors are responsible for supervising the accounts preparation for each fiscal period, to ensure such amounts truly and fairly reflect the condition of business, performance and cash flow of the Company during such period. The Board approved the Financial Report for the Year 2010 and warranted that there were no material omissions, or misrepresentations or misleading statements contained in the annual report, and jointly and severally accepted full responsibility for the authenticity, accuracy and integrity of the content.

b. Sinopec Corp. has adopted an internal control mechanism to ensure that the management and relevant departments have provided sufficient financial data and related explanation and materials to the Board and its Audit Committee.

c. The external auditors of Sinopec Corp. made a statement about their reporting responsibilities in the auditor's report contained in the financial statements.

C.2 Internal control

For detailed information of the internal control system during the reporting period, please refer to the Self-Evaluation Report on Internal Control.

Sinopec Corp. has established its internal audit department and has arranged adequate professional personnel, thus the Company has relatively sound internal auditing functions.

C.3 Audit Committee

a. Members of the Audit Committee include director Xie Zhongyu, director Li Deshui and director Wu Xiaogen. As verified, none of the members had served as a partner or former partner to our current auditing firm.

b. Sinopec Corp. has formulated the working rules of the Audit Committee. The written terms of reference are available for inspection at Sinopec Corp..

c. At every meeting of the Audit Committee, reviewing opinions shall be prepared and distributed to all the members for any suggestion. The reviewing opinions shall be amended according to the suggestions of the members and shall be sent to all the members for signature. During the reporting period, the Board and Audit Committee did not have any different opinion.

d. Committee members may obtain independent professional advices when performing their duties. Costs arising from or in connection with such consultation are borne by Sinopec Corp. The committee appoints consultants to provide suggestions to the committee. The working expenses of the committee are included in the budget of Sinopec Corp.. Meanwhile, according to the policy of Sinopec Corp., the senior management and relevant departments of the company shall actively cooperate with the work of the Audit Committee.

e. The Audit Committee has communicated with auditors twice to discuss matters concerning financial reports and internal control in the absence of the management. The Committee considered the adequacy of the resources in accounting and financial reporting and the experience of the employees as well as the sufficiency of the training courses provided to employees and the relevant budget. The Audit Committee holds the view that the management of Sinopec has established an effective internal control system during the reporting period.

D. Delegation of power by the Board

a. The Board, the management and each of the committees under the Board have clear terms of reference. The Articles of Association and the Rules and Procedures for the General Meetings of Shareholders and the Rules and Procedures for the Meetings of Board of Directors set forth the scope of duties, authorities and delegation of power of the Board and the management, which are posted on the website of Sinopec at http://www.sinopec.com.cn.

b. The Board committees have clear written terms of reference. The working rules of the Board committees require such committees to report to the Board on their decisions or recommendations.

E. Communication with shareholders

a. During the reporting period, a separate resolution has always been proposed for each substantially separate issue at the general meetings. All resolutions were subject to voting to ensure the interests of all shareholders. A meeting notice is given to each shareholder 45 days in advance prior to the general meeting of shareholders, which specifies information on resolutions, shareholders who are entitled to attend the meeting and their rights, agenda of general meeting and voting procedures.

b. The Chairman of the board shall attend and host the annual general meeting as the chairman of such meeting, and arrange the members of Board and senior management to attend the general meeting of shareholders and to answer the questions of the shareholders.

c. Sinopec Corp. set up a specific department responsible for investors relations, and enhanced communications with investors by way of holding meetings with institutional investors, inviting investors to conduct site visit, staging a road show, receiving visitors and setting up investor hotline etc. Sinopec Corp. also offers regulatory provisions of securities and investor recommendations to directors in a timely manner.

d. Clause 2 of Article 20 and Article 23 stated in the Articles of Association concerning capital structure and registered capital of Sinopec Corp. were revised and declared by Sinopec Corp. on 26 March 2010. See the website of Sinopec at http://www.sinopec.com.cn for details.

(2) Nomination of directors
The Board of Sinopec Corp. has not established a Nomination Committee, but the nomination of directors has been expressly stated in detail in the Articles of Association and the Rules and Procedures for the General Meeting of Shareholders respectively. The nomination of director may be proposed by shareholders individually or collectively holding over 3% (1% for nomination of independent director candidate) of the total voting shares of Sinopec, the Board of Directors or the Board of Supervisors and submitted to the general meeting of shareholders for approval by way of a proposal.

(3) Auditors
At the Annual General Meeting of Sinopec for the year 2009 held on May 18, 2010, KPMG Huazhen and KPMG were re-appointed as the domestic and overseas auditors of Sinopec Corp. for the year 2010 respectively, and the Board of Directors was authorized to determine their remunerations. As approved at the 12th Meeting of the Fourth Session of the Board of Directors of Sinopec, the audit fee for 2010 was HK$66 million. The financial statements for the year 2010 have been audited by KPMG Huazhen and KPMG. Hu Jianfei and Zhang Yansheng are China Registered Certified Public Accountants of KPMG Huazhen.

During the reporting period, neither of KPMG Huazhen and KPMG provided any non-audit service to Sinopec Corp..

KPMG Huazhen and KPMG have provided audit services to Sinopec Corp. since the second half of 2000, and the first audit engagement letter was entered into in March 2001.

(4) Other information about corporate governance of Sinopec Corp.
Except for their working relationships with Sinopec Corp., none of the directors, supervisors or other senior management has any financial, business or family relationships or any relationships in other material aspects with each other. For information regarding changes in share capital and shareholdings of principal shareholders, please refer to pages 6 to 7; for information regarding meetings of Board of Directors, please refer to page 42; for information regarding equity interests of directors, supervisors and other senior manager, please refer to page 41; for information regarding resume and annual remuneration of directors, supervisors and other senior manager, please refer to pages 56 to 68.

8 COMPARISON OF NEW YORK STOCK EXCHANGE CORPORATE GOVERNANCE RULES AND CHINA CORPORATE GOVERNANCE RULES FOR LISTED COMPANIES

For details, please refer to the content on the website of Sinopec Corp. at http://www.sinopec.com/big5/ir/index.shtml.

MANAGEMENT'S REPORT ON INTERNAL CONTROL

In 2010, the Company revised the Internal Control Manual ("the Manual") and the implemeniation rules according to the Basic Standard for Enterprise Internal Control. The Company deepened and optimized control contents by using such information-oriented methods as ERP, making its internal control system, consisting of the Manual, detailed rules for the implementation of internal control of branches (subsidiaries) and other rules concerning internal control, more complete.

The Board of Directors of Sinopec Corp. and the management are responsible for establishing a sound internal control system and effectively carrying it out. The aim of internal control is to reasonably guarantee the compliance of its operation and management with regulations and laws, assets security, and authenticity and integrity of financial report and related information, improve the efficiency and effect of operating activities and promote the realization of development strategy of the Company. The Company's internal control involves such five elements as internal environment, risk assessment, control activities, information and communication and internal supervision.

Due to its inherent limitation, internal control can only gives a reasonable guarantee to achieve aforesaid goals. In addition, the effectiveness of internal control can vary with changes that occur in internal and external environment and the operation. The Company has established the inspection and supervision mechanism against internal control. The correction measures are taken immediately after identifying defects of internal control.

On 31 December 2010, the Company's Board of Directors has conducted the assessment of internal control for 2010 in accordance with the Basic Standard for Enterprise Internal Control, proving there is no significant defect in internal control. Internal control system involving financial report has been well-established and implemented effectively.

1 INTERNAL ENVIRONMENT

The Company has constantly improved its governing structure, management system and operational mechanism, reasonably established internal organization structure and made the responsibilities and power of different departments clear for avoiding overlapping, loss or concentration of functions. Through which, clear working mechanism takes up like each department performs and is responsible for its functions with mutual restriction and coordination. The Company reinforced HR cultivation and team construction and fully brought the employees' initiatives into play, effectively mobilizing potential and creative capability and realizing collaborative development of the enterprise and the staff. We strengthened management on safety production, environment protection, energy-saving and product quality, protected the legal right of employees, focused on public utilities and practically perform social responsibilities. Through fully fulfilling the policies of "safety first, prevention oriented, total staff involved, comprehensive rectification, environment promotion, health protection, scientific management and sustainability development", we promoted full-scale, coordinative and sustainable development of the Company. The Company formulated and constantly revised the Employee Rules for guiding the employees to automatically exert the enterprise culture and philosophy, having the root of the enterprise culture into employees' minds and changing their behaviors.

2 RISK ASSESSMENT

According to the target of sustainable development, the Company established an internal-control-based risk assessment and control system against operating risks, financial reporting risks, risks of compliance with internal and external laws and regulations, assets security risks and fraud risk in the operation of the Company. Based on relevant requirements for internal control, the Company analyzed key aspects which have a significant effect on business operation goals and the objectives of financial reporting. It has conducted a comprehensive risk assessment by taking into accounting problems and deficiencies found in the internal auditing and financial statement auditing and referring to results of external auditing. Relevant results of the assessment are used as an important basis for further improving the Manual, perfecting relevant regulatory systems and enhancing internal control. Each branch (subsidiary) supplements and improves detailed rules for the implementation of internal control and internal management system based on its own risk assessment. These measures give a reasonable guarantee to financial report, prevention of internal fraud, assurance of assets security and standardization of management.

3 CONTROL ACTIVITIES

The Company further improved internal control process and control matrix by business category, put process responsible department and the key post in place, and urged employees to perform their duties of internal control. It regularly carries out inspections and tests, and makes rectifications and remedies in time, with internal control integrated into daily management continuously. To strengthen application control of ERP system, the Company sorted out and analyzed current situation of the application of ERP system privileges and initially drew up the standards for management of ERP privileges which requires the Company to put requirements for internal control into the system, develop privilege checking tools, carry out running tests at regular intervals and ensure system privilege configuration is under control.

The management of Sinopec Corp. holds an analytical meeting of operating activities every month to review and analyze operating results and key financial indicators. It also reports operating results to the Board of Directors every quarter.

4 INFORMATION AND COMMUNICATION

The Company actively advocated the information-oriented management to improve working efficiency and effect. It has established and used such systems as ERP system, production and operation command system, supply chain management system, fund centralized management system, material procurement E-business system, fuel card system, key business open system and total budget management system. The Company prepared a series of management measures and business processes to regulate information systems from different aspects of overall level, general control and application control. Information system management department is responsible for controlling and maintaining all information systems.

The Company established a communication mechanism of financial report. The Manual and internal accounting system stipulate all responsibilities involving financial report. There has been a smooth communication between Chief Financial Officer (CFO) and all departments, financial department of the head office and financial departments of branches (subsidiaries), the management and external environment as well as departments, departments and branches (subsidiaries), and the management and the Board of Directors.

As a listed company in four regions in and outside China, Sinopec Corp. maintained communication with shareholders and regulatory authorities. According to external regulatory laws and regulations, it formulated rules and procedures for information disclosure and disclosed information to the public periodically. The Company went through the inspection from such regulatory authorities as China Securities Regulatory Commission (CSRC), State-owned Assets Supervision and Administration Commission, Board of Supervisors outside-appointed by the State Council and National Audit Office.

5 INTERNAL SUPERVISION

The Board of Directors of Sinopec Corp. has established the Audit Committee to review financial report and internal control. The audit department is responsible for periodically reviewing branches (subsidiaries). Annual reports and internal audit reports would be subject to the review and approval of Audit Committee. The Company has established a system to punish and prevent corruption, strengthened the education on incorruptible administration, emphasized on daily supervision, inspection and efficiency supervision and business publicity, set up a hotline for report and on-line reporting website in supervision department, prepared procedures and standards for the handling of matters reported, and established protection system for informers. The Company registered and recorded the known court cases, and monitored such cases.

Sinopec Corp. has established a two-level internal control daily supervision system which combines comprehensive inspection of the head office with self-examination tests of branches (subsidiaries). In 2010, the Company prepared a detailed scheme for the inspection and assessment of internal control for the review of the management. Sufficient trainings and guidance were given to inspectors before the inspection. Upon the completion of on-site inspection, the Company summarized and analyzed the results, and reported defects to internal control leading group and the management respectively. The management prepared correcting measures and consulted with external auditors on all defects in internal control found in the inspection. Through tracking and re-examination by the Company, all internal control defects concerning financial report have been corrected prior to December 31, 2010, without significant internal control defects being identified. Other problems on management have been corrected or corresponding correcting measures have been formulated. The correction is in compliance with requirements.

This report has been viewed and approved at the 12th meeting of the Fourth Session of Board of Directors on 25 March 2011. The Board of Directors and all its members jointly and severally accept responsibility for the authenticity, accuracy and integrity of the report.

As a Chinese company listed in New York Stock Exchange, Sinopec Corp. engaged KPMG to audit internal control regarding financial report on 31 December 2010, pursuant to Sarbanes-Oxley Act of the United States. KPMG has audited internal control regarding financial report in accordance with the Auditing Standard No 5, issued by Public Company Accounting Oversight Board (United States). In its report, KMPG stated that the Company maintained, in all material aspects, effective internal control regarding financial report on 31 December 2010, according to standards in Internal Control-Integrated Framework issued by Committee of Sponsoring Organization of the Treadway Commission.

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of Sinopec Corp. is pleased to present their report for the year ended 31 December 2010 for review.

1 MEETINGS OF THE BOARD OF DIRECTORS

During the reporting period, eight Board meetings were held, details of which are as follows:

(1) The 4th meeting of the Forth Session of the Board of Directors was held by way of written resolution on 8 January 2010, at which the proposals about issuance of notes with a medium term denominated in US dollar within China and revision of Internal Control Manual (2010 version) were approved.

(2) The 5th meeting of the Fourth Session of the Board of Directors was held in the head quarter of Sinopec Corp. on 26 March 2010, whereby the matters regarding the Company performance of 2009 was reviewed and approved.

(3) The 6th meeting of the Fourth Session of the Board of Directors was held by way of written resolution on 28 April 2010, at which the First Quarterly Results of 2010 was reviewed and approved.

(4) The 7th meeting of the Fourth Session of the Board of Directors was held by way of written resolution on 8 June 2010, at which the proposal about adjusting the composition of the specialized committee under the Board of Directors was reviewed and approved.

(5) The 8th meeting of the Fourth Session of the Board of Directors was held by way of written resolution on 28 July 2010, at which the proposal on appointing Ling Yiqun as the Vice President was reviewed and approved.

(6) The 9th meeting of the Fourth Session of the Board of Directors was held in the head quarter of Sinopec Corp. on 20 August 2010, whereby the matters regarding the Company performance of the first half of 2010 was reviewed and approved.

(7) The 10th meeting of the Fourth Session of the Board of Directors was held on 28 October 2010, at which the Board approved the Third Quarterly Report of 2010, the proposal concerning issuance of super short-term commercial paper and the Rules concerning Risk Control on Connected Transactions of China Petroleum & Chemical Corporation and Sinopec Finance Co., Ltd.

(8) The 11th meeting of the Fourth Session of the Board of Directors was held by way of written resolution on 30 December 2010, at which the proposal on revising Internal Control Manual (2011 version)was reviewed and approved.

For details of each meeting, please refer to the announcements published in China Securities Journal, Shanghai Securities News and Securities Times on the next working day from holdings thereof and on website of Shanghai Securities Exchange, Hong Kong Stock Exchange, and the Company

IMPLEMENTATION OF RESOLUTIONS PASSED AT SHAREHOLDERS' MEETING BY THE BOARD OF DIRECTORS

During the reporting period, all members of the Board of Directors of Sinopec Corp. carried out their duties diligently and responsibly in accordance with relevant laws and regulations and the Articles of Association, duly implemented the resolutions passed at the shareholders' meetings, and accomplished the various tasks delegated to them by the shareholders' meetings.

3 ATTENDANCE OF THE BOARD MEETINGS

During the reporting period, Sinopec Corp. held eight Board meetings, the attendance of directors are as follows:

Name	Attendance in person (times)	Attendance by proxy (times)
Su Shulin	8	0
Wang Tianpu	8	0
Zhang Yaocang	8	0
Zhang Jianhua	8	0
Wang Zhigang	8	0
Cai Xiyou	8	0
Cao Yaofeng	8	0
Li Chunguang	8	0
Dai Houliang	8	0
Liu Yun	8	0
Li Deshui	8	0
Xie Zhongyu	8	0
Chen Xiaojin	7	1
Ma Weihua	4	1
Wu Xiaogen	5	0
Liu Zhongli	3	0
Ye Qing	3	0

Note: according to the regulations concerning the age of non-executive independent directors working in listed companies stimulated by related regulatory authorities, Mr. Liu Zhongli and Mr. Yeqing resigned from the position of non-executive independent director in April 2010. Mr. Ma Weihua and Mr. Wu Xiaogen were appointed as the non-executive independent director of the Forth Session of the Board of Directors in May 2010.

No directors were absent from the meeting of the Board of Directors in successive sessions.

4 MEETINGS OF PROFESSIONAL COMMITTEES

During the reporting period, the Audit Committee held four meetings while the Remuneration & Performance Evaluation Committee held one meeting, and all the members of these committees had attended the corresponding meetings. Details of those meetings are as follows:

(1) Meetings of the Audit Committee

a. The 3rd meeting of the Fourth Session of the Audit Committee was held in Beijing, China on 23 March 2010, whereby "Explanation on the Business Performance and Financial Positions for the year 2009", "Explanation on Audit and Adjustment Issues for 2009", the Financial Statements for 2009 as audited by KPMG Huazhen and KPMG respectively in accordance with ASBE and IFRS, the "Management Evaluation Report on Internal Control", the "Proposal on the Audit Expenses of KPMG Huazhen and KPMG for 2009", the "Proposal on the Engagement of Domestic and Overseas Auditors for 2010 and Submitting to Annual General Meeting of Shareholders for Approval and Authorizing Board of Directors to Determine their Remunerations", the "Reports on Auditing Work for 2009 and Plan of Auditing Work for 2010", were reviewed; the reports on auditing of financial report for 2009 by KPMG Huazhen and KPMG were heard and the "Opinions on Reviewing the Financial Statements for 2009 and related issues" was issued.

b. The 4th meeting of the Fourth Session of the Audit Committee was held by way of written resolution on 27 April 2010, whereby the "First Quarterly Report of 2010" was reviewed and the "Opinions on Reviewing the Financial Statements for the First Quarter of 2010" was issued.

c. The 5th meeting of the Fourth Session of the Audit Committee was held in Beijing, China on 18 August 2010, whereby the "Explanation on the Business Performance and Financial Positions for the First Half of 2010", the "Explanation on Audit and Adjustment Issues for the First Half of 2010", the Financial Statements for the First Half of 2010 as audited by KPMG Huazhen and KPMG respectively in accordance with ASBE and IFRS and "Report on Auditing Work Outline for the First Half Year of 2010 and Auditing Work Arrangement for the Second Half Year of 2010 " were reviewed; the report on auditing of financial report for the first half year of 2010 by KPMG Huazhen and KPMG was heard and "Opinions on Reviewing the Reports for the First Half of 2010" was issued.

d. The 6th meeting of the Fourth Session of the Audit Committee was held by way of written resolution on 26 October 2010, whereby the "Third Quarterly Report of 2010" was reviewed and the "Opinions on Reviewing the Third Quarterly Report of 2010" was issued.

(2) Meeting of the Remuneration and Performance Evaluation Committee

The 1st meeting of the Fourth Session of the Remuneration and Performance Evaluation Committee was held in Beijing, China on 23 March 2010, whereby the "Report on Implementation of the Rules of the Remuneration of

Directors, Supervisors and Other Senior Management for 2009 and Remuneration and Expenses of Directors and Supervisors of the Fourth Session" was reviewed and the "Opinions on Reviewing the Implementation of the Rules of the Remuneration of Directors, Supervisors and Senior Management for 2009 and Remuneration and Expenses of Directors and Supervisors of the Fourth Session" was issued.

5 PERFORMANCE

The financial results of the Company for the year ended 31 December 2010 prepared in accordance with IFRS and its financial position as at that date and the analysis are set out from page 139 to page 194 in this Annual Report.

6 DIVIDEND

At the 12th meeting of the Fourth Session of the Board of Directors of Sinopec Corp., the Board approved the proposal to declare a cash dividend of RMB 0.21 per share (including tax) in cash. The final cash dividend per share for distribution would be RMB0.13, the total cash dividend for the year of 2010 would be RMB18.208 billion. The distribution proposal will be implemented upon approval by the shareholders at the Annual General Meeting for 2010. The final dividends will be distributed on or before Thursday, 30 June 2011 to those shareholders whose names appear on the register of members of Sinopec Corp. at the close of business on Friday, 17 June 2011. The register of members of Sinopec Corp.'s H share will be closed from Monday, 13 June 2011 to Friday, 17 June 2011 (both dates are inclusive). In order to qualify for the final dividend for H shares, the shareholders must lodge all share certificates accompanied by the transfer documents with Hong Kong Registrars Limited, at 1712-1716 on 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Friday, 2011 for registration.

The dividend will be calculated and declared in RMB, and distributed to domestic shareholders in RMB and to foreign share holders in Hong Kong Dollar. The exchange rate for the dividend calculation in Hong Kong Dollar is based on the average basic exchange rate of RMB to Hong Kong Dollar declared by the People's Bank of China one week before dividend declaration.

The cash dividend declared by the Company in the last three years

	2010	2009	2008
Cash dividends (RMB/share)	0.21	0.18	0.12
Ratio accounting for the current net profit (%)	25.7	24.9	33.4

The cash dividend declared by the Company during the three years from 2008 to 2010 is RMB 0.51 per share, and the dividend from 2008 to 2010 as a percentage of average net profit in the three years is 82.79%. It fulfilled the refinancing conditions in the domestic securities market provided by the "Decisions on Modifying Provisions Concerning Cash Dividends of Listed Companies" issued by China Securities Regulatory Commission (CSRC).

7 MAIN SUPPLIERS AND CUSTOMERS

During the reporting period, the total amount of purchases from the five largest suppliers of Sinopec Corp. represented 40.7% of the total amount of purchase by Sinopec Corp., of which purchases from the largest supplier represented 22.3% of the total.

The total amount of sales to the five largest customers of Sinopec Corp. represented 8% of the total amount of sales of Sinopec Corp., of which sales to the largest customer represented 3% of the total.

During the reporting period, except for the connected transactions with the controlling shareholder, China Petrochemical Corporation, and its subsidiaries, as disclosed in Connected Transaction section of this Annual Report, none of the directors, supervisors of Sinopec Corp. or their associates or any shareholders holding over 5% shares of Sinopec Corp. had any interest in any of the above-mentioned major suppliers and customers.

8 BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of Sinopec Corp. as of 31 December 2010 are set out in note 29 to the financial statements prepared in accordance with IFRS in this annual report.

9 FIXED ASSETS

During the reporting period, changes to the fixed assets of Sinopec Corp. are set out in note 12 to the financial statements prepared in accordance with domestic financial report standards and note 17 to the financial statements prepared in accordance with IFRS in this annual report.

10 RESERVES

During the reporting period, changes to the reserves of Sinopec Corp. are set out in the Consolidated Statement of Changes in Equity in the financial statements prepared in accordance with IFRS in this annual report.

11 DONATIONS

During the reporting period, the amount of philanthropy donations made by Sinopec Corp. totaled around RMB 177 million.

12 PRE-EMPTIVE RIGHTS

Pursuant to the Articles of Association of Sinopec Corp. and the laws of the PRC, shareholders of Sinopec Corp. is not subject to any pre-emptive rights requiring it to issue new shares to its existing shareholders in proportion to their shareholdings.

13 REPURCHASE, SALES AND REDEMPTION OF SHARES

Sinopec Corp. issued RMB 30 billion of bond with warrants tradable in separate markets in February of 2008, and the warrants were due on 3rd March, 2010. During the excising period, a total of 188,292 warrants were excised, the proportion between the warrant and the share is 2:1 and the excising price is RMB 19.15. The number of ordinary shares was increased by 88,774 so that the total balance of shares of Sinopec Corp. increased from 86,702,439,000 to 86,702,527,774.

Use of proceeds from exercise of warrants

Unit: in RMB millions

Total proceeds	Project under Commitment	Project changed or not	Budgeted Investment	Proceeds from exercise of warrants within the reporting period	Gains generated	Progress on schedule or not	Return in line with projection or not
1.7	Ethylene Project in Zhenhai	No	1.7	1.7	In line with projection	On schedule	In line with projection

Save for the warrant above, during the reporting period, neither Sinopec Corp. nor any of its subsidiaries repurchased, sold or redeemed any securities of Sinopec Corp. or its subsidiaries.

14 MARKETING AND DISTRIBUTION

During the reporting period, the Company compared, analysed the Basic Standard for Enterprise Internal Control, Implementation Guidelines for Enterprise Internal Control, Application Guidelines for Enterprise Internal Control and the Manual, clause by clause, and made detailed amendment proposal. Upon reporting to and approval by the management, the Company incorporated all content of the Basic Standard and the Implementation Guidelines into the Manual (2011 edition) which was approved at the 11th meeting of the Fourth Session of the Board of Directors and came into effect on 1 January 2011.

15 RISK FACTORS

In the course of its production and operations, Sinopec Corp. actively takes various measures to avoid operational risks. However, in practice, it is not possible to prevent the occurrence of all risks and uncertainties below.

Variation in economic situation: The operating results of the Company are closely related to the economic situation of China and the world. Although global economy is on track of recovery after the financial crisis, it has not yet entered into a virtuous circle featured by stability and growth. The business of the Company may be adversely affected by such factors as the impact on export due to trade protectionism of some countries, impact on import which is likely to be resulted from regional trade agreements and etc..

Cyclical effects: The majority of the operational income of the Company comes from the sales of refined oil products and petrochemical products, and part of the operation and its related products are cyclic and are sensitive to macro-economy, cyclic changes of regional and global economy, the changes of the production capacity and output, demand of consumers, prices and supply of the raw materials, as well as prices and supply of the alternative products etc. Although the Company is an integrated energy and chemicals company, it can only counteract the adverse influences of periodicity of the industry to some extent.

Macroeconomic policies and government regulation: Although the government is gradually liberalizing the market entry regulations on petroleum and petrochemicals sector, the petroleum and petrochemical industries in China are still subject to entry regulations to a certain degree, which include: issuing crude oil and natural gas production license, setting the upper limit for retail prices of gasoline, diesel and other oil products, the imposing of the special oil income levy, formulation of import and export quotas and procedures, formulation of safety, quality and environmental protection standards; meanwhile, the changes in Macroeconomic and industry policies such as: further improvement in pricing mechanism of refined oil products, reforming and improvement in pricing mechanism of natural gas, and reforming in resource tax and environmental tax. Such regulations may have material effect on the operations and profitability of the Company.

Change of environmental legal requirements: Our production activities generate waste water, gas and solid. The Company has built up supporting effluent treatment systems to prevent and reduce pollution. The relevant government authorities may issue and implement stricter environmental protection laws and regulations, adopt stricter environment protection standards. Under the aforesaid situation, the Company may incur more expenses in relation to the environment protection accordingly.

Uncertainties with additional oil and gas reserves: The Company's ability to achieve sustainable development is dependent to a certain extent on our ability in discovering or acquiring additional oil and natural gas reserves. To obtain additional oil and natural gas reserves the Company faces inherent risks associated with exploration and development and/or with acquiring activities. The Company has to invest a large amount of money with no guarantee of certainty. If the Company fails to acquire additional reserves through further exploration and development or acquisition activities, the oil and natural gas reserves and production of the Company will decline over time which will adversely affect the Company's financial situation and operational performance.

External purchase of crude oil: A significant amount of the Company's demand for crude oil is satisfied through external purchases. In recent years, especially impacted by the international financial crisis, the crude oil prices are subject to wild fluctuations, and the supply of crude oil may even be interrupted due to major incidents. Although the Company has taken flexible counter measures, it may not fully shield from risks associated with any wild fluctuation of international crude oil prices and disruption of supply of crude oil.

Operational risks and natural disasters: The process of petroleum chemical production is exposed to risks of inflammation, explosion and environmental pollution and is vulnerable to natural disasters. Such contingencies may cause serious impact to the society, grievous injuries to people and major financial losses to the Company. The Company has implemented a strict HSE management system, in an effort to avoid such risks as much as possible. Meanwhile, the main assets and inventories of the Company have been insured. However, such measures may not shield the Company from financial losses or adverse impact resulting from such contigencies.

Investment risk: Petroleum and chemical sector is a capital intensive industry. Although the Company adopted a prudent investment strategy and conducted rigorous feasibility study on each investment project, certain investment risk may exist resulting that expected returns may not be achieved due to major changes in factors such as market environment, prices of equipment and raw materials, and construction period during the implementation of the projects.

Currency risk: At present, China implements an administered floating exchange rate regime based on market supply and demand which is regulated with reference to a basket of currencies in terms of the exchange rate of RMB. As the Company outsources a significant portion of crude oil in foreign currency which are based on US dollar-denominated prices, fluctuations in the value of Renminbi against US dollars and certain other foreign currencies may affect our purchasing costs of crude oil.

By order of the Board
Su Shulin
Chairman

Beijing, China, 25 March 2011

REPORT OF THE SUPERVISORY BOARD

Mr. Wang Zuoran, Chairman of the Board of Supervisors

Dear shareholders:

During the reporting period, the Board of Supervisors, following the principle of good faith, diligently performed the supervision responsibilities, actively participates in the supervision process, carefully reviews significant decisions in the interest shareholders and the Company in accordance with Company Law of the People' s Republic of China and "Articles of Association of Sinopec Corp".

During the reporting period, the Board of Supervisors held four meetings.

On 26 March, 2010, the fourth meeting of the Fourth Session of the Board of Supervisors was held and the following proposals were reviewed and approved: Annual Financial Report of Sinopec Corp. for 2009, Annual Report of Sinopec Corp. for 2009, Sustainable Development Report of Sinopec Corp. for 2009, the Proposal in respect of the acquisition of certain equity interest and assets from Sinopec International Petroleum Exploration and Production Corporation, Report on the Work of Board of Supervisors of Sinopec Corp. for 2009, and relative resolutions were passed at the meeting.

On 28 April, 2010 this year, the fifth meeting of the fourth session of the Board of Supervisors was held and the First Quarter Report of Sinopec Corp. for 2010 was reviewed and approved.

On 20 August, 2010 this year, the sixth meeting of the fourth session of the Board of Supervisors was held. The Interim Financial Statement of Sinopec Corp. for 2010 and the Interim Report of Sinopec Corp. for 2010 were reviewed and approved. And relative resolutions were passed at the meeting.

On 28 October, 2010, the seventh meeting of the fourth session of the Board of Supervisors was held and the Third Quarter Report of Sinopec Corp. for 2010 was reviewed and approved.

During the reporting period, certain members of the Board of supervisors paid overseas visits to SABICS CO., ENICO and DeutchBank exchanging experiences on corporate governance, internal control and human resources management. They also attended trainings organised by regulators, so as to further improve their capabilities in perforing relavant duties.

Through process supervision on significant decision-makings, routine supervision on the operations, the Board of Supervisors hold the following beliefs: In response to the complex domestic and international environment, Sinopec Corp. adhered to its principles in operation of "standardization, professionalism and integrity" actively enlarged its resources, reinforced the strength of market development, and optimized its operations, which resulting in steady increase in productions and improvement in operations with good operating results.

Firstly, the Board of Directors diligently fulfilled its obligations and exercised its rights under the PRC Company Law and the Company's Articles of Association, and made scientific decisions on major issues concerning production and operation, reforms and development, and so on; and the senior management carried out the resolutions made by the Board of Directors, optimized the internal control, reinforced precision management, strived to lower the costs and enhance efficiency and strengthened the technological innovation. All of the efforts enabled the operational results achieved the highest level in history. The Board did not discover any behavior of any directors or senior management that violated laws, regulations, the Articles of Association, or was detrimental to the interests of Sinopec Corp. or the shareholders.

Secondly, the annual financial statement issued by the Company, prepared in accordance with ASBE and IFRS respectively, truly and fairly reflected the Company's financial status and operational performance. In accordance with ABSE, the Company's operating income was RMB 1,913.182 billion, total profit was RMB 102.178 billion, and the net profit attributable to equity shareholders was RMB 70.713 billion. In accordance with IFRS, the Company's turnover and other operating revenue was RMB 1,913.182 billion, earnings before tax was RMB 103.693 billion, and net profit attributable to equity shareholders was RMB 71.8 billion.

Thirdly, all connected transactions conducted were in compliance with relevant regulatory requirements in domestic and overseas listing destinations. All connected transactions between Sinopec Corp. and Sinopec Group were in conformity with the relevant rules and regulations of Hong Kong Stock Exchange and Shanghai Stock Exchange. All the connected transactions were conducted on the basis of fair and reasonable price and in line with the principle of "fairness, justice and openness". Nothing in these transactions was found to be detrimental to the interests of Sinopec Corp. or the non-connected shareholders.

Forthly, the Company also timely disclosed the material information according to the regulations of securities supervisory authorities, and the information disclosed was true, accurate and complete.

In addition, the Supervisory Board reviewed the Company's Report on "Internal Control and Self Assessment" and came to a conclusion that such report was objective, comprehensive and accurate, therefore approved unanimously.

In the year ahead, the Board of Supervisors will continue to stick to the principles of honesty and integrity and perform the supervisory duty diligently in areas of significant decision-making, internal control, connected transactions and information disclosure. This Board will perform in the best interests of the Company and its shareholders, for the steady and healthy development in 2011.

Wang Zuoran
The Chairman of the Board of Supervisors

Beijing, China

25 March, 2011

47

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

1. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) Directors

Su Shulin, aged 48, Chairman of Board of Directors of Sinopec Corp., President and Secretary of Communist Party of China (CPC) Leading Group of China Petrochemical Corporation. Mr. Su is a professor level senior engineer and obtained a master degree. In January 1999, he was appointed as the President and Deputy Secretary of CPC Committee of Daqing Petroleum Administration Bureau; in October 1999, he served as Vice President of PetroChina Company Limited, and concurrently as Chairman, President, and Secretary of CPC Committee of Daqing Oilfield Company Limited; in August 2000, he served as Vice President, Member of CPC Leading Group of China National Petroleum Corporation (CNPC) and concurrently as Vice President of PetroChina Company Limited and Chairman, President and Secretary of CPC Committee of Daqing Oilfield Company Limited; in November 2002, he concurrently served as Board Director of PetroChina Company Limited; in December 2002, he served as Vice President, Member of CPC Leading Group of CNPC, and concurrently as Board Director and Senior Vice President of PetroChina Company Limited; in September 2006, he was appointed as Member of Liaoning CPC Provincial Committee and its Standing Committee; in October 2006, he was appointed as Member of Liaoning CPC Provincial Committee and its Standing Committee and Director of its Organization Department; in June 2007, he was appointed as President and Secretary of CPC Leading Group of China Petrochemical Corporation. In August 2007, he was elected as Chairman of Board of Directors of Sinopec Corp. Mr. Su was elected as Alternative Member of 16th and 17th Session of CPC Central Committee.

Wang Tianpu, aged 48, Vice Chairman of Board of Directors and President of Sinopec Corp. Mr. Wang is a professor level senior engineer and obtained a PhD Degree. In March 1999, he was appointed as Vice President of Qilu Petrochemical Company, China Petrochemical Corporation; in February 2000, he was appointed as Vice President of Sinopec Qilu Branch Company; in September 2000, he was appointed as President of Sinopec Qilu Branch Company; in August 2001, he was appointed as Vice President of Sinopec Corp.; in April 2003, he was appointed as Senior Vice President of Sinopec Corp.; in March 2005, he was appointed as President of Sinopec Corp.; in May 2006, he was elected as Board Director and appointed as President of Sinopec Corp.; in May 2009, he was elected as Vice Chairman of Board of Directors and President of Sinopec Corp.

Zhang Yaocang, aged 57, Vice Chairman of the Board of Directors of Sinopec Corp. and Vice President of China Petrochemical Corporation. Mr. Zhang is a professor level senior engineer and obtained a graduate degree of Graduate School. In November 1990, he was appointed as Deputy Director General of Bureau of Petroleum Geology and Marine Geology, Ministry of Geology and Mineral Resources (MGMR); in February 1994, he was appointed as Secretary of CPC Committee and Deputy Director General of Bureau of Petroleum Geology and Marine Geology, MGMR; in June 1997, he was appointed as Deputy Secretary of CPC Leading Group and Executive Vice President of China National Star Petroleum Corporation; in April 2000, he was appointed as Assistant to President of China Petrochemical Corporation and concurrently as President of Sinopec Star Petroleum Co., Ltd.; in August 2000, he was appointed concurrently as Secretary of CPC Committee of Sinopec Star Petroleum Co. Ltd; in July 2001, he was appointed as Vice President of China Petrochemical Corporation; in May 2009, he was elected as Vice Chairman of the Board of Directors of Sinopec Corp.

48

Zhang Jianhua, aged 46, Board Director and Senior Vice President of Sinopec Corp. Mr. Zhang is a professor level senior engineer and obtained a master degree. In April 1999, he was appointed as Vice President of Shanghai Gaoqiao Petrochemical Company, China Petrochemical Corporation; in February 2000, he was appointed as Vice President of Sinopec Shanghai Gaoqiao Branch Company; in September 2000, he was appointed as President of Sinopec Shanghai Gaoqiao Branch Company; in April 2003, he was appointed as Vice President of Sinopec Corp.; in November 2003, he was appointed concurrently as Director General of Production and Operation Management Department of Sinopec Corp.; in March 2005, he was appointed as Senior Vice President of Sinopec Corp.; and in May 2006, he was elected as Board Director and appointed as Senior Vice President of Sinopec Corp.

Wang Zhigang, aged 53, Board Director and Senior Vice President of Sinopec Corp. Mr. Wang is a professor level senior engineer and obtained a PhD Degree. In February 2000, he was appointed as Vice President of Sinopec Shengli Oilfield Co., Ltd.; in June 2000, he served as Board Director and President of Shengli Oilfield Co., Ltd.; in November 2001, he was appointed temporally as Deputy Director General and Deputy Secretary of CPC Leading Group of Economic and Trade Commission, Ningxia Hui Autonomous Region; in April 2003, he was appointed as Vice President of Sinopec Corp.; in June 2003, he was appointed concurrently as Director General of Oilfield Exploration and Production Department of Sinopec Corp.; in March 2005, he was appointed as Senior Vice President of Sinopec Corp.; in May 2006, he was elected as Board Director and appointed as Senior Vice President of Sinopec Corp.

Cai Xiyou, aged 49, Board Director and Senior Vice President of Sinopec Corp. Mr. Cai is a professor level senior economist and obtained a master degree. In June 1995, he was appointed as Vice President of Jingzhou Petrochemical Corporation of the former China Petrochemical Corporation; in May 1996, he was appointed as Vice President of Dalian West Pacific Petrochemical Corporation; in December 1998, he was appointed as Vice President of Sinopec Sales Co., Ltd.; in June 2001, he was appointed as Executive Vice President of Sinopec Sales Co., Ltd.; in December 2001, he served as Board Director and President of China International United Petroleum & Chemicals Co., Ltd. (UNIPEC); in April 2003, he was appointed as Vice President of Sinopec Corp.; in November 2005, he was appointed as Senior Vice President of Sinopec Corp.; in May 2009, he was elected as Board Director and appointed as Senior Vice President of Sinopec Corp.

Cao Yaofeng, aged 57, Board Director of Sinopec Corp. and Vice President of China Petrochemical Corporation. Mr. Cao is a professor level senior engineer and obtained a master degree. In April 1997, he was appointed as Deputy Director General of Shengli Petroleum Administration Bureau; in May 2000, he served as concurrently as Vice Chairman of Board of Directors of Sinopec Shengli Oilfield Co., Ltd.; in December 2001, he served as Board Director and President of Sinopec Shengli Oilfield Co., Ltd.; in December 2002, he served as Director Genaral of Shengli Petroleum Administration Bureau of China Petrochemical Corporation and Chairman of Board of Directors of Shengli Oilfield Company Limited; from April 2003 to May 2006, he served as Employee Representative Board Director of Sinopec Corp.; in October 2004, he was appointed as Assistant to President of China Petrochemical Corporation; in November 2005, he was appointed as Vice President of China Petrochemical Corporation; in May 2009, he was elected as Board Director of Sinopec Corp.

Li Chunguang, aged 55, Board Director of Sinopec Corp. and Vice President of China Petrochemical Corporation. Mr. Li is a professor level senior engineer and obtained a university diploma. In August 1991, he was appointed as Deputy General Manager of Sinopec Sales Company North China Branch; in October 1995, he was appointed as Deputy General Manager of Sinopec Sales Company; in June 2001, he was appointed as General Manager of Sinopec Sales Co., Ltd.; in December 2001, he was appointed as Director General of Oil Product Sales Department of Sinopec Corp.; in April 2002 he was elected as Chairman of Board of Directors and General Manager of Sinopec Sales Co., Ltd.; in April 2003, he was appointed as Vice President of Sinopec Corp.; in November 2005, he was appointed as Vice President of China Petrochemical Corporation; in May 2009, he was elected as Board Director of Sinopec Corp.

Dai Houliang, aged 47, Board Director and Senior Vice President of Sinopec Corp. Mr. Dai is a professor level senior engineer and obtained a PhD Degree. In December 1997, he was appointed as Vice President of Yangzi Petrochemical Corporation; in April 1998, he served as Board Director and Vice President of Yangzi Petrochemical Co., Ltd.; in July 2002, he served as Vice Chairman of Board of Directors, President of Yangzi Petrochemical Co., Ltd. and Board Director of Yangzi Petrochemical Corporation; in December 2003, he served as Chairman and President of Yangzi Petrochemical Co., Ltd. and concurrently as Chairman of Yangzi Petrochemical Corporation; in December 2004, he served as concurrently as Chairman of Board of Directors of BASF-YPC Company Limited; in September 2005, he was appointed as Deputy CFO of Sinopec Corp.; in November 2005, he was appointed as Vice President of Sinopec Corp.; in May 2006, he served as Board Director, Senior Vice President and concurrently as CFO of Sinopec Corp.; and in May 2009, he was elected as Board Director and appointed as Senior Vice President of Sinopec Corp.

Liu Yun, aged 54, Board Director of Sinopec Corp., Chief Accountant of China Petrochemical Corporation. Mr. Liu is a senior accountant and obtained a master degree. In December 1998, he was appointed as Deputy Director General of Financial Department of China Petrochemical Corporation; in February 2000, he was appointed as Deputy Director General of Financial Department of Sinopec Corp.; in January 2001, he was appointed as Director General of Financial Department of Sinopec Corp.; in June 2006, he was appointed as Deputy CFO of Sinopec Corp.; in February 2009, he was appointed as Chief Accountant of China Petrochemical Corporation; and in May 2009, he was elected as Board Director of Sinopec Corp.

Li Deshui, aged 66, Independent Non-executive Director of Sinopec Corp. Mr. Li is a senior engineer, a research fellow, a part time professor at Schools of Economics at both Peking University and Renmin University of China, and obtained a university diploma. In 1992, he was appointed as Deputy Director General of National Economy Comprehensive Department of State Planning Commission; in May 1996, he was appointed as Director General of National Economy Comprehensive Department of State Planning Commission; in November 1996, he was appointed as Vice Mayer of Chongqing City in Sichuan Province; in March 1997, he was appointed as Vice Mayer of Chongqing Municipality directly under the Central Government; in November 1999, he was appointed as Deputy Director General and Member of CPC Leading Group of State Council Research Office; in April 2002, he was appointed as Secretary of CPC Leading Group and Vice President of China International Engineering Consulting Corporation; in March 2003, he was appointed as Secretary of CPC Leading Group and Director General of State Statistics Bureau, Member of Monetary Policy Committee of the People's Bank of China, and President of China Statistics Institute; in March 2005, he was elected as Vice Chairman of 36th Session United Nations Statistics Commission; in March 2005, he served as Member of 10th Session of Chinese People's Political Consultative Conference (CPPCC); in April 2006, he was appointed as Member of Economy Commission of CPPCC; in March 2006, he was appointed as Consultant of State Statistics Bureau; in March 2008, he served as Member of 11th Session CPPCC and Deputy Director General of its Economy Commission; in May 2006, he was elected as Independent Non-executive Director of Sinopec Corp.

Xie Zhongyu, aged 67, Independent Non-executive Director of Sinopec Corp. Mr. Xie is a senior engineer and obtained a university diploma. In May 1986, he was appointed as Deputy Director General for both Investigation and Research Office and Policy Research Office in Ministry of Chemical Industry; in November 1988, he was appointed as Director General of Department of Policy, Laws & Regulations of Ministry of Chemical Industry; in December 1991, he was appointed as Director General of Department of Policy, Laws & Regulations of Ministry of Chemical Industry; in September 1993, he was appointed as Director General of General Office of Ministry of Chemical Industry; in June 1998, he was appointed as Deputy Director General, Member of CPC Leading Group of State Petroleum and Chemical Industry Bureau; from June 2000 to December 2006, he served as Chairman of the Board of Supervisors for Key Large-scaled State Owned Enterprises; in October 2007, he was elected as Board Director of Nuclear Power Technology Corporation; and in May 2009, he was elected as Independent Non-executive Director of Sinopec Corp.

Chen Xiaojin, aged 66, Independent Non-executive Director of Sinopec Corp. Mr. Chen is a senior engineer (research fellow level) and obtained a university diploma. In December 1982, he was appointed as President of Tianjin Ship Industry Corporation; in January 1985, he was appointed successively as Vice President and President of CNOOC Platform Corporation; in February 1987, he was appointed successively as Director General of Operation Department, Director General of Foreign Affairs Bureau, Director General of International Affairs Department in China State Shipbuilding Corporation and Deputy President of China State Shipbuilding Trading Company; in December 1988, he was appointed as Vice President of China State Shipbuilding Corporation; in January 1989, he was appointed concurrently as President of China State Shipbuilding Trading Company; in October 1996, he was elected as concurrently as Chairman of Board of Directors of China State Shipbuilding Trading Company; from June 1996 to July 2008, he served as President and Secretary of CPC Leading Group of China State Shipbuilding Corporation; in May 2009, he was elected as Independent Non-executive Director of Sinopec Corp.

Ma Weihua, aged 62, Independent Non-executive Director of Sinopec Corp. Mr. Ma is a senior economist and obtained a PhD Degree. In May 1988, he was appointed as the Deputy Director of the General Affairs Office of the People's Bank of China ("PBOC"); in March 1990, he was appointed as the Deputy Director of Fund Planning Department of PBOC; in October 1992, he was appointed as the branch President and Secretary of the CPC Leading Group of the Hainan Branch of PBOC; in January 1999, he was appointed as the Director, Governor and Secretary of the CPC Leading Group of China Merchants Bank; and in May 2010, he was elected as Independent Non-executive Director of Sinopec Corp.

Wu Xiaogen, aged 45, Independent Non-executive Director of Sinopec Corp. Mr. Wu is a research fellow and obtained a PhD Degree. In April 1998, he was appointed as the General Manager Assistant and Deputy General Manager of Securities Business Department of China Jingu International Trust and Investment Ltd.; in March 1999, he was appointed as the Deputy General Manager of Securities Management Head-Office of China Science & Technology International Trust and Investment Corporate, and concurrently as the General Manager of Institutional Management Department of this Corporate; in July 2000, he was the head of Audit Teaching and Research unit of School of Accountancy of Central University of Finance and Economics; in September 2003, he served as the Deputy Director of School of Accountancy of Central University of Finance and Economics; in November 2004, he was appointed as the Chief Accountant of China First Heavy Industries; from May 2005 to May 2008, he was appointed as the Independent Non-executive Director of Heilongjiang SunField Science and Technology Co., Ltd.; from January 2003 to January 2009, he was appointed as the Independent Non-executive Director of Beijing AriTime Intelligent Control Co., Ltd.; in March 2010, he was appointed as the Independent Non-executive Director of China Eastern Airlines Co., Ltd.; and in May 2010, he was elected as the Independent Non-executive Director if Sinopec Corp.

THE MEMBERS OF THE FOURTH SESSION OF THE BOARD OF DIRECTORS

Name	Gender	Age	Position with Sinopec Corp.	Tenure	Remuneration paid by Sinopec Corp. in 2010 (RMB10,000, before tax)	Whether paid by the holding Company	Shares held at Sinopec Corp (as at 31 December)	
							2010	2009
Su Shulin	Male	48	Chairman	2009.05-2012.05	—	Yes	0	0
Wang Tianpu	Male	48	Vice Chairman, President	2009.05-2012.05	96.74	No	0	0
Zhang Yaocang	Male	57	Vice Chairman	2009.05-2012.05	—	Yes	0	0
Zhang Jianhua	Male	46	Board Director, Senior Vice President	2009.05-2012.05	96.74	No	0	0
Wang Zhigang	Male	53	Board Director, Senior Vice President	2009.05-2012.05	96.74	No	0	0
Cai Xiyou	Male	49	Board Director, Senior Vice President	2009.05-2012.05	96.74	No	0	0
Cao Yaofeng	Male	57	Board Director	2009.05-2012.05	—	Yes	0	0
Li Chunguang	Male	55	Board Director	2009.05-2012.05	—	Yes	0	0
Dai Houliang	Male	47	Board Director, Senior Vice President	2009.05-2012.05	96.74	No	0	0
Liu Yun	Male	54	Board Director	2009.05-2012.05	—	Yes	0	0
Li Deshui	Male	66	Independent Non-Executive Director	2009.05-2012.05	24(Director's Fees)	No	0	0
Xie Zhongyu	Male	67	Independent Non-Executive Director	2009.05-2012.05	24(Director's Fees)	No	0	0
Chen Xiaojin	Male	66	Independent Non-Executive Director	2009.05-2012.05	24(Director's Fees)	No	0	0
Ma Weihua	Male	62	Independent Non-Executive Director	2010.05-2012.05	14(Director's Fees)	No	0	0
Wu Xiaogen	Male	45	Independent Non-Executive Director	2010.05-2012.05	14(Director's Fees)	No	0	0

(2) SUPERVISORS

Wang Zuoran, aged 60, Chairman of Board of Supervisors of Sinopec Corp., Leader of Discipline Inspection Group for CPC Leading Group of China Petrochemical Corporation. Mr. Wang is a professor level senior economist and obtained a university diploma. In October 1994, he was appointed as Vice President and Secretary of CPC Committee of Shengli Petroleum Administration Bureau; in February 2000, he was appointed as Assistant to the President of China Petrochemical Corporation; in July 2001, he was appointed as Leader of Discipline Inspection Group for CPC Leading Group of China Petrochemical Corporation; in February 2000, he was elected as Supervisor of Sinopec Corp.; and in April 2003, he was elected as Chairman of Board of Supervisors of Sinopec Corp.

Zhang Youcai, aged 69, Vice Chairman of Board of Supervisors of Sinopec Corp. and Independent Supervisor. Mr. Zhang is a professor and obtained a university diploma. In February 1983, he was successively appointed as Vice Mayer, Deputy Secretary of CPC committee, and Mayer of Nantong City; in December 1989, he was appointed as Vice Minister and Member of CPC Leading Group of Ministry of Finance (From May 1994 to March 1998, he served concurrently as Director General of National State-Owned Assets Administration); in March 2003, he was elected as Standing Committee Member of 10th Session of National People's Congress (NPC) and Deputy Director General of Finance & Economy Commission of NPC; in April 2003, he was elected as Independent Supervisor of Sinopec Corp.; and in May 2006, he served as Vice Chairman of Board of Supervisors and Independent Supervisor of Sinopec Corp.

Geng Limin, aged 56, Supervisor of Sinopec Corp., Director General of Supervision Department of Sinopec Corp., Vice Leader of Discipline Inspection Group for CPC Leading Group of China Petrochemical Corporation, Director General of Supervision Bureau of China Petrochemical Corporation. Mr. Geng is a senior administration engineer and obtained a college diploma. In February 2000, he was appointed as Deputy Director General of Supervision Department of Sinopec Corp. and Deputy Director General of Supervision Bureau of China Petrochemical Corporation; in January 2007, he was appointed as Deputy Secretary of CPC Committee, Secretary of Discipline Inspection Committee as well as Trade Union Chairman of Sinopec Chemical Products Sales Company; in August 2008, he was appointed as Director General of Supervision Department of Sinopec Corp. and Vice Leader of Discipline Inspection Group for CPC Leading Group of China Petrochemical Corporation and Director General of Supervision Bureau of China Petrochemical Corporation; and in May 2009, he was elected as Supervisor of Sinopec Corp.

Zou Huiping, aged 50, Supervisor of Sinopec Corp. and Director General of Auditing Department of Sinopec Corp.. Mr. Zou is a professor level senior accountant and obtained a university diploma. In November 1998, he was appointed as Chief Accountant in Guangzhou Petrochemical General Plant of China Petrochemical Corporation; in February 2000, he was appointed as Deputy Director General of Finance & Assets Department of China Petrochemical Corporation; in December 2001, he was appointed as Deputy Director General of Finance & Planning Department of China Petrochemical Corporation; in March 2006, he was appointed as Director General of Finance & Assets Department of Assets Management Co., Ltd. of China Petrochemical Corporation; in March 2006, he was appointed as Director General of Auditing Department of Sinopec Corp.; and in May 2006, he was elected as Supervisor of Sinopec Corp.

Li Yonggui, aged 70, Independent Supervisor of Sinopec Corp. Mr. Li is a senior economist, a Certified Public Accountant (CPA) and obtained a university diploma. In February 1985, he was appointed as Deputy Director General of Taxation Administration of Ministry of Finance; in December 1988 he was appointed as Chief Economist in State Taxation Administration; in April 1991, he was appointed as Deputy Director General of State Taxation Administration;in February 1995, he was appointed as Chief Economist of State Taxation Administration; in April 2000, he started to serve as President of Chinese Certified Tax Agents Association; in July 2008, he started to serve as Consultant of Chinese Certified Tax Agents Association; in November 2004, he started to serve as Vice President of the Chinese Institution of Certified Public Accountants; and in April 2003, he was elected as Independent Supervisor of Sinopec Corp.

Zhou Shiliang, aged 53, Employee Representative Supervisor of Sinopec Corp. and Director General of Personnel Departments of Sinopec Corp.. Mr. Zhou is a professor level senior engineer and obtained a master degree. In February 2000, he was appointed as Deputy Director General of Yunnan-Guizhou-Guangxi Petroleum Exploration Bureau; in September 2000, he was appointed as President of Sinopec Yunnan-Guizhou-Guangxi Oilfield Company;in April 2002, he was appointed as Secretary of CPC Committee and Vice President in Sinopec South Exploration & Development Company; in April 2006, he was appointed as Secretary of CPC Committee and Deputy Director General in Sinopec Henan Petroleum Exploration Bureau; in November 2007, he was appointed as Director General of Sinopec Personnel Department of Sinopec Corp.; and in May 2009, he was elected as Employee Representative Supervisor of Sinopec Corp.

Chen Mingzheng, aged 53, Employee Representative Supervisor of Sinopec Corp., Vice President of Sinopec Northwest Oilfield Company. Mr. Chen is a senior engineer and a graduate from Postgraduate School. In November 2000, he was appointed as Deputy Director General of North China Petroleum Bureau under Sinopec Star Petroleum Co. Ltd.; in June 2003, he was appointed as Deputy Director General of North China Petroleum Bureau under China Petrochemical Corporation; in October 2004, he was appointed as Secretary of CPC Committee in North China Petroleum Bureau under China Petrochemical Corporation; in March 2008, he was appointed as Vice President of Sinopec Northwest Oilfield Company; in May 2009, he was elected as Employee Representative Supervisor of Sinopec Corp.

Jiang Zhenying, aged 46, Employee Representative Supervisor of Sinopec Corp., General Director (General Manager), Executive Director and Deputy Secretary of CPC Committee of Sinopec Supplies & Equipment Department (China Petrochemical International Co., Ltd.). Mr. Jiang is a professor level senior economist and obtained a Doctor Degree. In December 1998, he was appointed as the Deputy General Manager of the China Petrochemical Supplies & Equipment Co., Ltd.; in February 2000, he was appointed as the Vice Director of Sinopec Supplies & Equipment Department; in December 2001, he was appointed as the Director of Sinopec Supplies & Equipment Department and in November 2005, concurrently held the positions of Chairman, General Manger and Secretary of CPC Committee of China Petrochemical International Co., Ltd.; in March 2006, he was appointed as the Director (General Manager), executive director and secretary of the CPC committee of Sinopec Supplies & Equipment Department (China Petrochemical International Co., Ltd.); and in December 2010, he was elected as the Employee Representative Supervisor of Sinopec Corp.

Yu Renming, aged 47, Employee Representative Supervisor of Sinopec Corp., General Director of Sinopec Production Management Department. Mr. Yu is a professor level senior engineer and obtained a Graduate Degree. In June 2000, he was appointed as the Deputy General Manager of Sinopec Zhenhai Refining & Chemical Co., Ltd.; in June 2003, he was appointed as the Board Director and Deputy General Manager of Sinopec Zhenhai Refining & Chemical Co., Ltd.; in September 2006, he was appointed as the Deputy Manager of Sinopec Zhenhai Refining & Chemical Company; in September 2007, he was appointed as the Manager and the Vice Secretary of CPC committee of Sinopec Zhenhai Refining & Chemical Company; in January 2008, appointed as the Director of Sinopec Production Management Department; and in December 2010, he was elected as Employee Representative Supervisor of Sinopec Corp.

THE MEMBERS OF THE FOURTH SESSION OF THE BOARD OF SUPERVISORS:

Name	Gender	Age	Position with Sinopec Corp.	Tenure	Remuneration paid by Sinopec Corp. in 2010 (RMB10,000, before tax)	Whether paid by the holding Company	Shares held at Sinopec Corp (as at 31 December)	
							2010	2009
Wang Zuoran	Male	60	Chairman, Supervisory Board	2009.05-2012.05	—	Yes	0	0
Zhang Youcai	Male	69	Vice Chairman, Independent Supervisor	2009.05-2012.05	24 (Supervisor's Fees)	No	0	0
Geng Limin	Male	56	Supervisor	2009.05-2012.05	—	Yes	0	0
Zou Huiping	Male	50	Supervisor	2009.05-2012.05	47.25	No	0	0
Li Yonggui	Male	70	Independent Supervisor	2009.05-2012.05	24 (Supervisor's Fees)	No	0	0
Zhou Shiliang	Male	53	Employee Representative Supervisor	2009.05-2012.05	45.7	No	0	0
Chen Mingzheng	Male	53	Employee Representative Supervisor	2009.05-2012.05	47.94	No	0	0
Jiang Zhenying	Male	46	Employee Representative Supervisor	2010.05-2012.05	2.87	No	0	0
Yu Renming	Male	47	Employee Representative Supervisor	2010.05-2012.05	3.18	No	0	0

(3) OTHER MEMBERS OF SENIOR MANAGEMENT

Wang Xinhua, aged 55, CFO of Sinopec Corp. and concurrently as Director General of Financial Department of Sinopec Corp. Mr. Wang is a professor level Senior accountant and obtained a university diploma. In January 2001, he was appointed as Deputy Director General of Finance & Assets Department of China Petrochemical Corporation; in December 2001, he was appointed as Deputy Director General of Finance & Planning Department of China Petrochemical Corporation; in October 2004, he was appointed as Director General of Finance & Planning Department of China Petrochemical Corporation; in May 2008, he was appointed as Director General of Financial Department of China Petrochemical Corporation; in March 2009, he was appointed as Director General of Financial Department of Sinopec Corp.; in May 2009, he was appointed as CFO of Sinopec Corp.

Zhang Kehua, aged 57, Vice President of Sinopec Corp. and concurrently as Director General of Engineering Department of Sinopec Corp. Mr. Zhang is a professor level senior engineer and obtained a master degree. In February 1994, he was appointed as Vice President of No.3 Construction Company of the former China Petrochemical Corporation; in April 1996, he was appointed as Deputy Director General of Engineering & Construction Department (concurrently Vice President of Engineering & Construction Co., Ltd.) of the former China Petrochemical Corporation; in December 1998, he was appointed as Deputy Director General of Engineering & Construction Department of China Petrochemical Corporation; in September 2002, he was appointed as Director General of Engineering & Construction Department of China Petrochemical Corporation; in June 2007, he was appointed as Director General of Engineering Department of Sinopec Corp.; in May 2006, he was appointed as Vice President of Sinopec Corp.

Zhang Haichao, aged 53, Vice President of Sinopec Corp. and concurrently as Chairman of Board of Directors and General Manager of Sinopec Sales Co., Ltd. Mr. Zhang is a professor level senior economist and obtained a mater degree. In March 1998, he was appointed as Deputy General Manager of Zhejiang Petroleum Corporation; in September 1999, he was appointed as General Manager of Zhejiang Petroleum Corporation; in February 2000, he was appointed as General Manager of Sinopec Zhejiang Petroleum Co., Ltd.; in April 2004, he served as Chairman of Board of Directors of Sinopec-BP Zhejiang Petroleum Sales Co., Ltd.; in October 2004, he served as Secretary of CPC Committee, Vice Chairman of Board of Directors, and Deputy General Manager of Sinopec Sales Co., Ltd.; in November 2005 he served as Secretary of CPC Committee, Chairman of Board of Directors, and Manager of Sinopec Sales Co., Ltd.; in June 2006, he served as Chairman of Board of Directors, and General Manager of Sinopec Sales Co., Ltd.; in April 2003, he was elected as Employee Representative Supervisor of Sinopec Corp. and in November 2005, he was appointed as Vice President of Sinopec Corp.

Jiao Fangzheng, aged 48, Vice President of Sinopec Corp. and concurrently as General Director of Sinopec Exploration and Production Department. Mr. Jiao is a professor level senior engineer and obtained a PhD Degree. In January 1999, he was appointed as Chief Geologist in Zhongyuan Petroleum Exploration Bureau of China Petrochemical Corporation; in February 2000, he was appointed as Vice President and Chief Geologist of Sinopec Zhongyuan Oilfield Company; in July 2000, he was appointed as Deputy Director General of Sinopec Petroleum Exploration & Development Research Institute; in March 2001, he was appointed as Deputy Director General of Sinopec Exploration & Production Department; in June 2004, he was appointed as President of Sinopec Northwest Oilfield Company; in July 2010, he was appointed as the General Director of Sinopec Exploration and Development Department and in October 2006, he was appointed as Vice President of Sinopec Corp.

Lei Dianwu, aged 48, Vice President of Sinopec Corp. and concurrently as General Director of Sinopec Development & Planning Department. Mr. Lei is a Senior Engineer and obtained university diploma. In October 1995, he was appointed as Vice President of Yangzi Petrochemical Corporation; in December 1997, he was appointed as Director of Planning & Development Department in China Donglian Petrochemical Co., Ltd.; in May 1998, he was appointed as Vice President of Yangzi Petrochemical Corporation; in August 1998 he was appointed as Vice President in Yangzi Petrochemical Co., Ltd.; in March 1999, he was appointed temporarily as Deputy Director General of Development & Planning Department of China Petrochemical Corporation; in February 2000, he was appointed as Deputy Director General of Development & Planning Department of Sinopec Corp.; in March 2001, he was appointed as Director General of Development & Planning Department of Sinopec Corp.; in May 2009, he was appointed as Vice President of Sinopec Corp.

Ling Yiqun, aged 48, Vice President of Sinopec Corp, General Director of Sinopec Refining Department. Mr. Ling is a professor level senior engineer and obtained mater degree. From 1983, he worked in the refinery of Beijing Yanshan Petrochemical Company and the refining department of Beijing Yanshan Petrochemical Company Ltd; in February 2000, he was appointed as the Deputy General Director of Sinopec Refining Department; in June 2003, he was appointed as the General Director of Sinopec Refining Department; in July 2010, he was appointed as Vice President of Sinopec Corp.

Chen Ge, aged 48, Secretary of the Board of Directors of Sinopec Corp. and concurrently as General Director of Sinopec Reform & Management Department. Mr. Chen is a senior economist and obtained mater degree. In July 1983, he started working for Beijing Yanshan Petrochemical Corporation; in February 2000, he was appointed as Deputy Director General of Secretariat of Board of Directors of Sinopec Corp.; in December 2001, he was appointed as Director General of Secretariat of Board of Directors of Sinopec Corp.; in April 2005, he was appointed as Director General of Reform and Management Department of Sinopec Corp.; and in April 2003, he was appointed as Secretary of Board of Directors of Sinopec Corp.

OTHER SENIOR MANAGEMENT

Name	Gender	Age	Position with Sinopec Corp.	Remuneration paid by Sinopec Corp. in 2010 (RMB10,000, before tax)	Whether paid by the holding Company	Shares held at Sinopec Corp (as at 31 December)	
						2010	2009
Wang Xinhua	Male	55	CFO	52.26	No	0	0
Zhang Kehua	Male	57	Vice President	56.69	No	0	0
Zhang Haichao	Male	53	Vice President	55.37	No	0	0
Jiao Fangzheng	Male	48	Vice President	54.18	No	0	0
Lei Dianwu	Male	48	Vice President	54.82	No	0	0
Ling Yiqun	Male	48	Vice President	33.87	No	0	0
Chen Ge	Male	48	Board Secretary	47.49	No	0	0

2 APPOINTMENT OR TERMINATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

In the Shareholders' Annual General Meeting of Sinopec of the year 2009, Mr. Ma Weihua and Mr. Wu Xiaogen were elected as the independent non-executive directors of the 4th Session of the Board of Directors of Sinopec Corp. Pursuant to the relevant opinions on age of independent non-executive directors of the listed companies issued by the relevant government authorities of the People's Republic of China, Mr. Liu Zhongli and Mr. Ye Qing tendered his respective resignation as an independent non-executive Director on 28 April 2010.

In April 2010, through the democratic election by employees, Mr. Cui Guoqi and Mr. Chang Zhenyong were elected as Employee's Representatives Supervisors of the 4th Session of the Supervisory Board of Sinopec Corp. Due to work adjustment, Mr. Liu Xiaohong and Mr. Su Wensheng tendered his respective resignation as an employee representative supervisor of Sinopec Corp. on 28 April 2010.

In December 2010, Mr. Jiang Zhenying and Mr. Yu Renming were elected as Employee's Representatives Supervisors of the 4th Session of the Supervisory Board of Sinopec Corp. Due to work adjustment, Mr. Cui Guoqi and Mr. Chang Zhenyong tendered his respective resignation as an employee representative supervisor of Sinopec Corp. on 16 December 2010.

In July 2010, Mr. Ling Yiqun was appointed as Vice President of Sinopec Corp.

3 DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACT

As of 31 December 2010 or as at any time of this year, none of the Board of Directors or Supervisors had any beneficial interest in any material contract to which Sinopec Corp., its holding company or any subsidiaries or fellow subsidiaries was one party.

4 SALARIES OF DIRECTORS, SUPERVISORS, AND SENIOR MANAGEMENT

During this reporting period, the number of Directors, Supervisors and other Senior Management is 21 in total, and their annual remuneration is RMB 10,577,600 in total.

The above remuneration doesn't include the deferred payments of RMB 9,967,600.0 as their salaries for the period 2007 to 2009 according to the relative regulations of the government authorities of the People's Republic of China and of Sinopec Corp.

60

5 THE COMPANY'S EMPLOYEES

As at 31 December 2010, the Company has a total of 373,375 employees.

Breakdown according to business department structures:

	Number of Employees (Person)	Percentage to Total Employees (%)
Exploration & Production Segment	147,875	39.6
Refining Segment	84,997	22.8
Marketing & Distribution Segment	64,517	17.3
Chemical Segment	65,623	17.6
R & D and Others	10,363	2.7
Total	373,375	100

Breakdown according to the employees' functions as follows:

	Number of Employees (Person)	Percentage to Total Employees (%)
Exploration & Production Segment	147,875	39.6
Production personnel	188,470	50.5
Sales personnel	55,949	15.0
Technical personnel	49,819	13.3
Finance personnel	9,603	2.6
Administrative personnel	29,870	8.0
Others	39,664	10.6
Total	373,375	100

Breakdown according to the employees' education level as follows:

	Number of Employees (Person)	Percentage to Total Employees (%)
Exploration & Production Segment	147,875	39.6
Master's Degree or above	9,689	2.6
University	78,217	21.0
College	78,443	21.0
Polytechnic school	32,513	8.7
High School, technical School or below	174,513	46.7
Total	373,375	100

6 EMPLOYEE BENEFITS SCHEME

Details of the Company’s employee benefits scheme are set out in the Annex of the financial statements prepared under IFRS which are contained in this annual report. As at 31 December 2010, the Company has a total of 180,244 retired employees. All of them participate in the basic pension schemes administered by provincial (autonomous region or municipalities) governments. Government-administered pension schemes are responsible for the payments of basic pensions.

PRINCIPAL WHOLLY-OWNED, CONTROLLING AND NON WHOLLY-OWNED SUBSIDIARIES

At December 31, 2010, details of the principal wholly-owned, controlling and non wholly-owned subsidiaries of the Company were as follows:

Name of Company	Registered capital RMB millions	Percentage of shares held by Sinopec Corp. (%)	Total Assets RMB millions	Net Assets RMB millions	Net profit/ (Net Loss) RMB millions	Principal Activities
Sinopec Yangzi Petrochemical Company Limited	16,337	100	22,523	15,943	2,325	Manufacturing of petroleum products & intermediate petrochemical products
Sinopec International Petroleum Exploration and Production Corporation	8,000	100	19,241	3,668	3,218	Investment in exploration, production & sales of petroleum & natural gas
Sinopec (Hong Kong) Limited	HKD5,477 million	100	14,422	7,022	653	Trading of crude oil & petrochemical products
China International United Petroleum & Chemical Co., Ltd.(UNIPEC)	3,040	100	93,179	9,305	992	Trading of crude oil & petrochemical products
Sinopec Fuel Oil Sales Company Limited	2,200	100	6,414	2,569	44	Marketing and distribution of products
Sinopec Sales Company Limited	1,700	100	58,431	31,763	10,520	Marketing and distribution of refined products
China Petrochemical International Company Limited	1,400	100	4,687	1,883	48	Trading of petrochemical products & equipments
Sinopec Zhongyuan Petrochemical Company Limited	2,400	93.51	1,930	1,352	3	Manufacturing of petrochemical products
Sinopec Qingdao Refining & Chemical Company Limited	5,000	85.0	14,149	4,277	1,532	Manufacturing of petroleum products & intermediate petrochemical products
Sinopec Hainan Refining & Chemical Company Limited	3,986	75.0	13,092	3,952	2,504	Manufacturing of petroleum products & intermediate petrochemical products
Sinopec Kantons Holding Limited	HKD 104 million	72.34	2,412	2,164	171	Trading of crude oil and petroleum products
Sinopec Shell (Jiangsu) Petroleum Marketing Company Limited	830	60.0	1,421	1,150	60	Marketing and distribution of refined products

BP Sinopec (Zhejiang) Petroleum Company Limited	800	60.0	986	935	56	Marketing and distribution of refined products
Sinopec Shanghai Petrochemical Company Limited	7,200	55.56	29,158	18,173	2,729	Manufacturing of petroleum products, synthetic fibres & resin & intermediate petrochemical products
Fujian Petrochemical Company Limited	4,769	50.0	5,830	5,026	601	Manufacturing of plastics & intermediate petrochemical products & petroleum products
Sinopec Yizheng Chemical Fibre Company Limited (YCF)	4,000	42.0	To be announced	To be announced	To be announced	Production& sales of polyester chips & polyester fibres

Notes: 1) The auditor of the above subsidiaries in 2010 is KPMG Huazhen or KPMG;

2) The above indicated total assets and net profit has been prepared in accordance with ASBE. Except for Sinopec Kantons Holdings Limited and Sinopec (Hong Kong) Limited which are incorporated in Bermuda and Hong Kong SAR respectively, all of the above wholly-owned and non wholly-owned subsidiaries are incorporated in the PRC. All of the above wholly-owned and non wholly-owned subsidiaries are limited liability companies. The Directors considered that it would be redundant to disclose the particulars of all subsidiaries and, therefore, only those which have material impact on Sinopec Corp.'s results or net assets are set out above.

REPORT OF THE PRC AUDITOR

All Shareholders of China Petroleum & Chemical Corporation:

We have audited the accompanying financial statements of China Petroleum & Chemical Corporation (the "Company"), which comprise the consolidated balance sheet and balance sheet as at 31 December 2010, the consolidated income statement and income statement, the consolidated statement of changes in equity and statement of changes in equity, the consolidated cash flow statement and cash flow statement for the year then ended, and notes to the financial statements.

1. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's management is responsible for the preparation of these financial statements in accordance with China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China. This responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

2. AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3. OPINION

In our opinion, the financial statements comply with the requirements of China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the consolidated financial position and financial position of the Company as at 31 December 2010, and the consolidated results of operations and results of operations and the consolidated cash flows and cash flows of the Company for the year then ended.

KPMG Huazhen	Certified Public Accountants Registered in the People's Republic of China
	Hu Jianfei Zhang Yansheng
Beijing, The People's Republic of China	25 March 2011

(A) FINANCIAL STATEMENTS PREPARED UNDER CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES
CONSOLIDATED BALANCE SHEET
as at 31 December 2010

	Note	2010 RMB millions	2009 RMB millions
Assets			
Current assets			
Cash at bank and on hand	5	18,140	10,018
Bills receivable	6	15,950	2,110
Accounts receivable	7	43,093	26,592
Other receivables	8	9,880	4,505
Prepayments	9	5,247	3,614
Inventories	10	156,546	141,727
Other current assets		594	856
Total current assets		249,450	189,422
Non-current assets			
Long-term equity investments	11	45,037	33,503
Fixed assets	12	540,700	484,815
Construction in progress	13	89,599	120,375
Intangible assets	14	27,440	22,862
Goodwill	15	8,298	14,163
Long-term deferred expenses	16	7,560	6,281
Deferred tax assets	17	15,578	13,683
Other non-current assets		1,727	1,792
Total non-current assets		735,939	697,474
Total assets		985,389	886,896
Liabilities and shareholders’ equity			
Current liabilities			
Short-term loans	19	29,298	34,900
Bills payable	20	3,818	23,111
Accounts payable	21	132,528	96,762
Advances from customers	22	57,324	37,270
Employee benefits payable	23	7,444	4,526
Taxes payable	24	33,814	16,777
Other payables	25	54,871	50,202
Short-term debentures payable	28	1,000	31,000
Non-current liabilities due within one year	26	5,530	9,316
Total current liabilities		325,627	303,864
Non-current liabilities			
Long-term loans	27	58,895	58,962
Debentures payable	28	115,180	93,763
Provisions	29	15,573	11,860
Deferred tax liabilities	17	15,017	9,707
Other non-current liabilities		2,415	2,192
Total non-current liabilities		207,080	176,484
Total liabilities		532,707	480,348
Shareholders’ equity			

Share capital	30	86,702	86,702
Capital reserve	31	29,414	38,202
Specific reserve		1,325	—
Surplus reserves	32	141,711	115,031
Retained profits		163,132	140,596
Foreign currency translation differences		(1,157)	(70)
Total equity attributable to shareholders of the Company		421,127	380,461
Minority interests		31,555	26,087
Total shareholders' equity		452,682	406,548
Total liabilities and shareholders' equity		985,389	886,896

These financial statements have been approved by the board of directors on 25 March 2011.

Su Shulin	Wang Tianpu	Wang Xinhua
Chairman	Vice Chairman, President	Chief Financial Officer
(Authorised representative)		

The notes on pages 82 to 138 form part of these financial statements.

64

BALANCE SHEET
as at 31 December 2010

	Note	2010 RMB millions	2009 RMB millions
Assets			
Current assets			
Cash at bank and on hand	5	11,882	4,724
Bills receivable	6	11,093	123
Accounts receivable	7	16,660	10,990
Other receivables	8	27,433	19,250
Prepayments	9	6,394	3,032
Inventories	10	103,170	88,993
Other current assets		507	110
Total current assets		177,139	127,222
Non-current assets			
Long-term equity investments	11	111,354	88,920
Fixed assets	12	436,870	380,979
Construction in progress	13	76,830	112,217
Intangible assets	14	20,080	16,013
Long-term deferred expenses	16	6,058	5,300
Deferred tax assets	17	11,832	8,596
Other non-current assets		173	212
Total non-current assets		663,197	612,237
Total assets		840,336	739,459
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans	19	7,229	5,728
Bills payable	20	2,670	14,084
Accounts payable	21	87,244	63,067
Advances from customers	22	51,190	32,966
Employee benefits payable	23	7,037	4,093
Taxes payable	24	24,598	12,817
Other payables	25	73,825	75,760
Short-term debentures payable	28	—	30,000
Non-current liabilities due within one year	26	4,109	4,865
Total current liabilities		257,902	243,380
Non-current liabilities			
Long-term loans	27	58,377	51,549
Debentures payable	28	115,180	93,763
Provisions	29	14,462	10,883
Deferred tax liabilities	17	7,951	4,544
Other non-current liabilities		1,045	959
Total non-current liabilities		197,015	161,698
Total liabilities		454,917	405,078
Shareholders' equity			
Share capital	30	86,702	86,702
Capital reserve	31	37,922	38,234

Specific reserve		1,025	—
Surplus reserves	32	141,711	115,031
Retained profits		118,059	94,414
Total shareholders' equity		385,419	334,381
Total liabilities and shareholders' equity		840,336	739,459

These financial statements have been approved by the board of directors on 25 March 2011.

Su Shulin	Wang Tianpu	Wang Xinhua
Chairman	Vice Chairman, President	Chief Financial Officer
(Authorised representative)		

The notes on pages 82 to 138 form part of these financial statements.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2010

	Note	2010 RMB millions	2009 RMB millions
Operating income	33	1,913,182	1,345,052
Less: Operating costs	33	1,537,131	1,029,443
Sales taxes and surcharges	34	157,189	132,884
Selling and distribution expenses		31,981	27,644
General and administrative expenses		57,774	46,821
Financial expenses	35	6,847	7,248
Exploration expenses, including dry holes	36	10,955	10,545
Impairment losses	37	15,445	7,453
Loss from changes in fair value	38	179	365
Add: Investment income	39	5,671	3,589
Operating profit		101,352	86,238
Add: Non-operating income	40	2,108	1,275
Less: Non-operating expenses	41	1,282	1,401
Profit before taxation		102,178	86,112
Less: Income tax expense	42	25,335	19,591
Net profit		76,843	66,521
Including: Net profit of acquiree before the consolidation		3,043	2,583
Attributable to:			
Equity shareholders of the Company		70,713	62,677
Minority interests		6,130	3,844
Basic earnings per share	54	0.816	0.723
Diluted earnings per share	54	0.808	0.718
Net profit		76,843	66,521
Other comprehensive income	43		
Cash flow hedges		(221)	54
Available-for-sale financial assets		(9)	(175)
Share of other comprehensive income of associates		(533)	806
Foreign currency translation difference		(1,360)	(4)
Total other comprehensive income		(2,123)	681
Total comprehensive income		74,720	67,202
Attributable to:			
Equity shareholders of the Company		68,706	63,397
Minority interests		6,014	3,805

These financial statements have been approved by the board of directors on 25 March 2011.

Su Shulin	Wang Tianpu	Wang Xinhua
Chairman	Vice Chairman, President	Chief Financial Officer
(Authorised representative)		

The notes on pages 82 to 138 form part of these financial statements.

INCOME STATEMENT
for the year ended 31 December 2010

	Note	2010 RMB millions	2009 RMB millions
Operating income	33	1,188,495	876,303
Less: Operating costs	33	900,404	638,169
Sales taxes and surcharges	34	124,586	105,741
Selling and distribution expenses		26,291	23,327
General and administrative expenses		48,336	38,527
Financial expenses	35	6,096	5,317
Exploration expenses, including dry holes	36	10,955	10,545
Impairment losses	37	14,410	6,693
Loss from changes in fair value	38	222	281
Add: Investment income	39	23,073	12,456
Operating profit		80,268	60,159
Add: Non-operating income	40	1,803	1,100
Less: Non-operating expenses	41	1,016	1,208
Profit before taxation		81,055	60,051
Less: Income tax expense	42	14,257	10,526
Net profit		66,798	49,525
Other comprehensive income	43		
Available-for-sale financial assets		(9)	24
Share of other comprehensive income of associates		(533)	806
Total other comprehensive income		(542)	830
Total comprehensive income		66,256	50,355

These financial statements have been approved by the board of directors on 25 March 2011.

Su Shulin	Wang Tianpu	Wang Xinhua
Chairman	Vice Chairman, President	Chief Financial Office
(Authorised representative)		

The notes on pages 82 to 138 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2010

	Note	2010 RMB millions	2009 RMB millions
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		2,215,212	1,550,786
Rentals received		392	388
Other cash received relating to operating activities		8,279	7,481
Sub-total of cash inflows		2,223,883	1,558,655
Cash paid for goods and services		(1,758,556)	(1,155,786)
Cash paid for operating leases		(12,414)	(8,189)
Cash paid to and for employees		(30,754)	(29,182)
Value added tax paid		(63,125)	(41,166)
Income tax paid		(14,158)	(6,045)
Taxes paid other than value added tax and income tax		(154,716)	(133,859)
Other cash paid relating to operating activities		(18,898)	(18,419)
Sub-total of cash outflows		(2,052,621)	(1,392,646)
Net cash flow from operating activities	45(a)	171,262	166,009
Cash flows from investing activities:			
Cash received from disposal of investments		1,687	504
Dividends received		1,335	1,133
Net cash received from disposal of fixed assets and intangible assets		16,145	692
Cash received on maturity of time deposits with financial institutions		3,626	1,820
Cash received from derivative financial instruments		4,646	3,253
Other cash received relating to investing activities		660	277
Sub-total of cash inflows		28,099	7,679
Cash paid for acquisition of fixed assets and intangible assets		(114,711)	(116,789)
Cash paid for acquisition of investments		(11,310)	(3,240)
Cash paid for acquisition of time deposits with financial institutions		(3,522)	(2,304)
Cash paid for derivative financial instruments		(5,273)	(3,197)
Sub-total of cash outflows		(134,816)	(125,530)
Net cash flow from investing activities		(106,717)	(117,851)
Cash flows from financing activities:			
Cash received from issuance of shares		2	—
Cash received from borrowings		663,491	781,212
Cash received from issuance of corporate bonds		21,000	61,000
Cash received from contribution from minority shareholders of subsidiaries		408	714
Sub-total of cash inflows		684,901	842,926
Cash repayments of borrowings		(672,804)	(850,683)
Cash repayments of corporate bonds		(31,000)	(15,000)
Cash paid for acquisition of minority interests from subsidiaries, net		—	(213)
Cash paid for dividends, profits distribution or interest		(23,130)	(21,321)

Dividends paid to minority shareholders of subsidiaries		(1,051)	(858)
Distributions to Sinopec Group Company		(13,210)	(1,262)
Sub-total of cash outflows		(741,195)	(889,337)
Net cash flow from financing activities		(56,294)	(46,411)
Effects of changes in foreign exchange rate		(25)	(5)
Net increase in cash and cash equivalents	45(b)	8,226	1,742

These financial statements have been approved by the board of directors on 25 March 2011.

Su Shulin	Wang Tianpu	Wang Xinhua
Chairman	Vice Chairman, President	Chief Financial Officer
(Authorised representative)		

The notes on pages 82 to 138 form part of these financial statements.

CASH FLOW STATEMENT
for the year ended 31 December 2010

	Note	2010 RMB millions	2009 RMB millions
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		1,383,041	1,019,516
Rentals received		163	192
Other cash received relating to operating activities		12,635	19,646
Sub-total of cash inflows		1,395,839	1,039,354
Cash paid for goods and services		(1,034,940)	(730,312)
Cash paid for operating leases		(9,948)	(6,351)
Cash paid to and for employees		(24,742)	(24,040)
Value added tax paid		(48,521)	(32,671)
Income tax paid		(8,420)	(111)
Taxes paid other than value added tax and income tax		(123,684)	(109,150)
Other cash paid relating to operating activities		(19,399)	(18,617)
Sub-total of cash outflows		(1,269,654)	(921,252)
Net cash flow from operating activities	45(a)	126,185	118,102
Cash flows from investing activities:			
Cash received from disposal of investments		146	16
Dividends received		19,815	10,976
Net cash received from disposal of fixed assets and intangible assets		16,137	527
Cash received on maturity of time deposits with financial institutions		73	57
Other cash received relating to investing activities		290	107
Sub-total of cash inflows		36,461	11,683
Cash paid for acquisition of fixed assets and intangible assets		(104,495)	(99,362)
Cash paid for acquisition of investments		(26,539)	(7,394)
Cash paid for acquisition of time deposits with financial institutions		(50)	(50)
Sub-total of cash outflows		(131,084)	(106,806)
Net cash flow from investing activities		(94,623)	(95,123)
Cash flows from financing activities:			
Cash received from issuance of shares		2	—
Cash received from borrowings		292,370	581,704
Cash received from issuance of corporate bonds		20,000	60,000
Sub-total of cash inflows		312,372	641,704
Cash repayments of borrowings		(284,918)	(626,552)
Cash repayments of corporate bonds		(30,000)	(15,000)
Cash paid for acquisition of minority interests from subsidiaries, net		—	(213)
Cash paid for dividends, profits distribution or interest		(21,802)	(19,183)
Distributions to Sinopec Group Company		(33)	(1,262)
Sub-total of cash outflows		(336,753)	(662,210)
Net cash flow from financing activities		(24,381)	(20,506)
Net increase in cash and cash equivalents	45(b)	7,181	2,473

These financial statements have been approved by the board of directors on 25 March 2011.

Su Shulin	Wang Tianpu	Wang Xinhua
Chairman	Vice Chairman, President	Chief Financial Officer
(Authorised representative)		

The notes on pages 82 to 138 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2010

	Share capital RMB millions	Capital reserve RMB millions	Surplus reserves RMB millions	Retained profits RMB millions	Foreign currency translation difference RMB millions	Total shareholders' equity attributable to equity shareholders of the Company RMB millions	Minority interests RMB millions	Total share holders' equity RMB Millions
Balance at 31 December 2008	86,702	40,848	90,078	111,672	—	329,300	20,866	350,166
Adjustment for the combination of entities under common control (Note 1)	—	—	—	1,962	(68)	1,894	1,552	3,446
Balance at 1 January 2009	86,702	40,848	90,078	113,634	(68)	331,194	22,418	353,612
Change for the year								
1. Net profit	—	—	—	62,677	—	62,677	3,844	66,521
2. Other comprehensive income:								
Cash flow hedges	—	54	—	—	—	54	—	54
Available-for-sale financial assets	—	(138)	—	—	—	(138)	(37)	(175)
Share of other comprehensive income of associates	—	806	—	—	—	806	—	806
Foreign currency translation difference	—	—	—	—	(2)	(2)	(2)	(4)
Total other comprehensive income	—	722	—	—	(2)	720	(39)	681
Total comprehensive income	—	722	—	62,677	(2)	63,397	3,805	67,202
Transactions with owners, recorded directly in shareholders' equity:								
3. Appropriations of profits:								

Appropriation for surplus reserves	—	—	24,953	(24,953)	—	—	—	—
Distributions to shareholders (Note 44)	—	—	—	(13,872)	—	(13,872)	—	(13,872)
4. Consideration for the combination of entities under common control (Note 1)	—	(771)	—	—	—	(771)	—	(771)
5. Acquisition of minority interests	—	(18)	—	—	—	(18)	(4)	(22)
6. Distributions to minority interests, net of contributions	—	—	—	—	—	—	(144)	(144)
7. Distribution to Sinopec Group Company	—	(49)	—	—	—	(49)	—	(49)
8. Government grants	—	580	—	—	—	580	12	592
9. Reclassification	—	(3,110)	—	3,110	—	—	—	—
Total transactions with owners	—	(3,368)	24,953	(35,715)	—	(14,130)	(136)	(14,266)
Balance at 31 December 2009	86,702	38,202	115,031	140,596	(70)	380,461	26,087	406,548

70

	Share capital RMB millions	Capital reserve RMB millions	Special reserve RMB millions	Surplus reserves RMB millions	Retained profits RMB millions	Translation difference in foreign currency statements RMB millions	Total shareholders' equity attributable to equity shareholders of the Company RMB millions	Minority interests RMB millions	Total share holders' equity RMB millions
Balance at 1 January 2010	86,702	38,202	—	115,031	140,596	(70)	380,461	26,087	406,548
Change for the year									
1. Net profit	—	—	—	—	70,713	—	70,713	6,130	76,843
2. Other comprehensive income:									
Cash flow hedges	—	(221)	—	—	—	—	(221)	—	(221)
Available-for-sale financial assets	—	(9)	—	—	—	—	(9)	—	(9)
Share of other comprehensive income of associates	—	(533)	—	—	—	—	(533)	—	(533)
Foreign currency translation difference	—	—	—	—	—	(1,244)	(1,244)	(116)	(1,360)
Total other comprehensive income	—	(763)	—	—	—	(1,244)	(2,007)	(116)	(2,123)
Total comprehensive income	—	(763)	—	—	70,713	(1,244)	68,706	6,014	74,720
Transactions with owners, recorded directly in shareholders' equity:									
3. Appropriations of profits:									
Appropriation for surplus reserves	—	—	—	26,680	(26,680)	—	—	—	—
Distributions to shareholders (Note 44)	—	—	—	—	(16,473)	—	(16,473)	—	(16,473)
4. Warrants exercised (Note 30)	—	2	—	—	—	—	2	—	2
5. Consideration for the combination	—	(13,177)	—	—	—	—	(13,177)	—	(13,177)

of entities under common control (Note 1)									
6. Acquisition of minority interests (Note 31)	—	(9)	—	—	—	—	(9)	—	(9)
7. Distributions to minority interests, net of contributions	—	—	—	—	—	—	—	(643)	(643)
8. Net increase in special reserve for the year	—	—	1,325	—	—	—	1,325	60	1,385
9. Government grants	—	321	—	—	—	—	321	37	358
10. Reclassification	—	4,867	—	—	(5,024)	157	—	—	—
11. Others	—	(29)	—	—	—	—	(29)	—	(29)
Total transactions with owners	—	(8,025)	1,325	26,680	(48,177)	157	(28,040)	(546)	(28,586)
Balance at 31 December 2010	86,702	29,414	1,325	141,711	163,132	(1,157)	421,127	31,555	452,682

These financial statements have been approved by the board of directors on 25 March 2011.

Su Shulin	Wang Tianpu	Wang Xinhua
Chairman	Vice Chairman, President	Chief Financial Officer
(Authorised representative)		

The notes on pages 82 to 138 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2010

	Share capital RMB millions	Capital reserve RMB millions	Surplus reserves RMB millions	Retained profits RMB millions	Total shareholders' equity RMB millions
Balance at 1 January 2009	86,702	38,464	90,078	83,714	298,958
Change for the year					
1. Net profit	—	—	—	49,525	49,525
2. Other comprehensive income					
Available-for-sale financial assets	—	24	—	—	24
Share of other comprehensive income of associates	—	806	—	—	806
Total other comprehensive income	—	830	—	—	830
Total comprehensive income	—	830	—	49,525	50,355
Transactions with owners, recorded directly in shareholders' equity:					
3. Appropriations of profits:					
Appropriation for surplus reserves	—	—	24,953	(24,953)	—
Distributions to shareholders (Note 44)	—	—	—	(13,872)	(13,872)
4. Distributions to Sinopec Group Company	—	(1,600)	—	—	(1,600)
5. Government grants	—	540	—	—	540
Total transactions with owners	—	(1,060)	24,953	(38,825)	(14,932)
Balance at 31 December 2009	86,702	38,234	115,031	94,414	334,381

	Share capital RMB millions	Capital reserve RMB millions	Special reserve RMB millions	Surplus reserves RMB millions	Retained profits RMB millions	Total shareholders' equity RMB millions
Balance at 1 January 2010	86,702	38,234	—	115,031	94,414	334,381
Change for the year						
1. Net profit	—	—	—	—	66,798	66,798
2. Other comprehensive income						
Available-for-sale financial assets	—	(9)	—	—	—	(9)
Share of other comprehensive income of associates	—	(533)	—	—	—	(533)
Total other comprehensive income	—	(542)	—	—	—	(542)
Total comprehensive income	—	(542)	—	—	66,798	66,256
Transactions with owners, recorded directly in shareholders' equity:						
3. Appropriations of profits:						
Appropriation for surplus reserves (Note 32)	—	—	—	26,680	(26,680)	—
Distributions to shareholders (Note 44)	—	—	—	—	(16,473)	(16,473)
4. Warrants exercised (Note 30)	—	2	—	—	—	2
5. Net increase in special reserve for the year	—	—	1,025	—	—	1,025
6. Government grants	—	257	—	—	—	257
7. Others	—	(29)	—	—	—	(29)
Total transactions with owners	—	230	1,025	26,680	(43,153)	(15,218)
Balance at 31 December 2010	86,702	37,922	1,025	141,711	118,059	385,419

These financial statements have been approved by the board of directors on 25 March 2011.

Su Shulin	Wang Tianpu	Wang Xinhua
Chairman	Vice Chairman, President	Chief Financial Officer
(Authorised representative)		

The notes on pages 82 to 138 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2010

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. The net asset value was determined at RMB 98,249,084,000. The valuation was reviewed and approved by the Ministry of Finance (the "MOF") (Cai Ping Zi [2000] No. 20 "Comments on the Review of the Valuation Regarding the Formation of a Joint Stock Limited Company by China Petrochemical Corporation").

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

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

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

The Company and its subsidiaries (the "Group") engage in the oil and gas and chemical operations and businesses, including:

(1) the exploration, development and production of crude oil and natural gas;

(2) the refining, transportation, storage and marketing of crude oil and petroleum product, and

(3) the production and sale of chemicals.

Pursuant to the resolution passed at the Directors' meeting on 27 March 2009, the Group acquired the entire equity interests of Sinopec Qingdao Petrochemical Company Limited and certain storage and distribution operations (collectively the "Acquired Group") from Sinopec Group Company for total cash considerations of RMB 771 million (hereinafter referred to as the "Acquisition of the Acquired Group").

Pursuant to the resolution passed at the Directors' meeting on 26 March 2010, the Group acquired 55% equity interests of Sonangol Sinopec International Limited ("SSI") from Sinopec Overseas Oil & Gas Limited ("SOOGL"), a subsidiary of Sinopec Group Company, and the shareholder's loans of USD 292 million provided by SOOGL to SSI, at a total cash consideration of USD 2,259 million (hereinafter referred to as the "Acquisition of SSI").

As the Group and SSI are under the common control of Sinopec Group Company, the Acquisition of SSI is considered as "combination of entities under common control". Accordingly, the assets and liabilities of SSI have been accounted for at historical cost and the consolidated financial statements of the Company prior to this acquisition have been restated to include the results of operations and the assets and liabilities of SSI on a combined basis. The difference between the total considerations paid over the amount of the net assets of SSI was accounted for as an equity transaction.

The financial information of SSI from 1 January 2010 to 30 September 2010 (acquisition date) are set out as below:

The acquiree	Reasons for the judgement that the acquisition is considered as "combination of entities under common control"	Substantial controller of the common control	Revenues from 1 January 2010 to 30 September 2010 RMB millions	Net profit from 1 January 2010 to 30 September 2010 RMB millions
SSI	The acquiree and the Company are under common control of Sinopec Group Company	Sinopec Group Company	12,009	3,043

2 BASIS OF PREPARATION

(1) Statement of compliance China Accounting Standards for Business Enterprises ("ASBE")

The financial statements have been prepared in accordance with the requirements of Accounting Standards for Business Enterprises Basic Standards and 38 specific standards issued by the MOF on 15 February 2006 and the practice guide of the Accounting Standards for Business Enterprises, the explanations to the Accounting Standards for Business Enterprises and other regulations issued thereafter (collectively, ASBE). These financial statements present truly and completely the consolidated financial position and financial position, the consolidated results of operations and results of operations and the consolidated cash flows and cash flows of the Company.

These financial statements also comply with the disclosure requirements of "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No.15: General Requirements for Financial Reports" as revised by the China Securities Regulatory Commission ("CSRC") in 2010.

(2) Accounting period

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

(3) Measurement basis

The financial statements of the Group have been prepared under the historical cost convention, except for the assets and liabilities set out below:

— Available-for-sale financial assets (see Note 3(11))

— Convertible bonds (see Note 3(11))

(4) Functional currency and presentation currency

The functional currency of the Company's and most of its subsidiaries is Renminbi. The Group's consolidated financial statements are presented in Renminbi. The Company translates the financial statements of subsidiaries from their respective functional currencies into Renminbi (see Note 3(2)) if the subsidiaries' functional currencies are not Renminbi.

3 SIGNIFICANT ACCOUNTING POLICIES

(1) Accounting treatment of business combination involving entities under common control and not under common control

(a) Business combination involving entities under common control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets and liabilities that the acquirer receives in the acquisition are accounted for at the acquiree's carrying amount on the acquisition date. The difference between the carrying amount of the acquired net assets and the carrying amount of the consideration paid for the acquisition (or the total nominal value of shares issued) is recognised in the share premium of capital reserve, or the retained profits in case of any shortfall in the share premium of capital reserve. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

(b) Business combination involving entities not under common control

A business combination involving entities or businesses not under common control is a business combination in which all of the combining entities or businesses are not ultimately controlled by the same party or parties both before and after the business combination. Difference between the consideration paid by the Group as the acquirer, comprises of the aggregate of the fair value at the acquisition date of assets given, including equity interest of the acquiree held before the acquisition date, liabilities incurred or assumed, and equity securities issued by the acquirer in exchange for control of the acquiree, and the Group's interest in the fair value of the identifiable net assets of the acquiree, is recognised as goodwill (Note 3(9)) if it is an excess, otherwise in profit or loss. The expense incurred for equity securities and debt securities issued as the consideration of the combination is recognised in the initial cost of the securities. Any other expense directly attributable to the business combination is recognised in profit or loss for the period. The difference between the fair value and the book value of the assets given is recognised in profit or loss. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(1) Accounting treatment of business combination involving entities under common control and not under common control (Continued)

(c) Method for preparation of consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights, such as warrants and convertible bonds, that are currently exercisable or convertible, are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Where the Company combines a subsidiary during the reporting period through a business combination involving entities under common control, the financial statements of the subsidiary are included in the consolidated financial statements as if the combination had occurred at the beginning of the earliest comparative year presented or, if later, at the date that common control was established. Therefore the opening balances and the comparative figures of the consolidated financial statements are restated. In the preparation of the consolidated financial statements, the subsidiary's assets, liabilities and results of operations are included in the consolidated balance sheet and the consolidated income statement, respectively, based on their carrying amounts in the subsidiary's financial statements, from the date that common control was established.

Where the Company acquires a subsidiary during the reporting year through a business combination involving entities not under common control, the identifiable assets, liabilities and results of operations of the subsidiaries are consolidated into consolidated financial statements from the date that control commences, based on the fair value of those identifiable assets and liabilities at the acquisition date.

Where the Company acquired a minority interest from a subsidiary's minority shareholders, the difference between the investment cost and the newly acquired interest into the subsidiary's identifiable net assets is adjusted to the capital reserve in the consolidated balance sheet. Where the Company partially disposed an investment of a subsidiary that do not result in a loss of control, the difference between the proceeds and the corresponding share of the interest into the subsidiary is adjusted to the capital reserve in the consolidated balance sheet. If the credit balance of capital reserve is insufficient, any excess is adjusted to retained profits.

In a business combination involving entities not under common control achieved in stages, the Group remeasures its previously held equity interest in the acquiree on the acquisition date. The difference between the fair value and the net book value is recognised as investment income for the period. If other comprehensive income was recognised regarding the equity interest previously held in the acquiree before the acquisition date, the relevant other comprehensive income is transferred to investment income in the period in which the acquisition occurs.

Where control of a subsidiary is lost due to partial disposal of the equity investment held in a subsidiary, or any other reasons, the remaining equity investment is remeasured to fair value at the date in which control is lost. The sum of consideration received from disposal of equity investment and the fair value of the remaining equity investment, net of the fair value of the Group's previous share of the subsidiary's identifiable net assets recorded from the acquisition date, is recognised in investment income in the period in which control is lost. Other comprehensive income related to the previous equity investment in the subsidiary, is transferred to investment income when control is lost.

Minority interest is presented separately in the consolidated balance sheet within shareholders' equity. Net profit or loss attributable to minority shareholders is presented separately in the consolidated income statement below the net profit line item.

The excess of the loss attributable to the minority interests during the period over the minority interests' share of the equity at the beginning of the reporting period is deducted from minority interests.

Where the accounting policies and accounting period adopted by the subsidiaries are different from those adopted by the Company, adjustments are made to the subsidiaries' financial statements according to the Company's accounting policies and accounting period. Intra-group balances and transactions, and any unrealised profit or loss arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

(2) Transactions in foreign currencies and translation of financial statements in foreign currencies

Foreign currency transactions are, on initial recognition, translated into Renminbi at the spot exchange rates quoted by the People's Bank of China ("PBOC rates") at the transaction dates.

Foreign currency monetary items are translated at the PBOC rates at the balance sheet date. Exchange differences, except for those directly related to the acquisition, construction or production of qualified assets, are recognised as income or expenses in the income statement. Non-monetary items denominated in foreign currency measured at historical cost are not translated. Non-monetary items denominated in foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined. The difference between the translated amount and the original currency amount is recognised as capital reserve, if it is classified as available-for-sale financial assets; or charged to the income statement if it is measured at fair value through profit or loss.

The assets and liabilities of foreign operation are translated to Renminbi at the spot exchange rates at the balance sheet date. The equity items, excluding "Retained profits", are translated into Renminbi at the spot exchange rates at the transaction dates. The income and expenses of foreign operation are translated into Renminbi at the spot exchange rates on the transaction dates. The resulting exchange differences are separately presented in the balance sheet within equity. Upon disposal of a foreign operation, the cumulative amount of the exchange differences recognised in which relate to that foreign operation is transferred to profit or loss in the year in which the disposal occurs.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, 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.

(4) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost includes the cost of purchase and processing, and other cost. Inventories are stated at cost upon acquisition. The cost of inventories is calculated using the weighted average method. In addition to the cost of purchase of raw material, work in progress and finished goods include direct labour and an appropriate allocation of manufacturing overhead costs.

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.

Inventories include raw materials, work in progress, semi-finished goods, finished goods and reusable materials. Reusable materials include low-value consumables, packaging materials and other materials, which can be used repeatedly but do not meet the definition of fixed assets. Reusable materials are amortised in full when received for use. The amounts of the amortisation are included in the cost of the related assets or profit or loss.

Inventories are recorded by perpetual method.

(5) Long-term equity investments

(a) Investment in subsidiaries

In the Group's consolidated financial statements, investment in subsidiaries are accounted for in accordance with the principles described in Note 3(1)(c).

In the Company's financial statements, investments in subsidiaries are accounted for using the cost method. The cash dividends or profits declared to be distributed by the investee entity are recognised as investment income of the current period based on the Company's proportionate interest in the investee entity, excluding the cash dividends or the profits declared but not distributed in the considerations paid to acquire the investment. The investments are stated at cost less impairment losses (see Note 3(12)) in the balance sheet. At initial recognition, such investments are measured as follows:

The initial investment cost of a long-term equity investment obtained through a business combination involving entities under common control is the book value of the acquired entities' net assets at the combination date. The difference between the initial investment cost and the carrying amounts of the consideration given is adjusted to share premium in capital reserve. If the balance of the share premium is insufficient, any excess is adjusted to retained profits.

In a business combination involving entities not under common control achieved in stages, the total cost of initial investment comprises of book value of investment in the acquiree held by the Company and the cost of additional investment acquired on the acquisition date. Other comprehensive income recognised for holding the equity interest in the acquiree before the acquisition date, is transferred to the investment income when investment is disposed.

The initial investment cost of a long-term equity investment obtained through other business combinations involving entities not under common control is accounted for as the aggregate of the fair value of assets given on the acquisition date, liabilities incurred or assumed, and equity securities issued by the Company in exchange for control of the acquiree.

An investment in a subsidiary acquired otherwise than through a business combination is initially recognised at actual purchase cost if the Company acquires the investment by cash, or at the fair value of the equity securities issued if an investment is acquired by issuing equity securities, or at the value stipulated in the investment contract or agreement if an investment is contributed by investors.

(b) Investment in jointly controlled entities and associates

A jointly controlled entity is an entity of which the Group can exercise joint control with other venturers. Joint control represents the contractual agreement of sharing of control over the entity's economic activities, limited to economic activities related to significant financial and operating policies that require agreement of all venturers.

An associate is an entity of which the Group has significant influence. Significant influence represents the right to participate in the financial and operating policy decisions of the investee but is not control or joint control over the establishment of these policies.

An investment in a jointly controlled entity or an associate is accounted for using the equity method, unless the investment is classified as held for sale (see Note 3(10)).

At the balance sheet date, impairment losses on investment in jointly controlled entities and associates are measured according to Note 3(12).

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Long-term equity investments (Continued)

(b) Investment in jointly controlled entities and associates (Continued)

The initial cost of investment in jointly controlled entities and associates is stated at the consideration paid if the investment is made in cash, or at the fair value of the non-monetary assets exchanged for the investment. The difference between the fair value of the non-monetary assets being exchanged and its carrying amount is charged to profit or loss.

The Group's accounting treatments when adopting the equity method include:

Where the initial investment cost of a long-term equity investment exceeds the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the initial investment cost. Where the initial investment cost is less than the Group's interest in the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially recognised at the investor's share of the fair value of the investee's identifiable net assets, and the difference is charged to profit or loss.

After the acquisition of the investment, the Group recognises its share of the investee's net profits or losses, as investment income or losses, and adjusts the carrying amount of the investment accordingly. Once the investee declares any cash dividends or profits distributions, the carrying amount of the investment is reduced by that attributable to the Group.

The Group recognises its share of the investee's net profits or losses after making appropriate adjustments to align the accounting policies or accounting periods with those of the Group based on the fair values of the investee's net identifiable assets at the time of acquisition. Under the equity accounting method, unrealised profits and losses resulting from transactions between the Group and its associates or jointly controlled entities are eliminated to the extent of the Group's interest in the associates or jointly controlled entities. Unrealised losses resulting from transactions between the Group and its associates or jointly controlled entities are fully recognised in the event that there is an evidence of impairment.

The Group discontinues recognising its share of net losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the Group's net investment in the associate or the jointly controlled entity is reduced to zero, except to the extent that the Group has an obligation to assume additional losses. Where net profits are subsequently made by the associate or jointly controlled entity, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

(c) Other long-term equity investments

Other long-term equity investments refer to investments where the Group does not have control, joint control or significant influence over the investees, and for which the investments are not quoted in an active market and their fair value can not be reliably measured.

The initial investment cost in these entities is originally recognised in the same way as the initial investment cost and measurement principles for investment in jointly controlled entities and associates.

Other long-term investments are subsequently accounted for under the cost method. The cash dividends or profits declared to be distributed by the investee entity are recognised as investment income of the current period based on the Group's proportionate interest in the investee entity, excluding the cash dividends or profits declared but not distributed in the considerations paid to acquire the investments.

(6) Fixed assets and construction in progress

Fixed assets represent the tangible assets held by the Group using in the production of goods, rendering of services and for operation and administrative purposes with useful life over 1 year.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 3(12)). Construction in progress is stated in the balance sheet at cost less impairment losses (see Note 3(12)).

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour, capitalised borrowing costs (see Note 3(19)), and any other costs directly attributable to bringing the asset to working condition for its intended use. Costs of dismantling and removing the items and restoring the site on which the related assets located are included in the initial cost.

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.

Where the individual component parts of an item of fixed asset have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, each part is recognised as a separate fixed asset.

The subsequent costs including the cost of replacing part of an item of fixed assets are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of fixed assets are recognised in profit or loss as incurred.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(6) Fixed assets and construction in progress (Continued)

The Group terminates the recognition of an item of fixed asset when it is in a state of disposal or it is estimated that it is unable to generate any economic benefits through use or disposal. Gains or losses arising from the retirement or disposal of an item of fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Fixed assets other than oil and gas properties 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 life	Estimated rate of residual value
Plants and buildings	15-45 years	3%-5%
Machinery, equipment, vehicles and others	4-18 years	3%
Oil depots, storage tanks and service stations	8-25 years	3%-5%

Useful lives, residual values and depreciation methods are reviewed at least each year end.

(7) Oil and gas properties

Oil and gas properties include the mineral interests in properties, wells and related support equipment arising from oil and gas exploration and production activities.

Mineral interests in properties are capitalised as oil and gas properties when acquired. Costs of development wells and 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 profit or loss in the year as incurred.

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.

The Group estimates future dismantlement costs for oil and gas properties with reference to engineering estimates after taking into consideration the anticipated method of dismantlement required in accordance with the industry practices. These estimated future dismantlement costs are discounted at credit-adjusted risk-free rate and are capitalised as oil and gas properties, which are subsequently amortised as part of the costs of the oil and gas properties.

Capitalised costs relating to proved properties are amortised on a unit-of-production method.

(8) Intangible assets

Intangible assets, where the estimated useful life is finite, are stated in the balance sheet at cost less accumulated amortisation and provision for impairment losses (see Note 3(12)). For an intangible asset with finite useful life, its cost less residual value and impairment losses is amortised on a straight-line basis over the expected useful lives, unless the intangible assets are classified as held for sale (see Note 3(10)).

An intangible asset is regarded as having an indefinite useful life and is not amortised when there is no foreseeable limit to the year over which the asset is expected to generate economic benefits for the Group.

(9) Goodwill

Goodwill represents the excess of cost of business combination over the acquirer's interest in the fair value of the identifiable net assets of the acquiree under the business combination involving entities not under common control.

Goodwill is not amortised and is stated at cost less accumulated impairment losses (see Note 3(12)). On disposal of an asset group or a set of asset groups, any attributable amount of purchased goodwill is written off and included in the calculation of the profit or loss on disposal.

(10) Non-current assets held for sale

A non-current asset is classified as held for sale when the Group has made a decision and signed a non-cancellable agreement on the transfer of the asset with the transferee, and the transfer is expected to be completed within one year. Such non-current assets may be fixed assets, intangible assets, investment property subsequently measured using the cost model, long-term equity investment, etc. but not include deferred tax assets. Non-current assets held for sale are stated at the lower of carrying amount and net realisable value. Any excess of the carrying amount over the net realisable value is recognised as impairment loss.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(11) Financial Instruments

Financial instruments of the Group include cash and cash equivalents, bond investments, equity securities other than long-term equity investments, receivables, derivative financial instruments, payables, loans, bonds payable, and share capital, etc.

(a) Classification, recognition and measurement of financial instruments

The Group recognises a financial asset or a financial liability on its balance sheet when the Group enters into and becomes a party to the underlining contract of the financial instrument.

The Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets and assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are initially recognised at fair value. For financial asset or financial liability of which the change in its fair value is recognised in profit or loss, the relevant transaction cost is recognised in profit or loss. The transaction costs for other financial assets or financial liabilities are included in the initially recognised amount. Subsequent to initial recognition financial assets and liabilities are measured as follows:

— Financial asset and financial liability at fair value through profit or loss (including financial asset or financial liability held for trading)

Financial assets, financial liabilities and derivative instruments held by the Group for the purpose of selling or repurchasing in short term. These financial instruments are initially measured at fair value with subsequently changes in fair value recognised in profit or loss.

— Receivables

Receivables are non-derivative financial assets with fixed or determinable recoverable amount and with no quoted price in active market. After the initial recognition, receivables are measured at amortised cost using the effective interest method.

— Held-to-maturity investment

Held-to-maturity investment includes non-derivative financial assets with fixed or determinable recoverable amount and fixed maturity that the Group has the positive intention and ability to hold to maturity.

After the initial recognition, held-to-maturity investments are stated at amortised cost using the effective interest rate method.

— Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated as available for sales and other financial assets which do not fall into any of the above categories. Investments in equity instruments that do not have quoted market prices in active markets and whose fair value cannot be reliably measured are stated at cost.

Other than the above equity instrument investments whose fair values cannot be measured reliably, other available-for-sale financial assets are initially stated at fair values. The gains or losses arising from changes in the fair value are directly recognised in equity, except for the impairment losses and exchange differences from monetary financial assets denominated in foreign currencies, which are recognised in profit or loss. The cumulative gains and losses previously recognised in equity are transferred to profit or loss when the available-for-sale financial assets are derecognised. Dividend income from these equity instruments is recognised in profit or loss when the investee declares the dividends. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in profit or loss (see Note 3(17)(c)).

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(11) Financial Instruments (Continued)

(a) Classification, recognition and measurement of financial instruments (Continued)

— Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Among other financial liabilities, financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Where the Group issues a financial guarantee, subsequent to initial recognition, the guarantee is measured at the higher of the amount initially recognised less accumulated amortisation and the amount of a provision determined in accordance with the principles of contingent liabilities (see Note 3(16)).

Except for the other financial liabilities described above, subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

In the balance sheet, financial assets and financial liabilities are separately disclosed and not offset unless all of the following conditions are met:

— the Group has a legally enforceable right to offset financial assets against financial liabilities, and

— the Group intends to settle the financial assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously.

(b) Determination of fair value

Fair value of financial asset or financial liability is determined with reference to quoted market price in active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price and, for a financial asset to be acquired or a financial liability assumed, it is the current asking price.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using arm's length market transactions between knowledge, willing parties; reference to the current fair value of other instrument that is substantially the same; discounted cash flows and option pricing model. The Group calibrates the valuation technique and tests it for validity periodically.

(c) Hedge accounting

Hedge accounting is a method which recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item in the same accounting period(s).

Hedged items are the items that expose the Group to risks of changes in fair value or future cash flows and that are designated as being hedged. The Group's hedged items include fixed-rate borrowings that expose the Group to risk of changes in fair values, floating rate borrowings that expose the Group to risk of variability in cash flows, and a forecast transaction that is settled with a fixed amount of foreign currency and expose the Group to foreign currency risk.

A hedging instrument is a designated derivative whose changes in fair value or cash flows are expected to offset changes in the fair value or cash flows of the hedged item. For a hedge of foreign currency risk, a non-derivative financial asset or non-derivative financial liability may also be used as a hedging instrument.

The hedge is assessed by the Group for effectiveness on an ongoing basis and determined to have been highly effective throughout the accounting periods for which the hedging relationship was designated. The Group uses a ratio analysis to assess the subsequent effectiveness of a cash flow hedge, and uses a regression analysis to assess the subsequent effectiveness of a fair value hedge.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(11) Financial Instruments (Continued)

(c) Hedge accounting (Continued)

— Cash flow hedges

A cash flow hedge is a hedge of the exposure to variability in cash flows. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in shareholders' equity as a separate component. That effective portion is adjusted to the lesser of the following (in absolute amounts):

— the cumulative gain or loss on the hedging instrument from inception of the hedge

— the cumulative change in present value of the expected future cash flows on the hedged item from inception of the hedge.

The portion of the gain or loss on the hedging instrument that is determined to be an ineffective hedge is recognised in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is removed from shareholders' equity, included in the initial cost of the non-financial asset or liability, and recognised in profit or loss in the same year during which the financial asset or financial liability affects profit or loss. However, if the Group expects that all or a portion of a net loss recognised directly in shareholders' equity will not be recovered in future accounting periods, it reclassifies the amount that is not expected to be recovered into profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is removed from equity and recognised in profit or loss in the same period during which the financial asset or financial liability affects profit or loss. However, if the Group expects that all or a portion of a net loss recognised directly in shareholders' equity will not be recovered in future accounting periods, it reclassifies the amount that is not expected to be recovered into profit or loss.

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is removed from shareholders' equity and recognised in profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting, the Group will discontinue the hedge accounting treatments prospectively. In this case, the gain or loss on the hedging instrument that remains recognised directly in shareholders' equity from the period when the hedge was effective shall not be reclassified into profit or loss and is recognised in accordance with the above policy when the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the gain or loss on the hedging instrument that remains recognised directly in shareholders' equity from the period when the hedge was effective shall be reclassified into profit or loss immediately.

— Fair value hedges

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or unrecognised firm commitment.

The gain or loss from re-measuring the hedging instrument at fair value is recognised in profit or loss. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised in profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting, the Group discontinues prospectively the hedge accounting treatments. If the hedged item is a financial instrument measured at amortised cost, any adjustment to the carrying amount of the hedged item is amortised to profit or loss from the adjustment date to the maturity date using the recalculated effective interest rate at the adjustment date.

— Hedge of net investment in foreign operation

A hedge of a net investment in a foreign operation is a hedge of the exposure to foreign exchange risk associated with a net investment in a foreign operation. The portion of the gain or loss on a hedging instrument that is determined to be an effective hedge is recognised directly in equity as a separate component until the disposal of the foreign operation, at which time the cumulative gain or loss recognised directly in equity is recognised in profit or loss. The ineffective portion is recognised immediately in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(11) Financial Instruments (Continued)

(d) Convertible bonds

— Convertible bonds that contain an equity component

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the bond is converted or redeemed.

If the bond is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and capital reserve (share premium) as consideration for the shares issued. If the bond is redeemed, the capital reserve (other capital reserve) is transferred to capital reserve (share premium).

— Other convertible bonds

Convertible bonds issued with a cash settlement option and other embedded derivative features are split into liability and derivative components.

At initial recognition, the derivative component of the convertible bonds is measured at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately as an expense in profit or loss.

The derivative component is subsequently remeasured at each balance sheet date and any gains or losses arising from change in the fair value are recognised in profit or loss. The liability component is subsequently carried at amortised cost until extinguished on conversion or redemption. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. Both the liability and the related derivative components are presented together for financial statements reporting purposes.

If the convertible bonds are converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the convertible bonds are redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

(e) Derecognition of financial assets and financial liabilities

The Group derecognises a financial asset when the contractual right to receive cash flows from the financial asset expires, or where the Group transfers substantially all risks and rewards of ownership.

On derecognition of a financial asset, the difference between the following amounts is recognised in profit or loss:

— the carrying amounts, and

— the sum of the consideration received and any cumulative gain or loss that had been recognised directly in equity.

Where the obligations for financial liabilities are completely or partially discharged, the entire or parts of financial liabilities are derecognised.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(12) Impairment of financial assets and non-financial long-term assets

(a) Impairment of financial assets

The carrying amount of financial assets (other than those at fair value through profit or loss) are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided.

Objective evidences of impairment include but not limited to:

(a) significant financial difficulty of the debtor;

(b) a breach of contract, such as a default or delinquency in interest or principal payments;

(c) it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

(d) due to the significant financial difficulty of the debtor, financial assets is unable to be traded in active market;

(e) significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

(f) a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

— Receivables and held-to-maturity investments

Receivables and held-to-maturity investments are assessed for impairment on an individual basis.

Where impairment is assessed on an individual basis, an impairment loss in respect of a receivable or held-to-maturity investment is calculated as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

Impairment loss on receivables and held-to-maturity investments is reversed in profit or loss if evidence suggests that the financial assets' carrying amounts have increased and the reason for the increase is objectively as a result of an event occurred after the recognition of the impairment loss. The reversed carrying amount shall not exceed the amortised cost if the financial assets had no impairment recognised.

— Available-for-sale financial assets

Available-for-sale financial assets are assessed for impairment on an individual basis.

When available-for-sale financial assets are impaired, despite not derecognised, the cumulative losses resulted from the decrease in fair value which had previously been recognised directly in shareholders' equity, are reversed and charged to profit or loss.

Impairment loss of available-for-sale debt instrument is reversed, if the reason for the subsequent increase in fair value is objectively as a result of an event occurred after the recognition of the impairment loss. Impairment loss for available-for-sale equity instrument is not reversed through profit or loss.

(b) Impairment of other non-financial long-term assets

Internal and external sources of information are reviewed at each balance sheet date for indications that the following assets, including fixed assets, construction in progress, goodwill, intangible assets and investments in subsidiaries, associates and jointly controlled entities may be impaired.

Assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The recoverable amounts of goodwill and intangible assets with uncertain useful lives are estimated annually no matter there are any indications of impairment. Goodwill is tested for impairment together with related asset units or groups of asset units.

An asset unit is the smallest identifiable group of assets that generates cash inflows largely independent of the cash inflows from other assets or groups of assets. An asset unit comprises related assets that generate associated cash inflows. In identifying an asset unit, the Group primarily considers whether the asset unit is able to generate cash inflows independently as well as the management style of production and operational activities, and the decision for the use or disposal of asset.

The recoverable amount is the greater of the fair value less costs to sell and the present value of expected future cash flows generated by the asset (or asset unit, set of asset units).

Fair value less costs to sell of an asset is based on its selling price in an arm's length transaction less any direct costs attributable to the disposal. Present value of expected future cash flows is the estimation of future cash flows to be generated from the use of and upon disposal of the asset, discounted at an appropriate pre-tax discount rate over the assets remaining useful life.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount is reduced to the recoverable amount. The amount by which the carrying amount is reduced is recognised as an impairment loss in profit or loss. A provision for impairment loss of the asset is recognised accordingly. Impairment losses related to an asset unit or a set of asset units first reduce the carrying amount of any goodwill allocated to the asset unit or set of asset units, and then reduce the carrying amount of the other assets in the asset unit or set of asset units on a pro rata basis. However, that the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs to sell (if determinable), the present value of expected future cash flows (if determinable) and zero.

Impairment losses for assets are not reversed.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(13) Long-term deferred expenses

Long-term deferred expenses are amortised on a straight-line basis over their beneficial periods.

(14) Employee benefits

Employee benefits are all forms of considerations given and other related expenses incurred in exchange for services rendered by employees. When an employee has rendered service to the Group during an accounting period, the Group shall recognise the employee benefits payable (other than termination benefits) as a liability and charged to the cost of an asset or as an expense in the same time.

(a) Retirement benefits

Pursuant to the relevant laws and regulations of the PRC, the Group has joined a basic pension insurance for the employees arranged by local Labour and Social Security Bureaus. The Group makes contributions to the pension insurance at the applicable rates based on the amounts stipulated by the government organisation. The contributions are charged to profit or loss on an accrual basis. When employees retire, the local Labour and Social Security Bureaus are responsible for the payment of the basic pension benefits to the retired employees. The Group does not have any other obligations in this respect.

(b) Housing fund and other social insurance

Besides the pension benefits, pursuant to the relevant laws and regulations of the PRC, the Group has joined defined social security contributions for employees, such as a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes contributions to the housing fund and other social insurances mentioned above at the applicable rate(s) based on the employees' salaries. The contributions are recognised as cost of assets or charged to profit or loss on an accrual basis.

(c) Termination benefits

When the Group terminates the employment relationship with employees before the employment contracts have expired, or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision for the termination benefits provided, is recognised in profit or loss when both of the following conditions have been satisfied:

— The Group has a formal plan for the termination of employment or has made an offer to employees for voluntary redundancy, which will be implemented shortly

— The Group is not allowed to withdraw from termination plan or redundancy offer unilaterally.

(15) Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised based on deductible temporary differences and taxable temporary differences respectively. Temporary difference is the difference between the carrying amounts of assets and liabilities and their tax bases including unused tax losses and unused tax credits able to be utilised in subsequent years. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available to offset the deductible temporary differences.

Temporary differences arise in a transaction, which is not a business combination, and at the time of transaction, does not affect accounting profit or taxable profit (or unused tax losses), will not result in deferred tax. Temporary differences arising from the initial recognition of goodwill will not result in deferred tax.

At the balance sheet date, the amounts of deferred tax recognised is measured based on the expected manner of recovery or settlement of the carrying amount of the assets and liabilities, using tax rates that are expected to be applied in the period when the asset is recovered or the liability is settled in accordance with tax laws.

The carrying amount of deferred tax assets is reviewed at each balance sheet date. If it is unlikely to obtain sufficient taxable income to offset against the benefit of deferred tax asset, the carrying amount of the deferred tax assets is written down. Any such write-down should be subsequently reversed where it becomes probable that sufficient taxable income will be available.

At the balance sheet date, deferred tax assets and liabilities are offset if all the following conditions are met:

— the taxable entity has a legally enforceable right to set off current tax assets against current tax liabilities, and

— they relate to income taxes levied by the same tax authority on either:

  — the same taxable entity; or

  — different taxable entities which either to intend to settle the current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(16) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation as a result of a contingent 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 the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

Provisions for future dismantlement costs are initially recognised based on the present value of the future costs expected to be incurred in respect of the Group's expected dismantlement and abandonment costs at the end of related oil and gas exploration and development activities. Any subsequent change in the present value of the estimated costs, other than the change due to passage of time which is regarded as interest costs, is reflected as an adjustment to the provision of oil and gas properties.

A provision for onerous contracts is recognised when the economic benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

(17) Revenue recognition

Revenue is the gross inflow of economic benefits arising in the course of the Group's normal activities when the inflows result in increase in shareholder's equity, other than increase relating to contributions from shareholders. Revenue is recognised in profit or loss when it is probable that the economic benefits will flow to the Group, the revenue and costs can be measured reliably and the following respective conditions are met:

(a) Revenues from sales of goods

Revenue from the sales of goods is recognised when all of the general conditions stated above and following conditions are satisfied:

— the significant risks and rewards of ownership and title have been transferred to buyers, and

— the Group does not retain the management rights, which is normally associated with owner, on goods sold and has no control over the goods sold.

Revenue form the sale of goods is measured at fair value of the considerations received or receivable under the sales contract or agreement.

(b) Revenues from rendering services

The Group determines the revenue from the rendering of services according to the fair value of the received or to-be received price of the party that receives the services as stipulated in the contract or agreement.

At the balance sheet date, when the outcome of a transaction involving the rendering of services can be estimated reliably at the balance sheet date, revenue from rendering of services is recognised in the income statement by reference to the stage of completion of the transaction based on the proportion of services performed to date to the total services to be performed.

When the outcome of rendering the services cannot be estimated reliably, revenues are recognised only to the extent that the costs incurred are expected to be recoverable. If the costs of rendering of services are not expected to be recoverable, the costs incurred are recognised in profit or loss and no service revenue is recognised.

(c) Interest income

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

(18) Government grants

Government grants are the gratuitous monetary assets or non-monetary assets that the Group receives from the government, excluding capital injection by the government as an investor. Special funds such as investment grants allocated by the government, if clearly defined in official documents as part of “capital reserve” are dealt with as capital contributions, and not regarded as government grants.

Government grants are recognised when there is reasonable assurance that the grants will be received and the Group is able to comply with the conditions attaching to them. Government grants in the form of monetary assets are recorded based on as the amount received or receivable, whereas non-monetary assets are measured at fair value.

Government grants received in relation to assets are recorded as deferred income, and recognised evenly in profit or loss over the assets’ useful lives. Government grants received in relation to revenue are recorded as deferred income, and recognised as income in future periods as compensation when the associated future expenses or losses arise; or directly recognised as income in the current period as compensation for past expenses or losses.

(19) Borrowing costs

Borrowing costs incurred on borrowings for the acquisition, construction or production of qualified assets are capitalised into the cost of the related assets.

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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(20) Repairs and maintenance expenses

Repairs and maintenance (including overhauling expenses) expenses are recognised in profit or loss when incurred.

(21) Environmental expenditures

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

(22) Research and development costs

Research and development costs are recognised in profit or loss when incurred.

(23) Operating leases

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

(24) Dividends

Dividends and distributions of profits proposed in the profit appropriation plan which will be authorised and declared after the balance sheet date, are not recognised as a liability at the balance sheet date and are separately disclosed in the notes to the financial statements.

(25) Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two or more parties are subject to common control, joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Where enterprises are subject to state control but are otherwise unrelated, they are not related parties. Related parties of the Group and the Company include, but not limited to:

(a) the holding company of the Company;

(b) the subsidiaries of the Company;

(c) the parties that are subject to common control with the Company;

(d) investors that have joint control or exercise significant influence over the Group;

(e) enterprises or individuals if a party has control, joint control over both the enterprises or individuals and the Group;

(f) jointly controlled entities of the Group, including subsidiaries of the jointly controlled entities;

(g) associates of the Group, including subsidiaries of the associates;

(h) the major individual investors of the Group and a close family member of such individuals;

(i) the member of key management personnel of the Group, and a close family member of such individuals;

(j) the member of key management personnel of the Company's holding company;

(k) close family member of key management personnel of the Company's holding company; and

(l) an entity which is under control, joint control of major individual investor, key management personnel or a close family member of such individuals.

(26) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system. An operating segment is a component of the Group that meets the following respective conditions:

— Engage in business activities from which it may earn revenues and incur expenses;

— Whose operating results are regularly reviewed by the Group's management to make decisions about resource to be allocated to the segment and assess its performance; and

— For which financial information regarding financial position, results of operations and cash flows are available.

Inter-segment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the consolidated financial statements.

4 TAXATION

Major types of tax applicable to the Group are income tax, consumption tax, resources tax, value added tax, special oil income levy, city construction tax and education surcharge.

The Corporate Income Tax Law of the People's Republic of China ("new tax law") took effect on 1 January 2008. According to the new tax law, the income tax rate applicable to the Group is changed to 25% from 1 January 2008; however, certain entities previously taxed at a preferential rate are subject to a transition period during which their tax rate will gradually be increased to the unified rate of 25% over a five-year period starting from 1 January 2008.

Based on the new tax law, the income tax rate applicable to the Group, except for certain entities of the Group, is changed from 33% to 25% from 1 January 2008. Based on a tax notice issued by the State Council on 26 December 2007, the applicable tax rates for foreign investment enterprises operating in special economic zones, which were previously taxed at the preferential rate of 15%, are 18%, 20%, 22%, 24% and 25% for the years ending 31 December 2008, 2009, 2010, 2011 and 2012, respectively. The applicable tax rate for entities operating in the western region of the PRC which were granted a preferential tax rate of 15% remains at 15% for the years ending 31 December 2010.

Effective from 1 January 2009, the consumption tax rates on gasoline, diesel, naphtha, solvent oil, lubricant oil, fuel oil and jet fuel oil changed to RMB 1,388.0 per tonne, RMB 940.8 per tonne, RMB 1,385.0 per tonne, RMB 1,282.0 per tonne, RMB 1,126.0 per tonne, RMB 812.0 per tonne and RMB 996.8 per tone, respectively. Among them, the consumption tax of jet fuel oil is suspended.

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 1000 cubic metre, respectively. Effective from 1 June 2010, the resources tax rate of crude oil and natural gas in Xinjiang adopted rate on value method with tax rate of 5%, instead of the previous amount on volume method, and effective from 1 December 2010, the resources tax rate of crude oil and natural gas in the western region adopted rate on value method with tax rate of 5%, instead of the previous amount on volume method.

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

The Ministry of Finance imposed a special oil income levy on any income derived from the sale by an oil exploration and production enterprise of locally produced crude oil exceeding a standard price. The levy starts at USD 40 per barrel and the imposed rate ranges from 20% to 40%.

The branches and subsidiaries granted with tax concession are set out below:

Name of branches and subsidiaries	Preferential tax rate	Reasons for granting concession
Sinopec National Star Xibei Branch	15%	Tax preferential policy in the western part of China
Tahe Oilfield Petrochemical Factory	15%	Tax preferential policy in the western part of China
Zhanjiang Dongxing Petrochemical Company Limited	22%	Foreign investment enterprise
Sinopec Hainan Refining and Chemical	2-year exemption and 3-year 50% reduction	Foreign investment enterprise

Company Limited

88

5 CASH AT BANK AND ON HAND

The Group

	2010			2009		
	Original currency millions	Exchange rates	RMB millions	Original currency millions	Exchange rates	RMB millions
Cash on hand						
Renminbi			130			140
Cash at bank						
Renminbi			9,072			4,070
US Dollars	43	6.6227	284	48	6.8282	330
Hong Kong Dollars	31	0.8509	26	100	0.8805	88
Japanese Yen	123	0.0813	10	190	0.0738	14
Euro	2	8.8065	15	4	9.7971	40
			9,537			4,682
Deposits at related parties						
Renminbi			8,363			3,328
US Dollars	22	6.6227	147	272	6.8282	1,858
Hong Kong Dollars	6	0.8509	5	69	0.8805	61
Euro	10	8.8065	88	9	9.7971	89
Total cash at bank and on hand			18,140			10,018

The Company

	2010			2009		
	Original currency millions	Exchange rates	RMB millions	Original currency millions	Exchange rates	RMB millions
Cash on hand						
Renminbi			110			111
Cash at bank						
Renminbi			4,953			2,290
US Dollars	—	6.6227	1	—	6.8282	1
			5,064			2,402
Deposits at related parties						
Renminbi			6,817			2,321
US Dollars	—	6.6227	1	—	6.8282	1
Total cash at bank and on hand			11,882			4,724

Deposits at related parties represent deposits placed at Sinopec Finance Company Limited and Sinopec Century Bright Capital Investment Limited. Deposits interest is calculated based on market rate.

At 31 December 2010, time deposits with financial institutions of the Group and the Company amounted to RMB 1,132 million (2009: RMB 1,236 million) and RMB 1 million (2009: RMB 24 million), respectively.

6 BILLS RECEIVABLES

Bills receivable represents mainly the bills of acceptance issued by banks for sales of goods and products.

At 31 December 2010, the Group's and the Company's outstanding endorsed or discounted bills (with recourse) amounted to RMB 6,155 million (2009: RMB 10,213 million) and RMB 5,725 million (2009: RMB 9,597 million), respectively, all of which are due before 31 December 2011.

7 ACCOUNTS RECEIVABLE

	The Group 2010 RMB millions	The Group 2009 RMB millions	The Company 2010 RMB millions	The Company 2009 RMB millions
Amounts due from subsidiaries	—	—	9,930	9,509
Amounts due from Sinopec Group Company and fellow subsidiaries	1,848	697	1,180	494
Amounts due from associates and jointly controlled entities	8,886	335	4,344	187
Amounts due from others	33,681	27,481	2,293	2,326
	44,415	28,513	17,747	12,516
Less: Allowance for doubtful accounts	1,322	1,921	1,087	1,526
Total	43,093	26,592	16,660	10,990

Ageing analysis on accounts receivable is as follows:

The Group

	2010 Amount RMB millions	2010 Percentage of total accounts receivable %	2010 Allowance RMB millions	2010 Percentage of allowance to accounts receivable balance %	2009 Amount RMB millions	2009 Percentage of total accounts receivable %	2009 Allowance RMB millions	2009 Percentage of allowance to accounts receivable balance %
Within one year	43,037	96.9	0	0.0	26,422	92.7	7	0.0
Between one and two years	61	0.1	25	41.0	185	0.6	31	16.8
Between two and three years	27	0.1	16	59.3	32	0.1	21	65.6
Over three years	1,290	2.9	1,281	99.3	1,874	6.6	1,862	99.4
Total	44,415	100.0	1,322		28,513	100.0	1,921	

The Company

	Amount RMB millions	Percentage of total accounts receivable %	Allowance RMB millions	Percentage of allowance to accounts receivable balance	Amount RMB millions	Percentage of total accounts receivable %	Allowance RMB millions	Percentage of allowance to accounts receivable balance

				%				%
Within one year	16,620	93.6	0	0.0	10,829	86.5	6	0.1
Between one and two years	39	0.2	24	61.5	174	1.4	24	13.8
Between two and three years	23	0.1	6	26.1	28	0.2	20	71.4
Over three years	1,065	6.1	1,057	99.2	1,485	11.9	1,476	99.4
Total	17,747	100.0	1,087		12,516	100.0	1,526	

At 31 December 2010 and 2009, the total amounts of the top five accounts receivable of the Group are set out below:

	2010	2009
Total amount (RMB millions)	12,890	9,603
Ageing	Within 1 year	Within 1 year
Percentage to the total balance of accounts receivable	29.0%	31.8%

At 31 December 2010, the Group's and the Company's accounts receivable due from related parties amounted to RMB 10,734 million and RMB 15,454 million (2009: RMB 1,032 million and RMB 10,190 million), representing 24.2% and 87.1% (2009: 3.6% and 81.4%) of the total accounts receivable.

Except for the balances disclosed in Note 46, there is no amount due from shareholders who hold 5% or more voting right of the Company included in the balance of accounts receivable.

During the year ended 31 December 2010 and 2009, the Group and the Company had no individually significant accounts receivable been fully or substantially provided allowance for doubtful accounts.

During the year ended 31 December 2010 and 2009, the Group and the Company had no individually significant write-off or recovery of doubtful debts which had been fully or substantially provided for in prior years.

At 31 December 2010 and 2009, the Group and the Company had no individually significant accounts receivable that aged over three years.

8 OTHER RECEIVABLES

	The Group 2010 RMB millions	The Group 2009 RMB millions	The Company 2010 RMB millions	The Company 2009 RMB millions
Amounts due from subsidiaries	—	—	23,103	17,737
Amounts due from Sinopec Group Company and fellow subsidiaries	556	705	428	615
Amounts due from associates and jointly controlled entities	2,488	57	2,468	41
Amounts due from others	8,912	6,229	3,690	3,855
	11,956	6,991	29,689	22,248
Less: Allowance for doubtful accounts	2,076	2,486	2,256	2,998
Total	9,880	4,505	27,433	19,250

Ageing analysis of other receivables is as follows:

The Group

	2010 Amount RMB millions	2010 Percentage of total other receivables %	2010 Allowance RMB millions	2010 Percentage of allowance of other receivables balance %	2009 Amount RMB millions	2009 Percentage of total other receivables %	2009 Allowance RMB millions	2009 Percentage of allowance of other receivables balance %
Within one year	8,994	75.3	78	0.9	3,384	48.4	40	1.2
Between one and two years	412	3.4	33	8.0	528	7.6	85	16.1
Between two and three years	144	1.2	55	38.2	342	4.9	119	34.8
Over three years	2,406	20.1	1,910	79.4	2,737	39.1	2,242	81.9
Total	11,956	100.0	2,076		6,991	100.0	2,486	

The Company

	2010 Amount RMB millions	2010 Percentage of total other receivables %	2010 Allowance RMB millions	2010 Percentage of allowance of other receivables balance	2009 Amount RMB millions	2009 Percentage of total other receivables %	2009 Allowance RMB millions	2009 Percentage of allowance of other receivables balance

				%				%
Within one year	26,769	90.2	2	0.0	18,275	82.2	39	0.2
Between one and two years	199	0.7	22	11.1	389	1.7	39	10.0
Between two and three years	133	0.4	50	37.6	227	1.0	58	25.6
Over three years	2,588	8.7	2,182	84.3	3,357	15.1	2,862	85.3
Total	29,689	100.0	2,256		22,248	100.0	2,998	

At 31 December 2010 and 2009, the total amounts of the top five other receivables of the Group are set out below:

	2010	2009
Total amount (RMB millions)	3,129	710
Ageing	From within one year to over three years	From within one year to over three years
Percentage to the total balance of other receivables	26.2%	10.2%

At 31 December 2010, the Group's and the Company's other receivables due from related parties amounted to RMB 3,044 million and RMB 25,999 million (2009: RMB 762 million and RMB 18,393 million), representing 25.5% and 87.6% (2009: 10.9% and 82.7%) of the total of other receivables.

Except for the balances disclosed in Note 46, 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 year ended 31 December 2010 and 2009, the Group and the Company had no individually significant other receivables been fully or substantially provided allowance for doubtful accounts.

During the year ended 31 December 2010 and 2009, the Group and the Company had no individually significant write-off or recovery of doubtful debts which had been fully or substantially provided for in prior years.

At 31 December 2010 and 2009, the Group and the Company had no individually significant other receivables that aged over three years.

9 PREPAYMENTS

All prepayments are aged within one year.

Except for the balances disclosed in Note 46, there is no amount due from shareholders who hold 5% or more voting right of the Company included in the balance of prepayments.

10 INVENTORIES

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Raw materials	84,428	87,587	56,858	54,326
Work in progress	13,089	11,609	9,393	8,182
Finished goods	55,945	39,737	34,706	24,782
Spare parts and consumables	4,175	3,832	2,908	2,285
	157,637	142,765	103,865	89,575
Less: Provision for diminution in value of inventories	1,091	1,038	695	582
	156,546	141,727	103,170	88,993

Provision for diminution in value of inventories is mainly against spare parts and consumables. For the year ended 31 December 2010, the provision for diminution in value of inventories of the Group and the Company was primarily due to the costs of inventories of the refining and chemicals segments were higher than their net realisable value.

11 LONG-TERM EQUITY INVESTMENTS

The Group

	Investments in jointly controlled entities RMB millions	Investments in associates RMB millions	Other equity investments RMB millions	Provision for impairment losses RMB millions	Total RMB millions
Balance at 1 January 2010	13,928	18,162	1,610	(197)	33,503
Additions for the year	3,526	4,057	922	—	8,505
Share of profits less losses from investments accounted for under the equity method	3,179	2,211	—		5,390
Change of capital reserve from investments accounted for under the equity method	—	(533)	—	—	(533)
Dividends receivable / received	(434)	(910)	—	—	(1,344)
Disposals for the year	—	(172)	(325)	—	(497)
Movement of provision for impairment losses	—	—	—	13	13
Balance at 31 December 2010	20,199	22,815	2,207	(184)	45,037

The Company

Total

	Investments in subsidiaries RMB millions	Investments in jointly controlled entities RMB millions	Investments in associates RMB millions	Other equity investments RMB millions	Provision for impairment losses RMB millions	RMB millions
Balance at 1 January 2010	67,574	6,806	13,796	891	(147)	88,920
Additions for the year	20,378	3,319	3,225	218	—	27,140
Share of profits less losses from investments accounted for under the equity method	—	1,825	1,354	—	—	3,179
Change of capital reserve from investments accounted for under the equity method	—	—	(533)	—	—	(533)
Dividends receivable / received	—	(298)	(538)	—	—	(836)
Disposals for the year	—	—	(165)	(98)	—	(263)
Movement of provision for impairment losses	—	—	—	—	(6,253)	(6,253)
Balance at 31 December 2010	87,952	11,652	17,139	1,011	(6,400)	111,354

Details of the Company's principal subsidiaries are set out in Note 48.

11 LONG-TERM EQUITY INVESTMENTS (Continued)

Principal jointly controlled entities and associates are as follows:

Name of investees	Register location	Legal representative	Registered capital RMB millions	Percentage of equity/voting right directly or indirectly held by the Company	Total assets at the year end RMB millions	Total liability at the year end RMB millions	Operating revenue for the year RMB millions
1. Joint controlled entities							
Shanghai Secco Petrochemical Company Limited	Shanghai	Jeanne Marie Johns	USD 901	50 %	18,079	7,809	29,169
BASF-YPC Company Limited	Jiangsu Provice	Ma Qiulin	13,634	40 %	24,100	9,006	17,304
Fujian Refining and Petrochemical Company Limited	Fujian Province	Lu Dong	12,806	50 %	45,993	34,648	58,571
SINOPEC SABIC Tianjin Petrochemical Company Limited	Tianjin	Khaled A. Almana	6,120	50 %	22,764	16,518	18,688
2. Associates							
Sinopec Finance Company Limited	Beijing	Li Chunguang	8,000	49 %	112,609	99,213	2,294
China Aviation Oil Supply Company Limited	Beijing	Sun Li	3,800	29 %	14,894	8,333	62,854
Zhongtian Synergetic Energy Company Limited	Inner Mongolia	Cao Zumin	3,678	38.75 %	4,510	81	—
Shanghai Chemical Industry Park Development Company Limited	Shanghai	Rong Guangdao	2,372	38.26 %	7,298	3,735	16
Shanghai Petroleum Company Limited	Shanghai	Xu Guobao	900	30 %	3,763	734	1,180

All the jointly controlled entities and associates above are limited companies.

The Group's effective interest share of the jointly controlled entities' net assets, operating income and net profit are as follows:

	2010 RMB millions	2010 RMB millions
Net assets	20,199	13,928
Operating income	61,523	25,141
Net profit	3,179	1,240

Other equity investments represent the Group's interests in PRC privately owned enterprises which are mainly engaged in non-oil and natural gas and chemical activities and operations. This includes non-consolidated investments which the Group has over 50% equity interest but the Group has no control on the entities.

For the year ended 31 December 2010, the Group had no individually significant long-term investments which had been provided for impairment losses; for the year ended 31 December 2010, the company has recognised impairment losses of RMB 6,257 million on goodwill related to acquisition of minority interests in prior years (Note 15).

12 FIXED ASSETS

The Group - by segment

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others RMB millions	Total RMB millions
Cost/valuation:						
Balance at 1 January 2010	434,266	203,215	116,080	194,956	11,308	959,825
Additions for the year	4,021	123	1,100	88	255	5,587
Transferred from construction in progress	67,922	11,922	12,370	22,964	2,872	118,050
Reclassifications	343	144	271	(169)	(589)	—
Disposals	(370)	(2,980)	(2,144)	(2,603)	(141)	(8,238)
Contributed to a jointly controlled entity	—	—	—	(290)	—	(290)
Foreign exchange loss	(809)	—	(103)	—	(4)	(916)
Reclassification to other assets	—	(39)	(451)	—	(146)	(636)
Balance at 31 December 2010	505,373	212,385	127,123	214,946	13,555	1,073,382
Accumulated depreciation:						
Balance at 1 January 2010	203,777	93,141	31,598	122,465	3,861	454,842
Depreciation charge for the year	31,393	11,227	5,946	8,483	925	57,974
Reclassifications	12	(28)	25	(120)	111	—
Written back on disposals	(167)	(2,402)	(1,001)	(2,278)	(109)	(5,957)
Foreign exchange loss	(218)	—	(41)	—	(1)	(260)
Reclassification to other assets	—	(3)	(68)	—	(12)	(83)
Balance at 31 December 2010	234,797	101,935	36,459	128,550	4,775	506,516
Provision for impairment losses:						
Balance at 1 January 2010	7,927	1,278	2,882	8,075	6	20,168
Additions for the year	1,889	1,649	1,055	2,953	21	7,567
Reclassifications	—	25	—	(25)	—	—
Written off for the year	(10)	(376)	(952)	(221)	(10)	(1,569)
Balance at 31 December 2010	9,806	2,576	2,985	10,782	17	26,166
Net book value:						

Balance at 31 December 2010	260,770	107,874	87,679	75,614	8,763	540,700
Balance at 31 December 2009	222,562	108,796	81,600	64,416	7,441	484,815

12 FIXED ASSETS (Continued)

The Company - by segment

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others RMB millions	Total RMB millions
Cost/valuation:						
Balance at 1 January 2010	376,098	163,600	89,024	121,273	9,452	759,447
Additions for the year	3,908	96	184	21	59	4,268
Transferred from construction in progress	62,683	10,280	8,291	20,934	2,716	104,904
Transferred from subsidiaries	—	112	21	247	—	380
Transferred to subsidiaries	—	(15)	(654)	(6)	(67)	(742)
Reclassifications	343	142	279	(178)	(586)	—
Disposals	(369)	(2,869)	(1,899)	(2,055)	(105)	(7,297)
Contributed to a jointly controlled entity	—	—	—	(290)	—	(290)
Reclassification to other assets	—	(39)	(432)	—	(48)	(519)
Balance at 31 December 2010	442,663	171,307	94,814	139,946	11,421	860,151
Accumulated depreciation:						
Balance at 1 January 2010	178,215	80,552	26,829	73,717	2,990	362,303
Depreciation charge for the year	25,165	8,580	4,360	5,810	785	44,700
Transferred from subsidiaries	—	2	1	131	—	134
Transferred to subsidiaries	—	—	(214)	—	(25)	(239)
Reclassifications	12	(41)	41	(161)	149	—
Written back on disposals	(166)	(2,303)	(886)	(1,791)	(92)	(5,238)
Reclassification to other assets	—	(3)	(68)	—	—	(71)
Balance at 31 December 2010	203,226	86,787	30,063	77,706	3,807	401,589
Provision for impairment losses:						
Balance at 1 January 2010	5,721	1,168	2,595	6,675	6	16,165

Additions for the year	1,856	1,638	946	2,484	21	6,945
Reclassifications	—	25	—	(25)	—	—
Written off for the year	(10)	(369)	(866)	(163)	(10)	(1,418)
Balance at 31 December 2010	7,567	2,462	2,675	8,971	17	21,692
Net book value:						
Balance at 31 December 2010	231,870	82,058	62,076	53,269	7,597	436,870
Balance at 31 December 2009	192,162	81,880	59,600	40,881	6,456	380,979

95

12 FIXED ASSETS (Continued)

The Group - by asset class

	Plants and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Machinery, equipment, vehicles and others RMB millions	Total RMB millions
Cost/valuation:					
Balance at 1 January 2010	61,142	366,089	136,706	395,888	959,825
Additions for the year	259	3,421	1,023	884	5,587
Transferred from construction in progress	5,150	58,465	17,889	36,546	118,050
Reclassifications	996	5	325	(1,326)	—
Disposals	(767)	—	(1,675)	(5,796)	(8,238)
Contributed to a jointly controlled entity	(290)	—	—	—	(290)
Foreign exchange loss	(33)	(809)	(22)	(52)	(916)
Reclassification to other assets	(204)	—	(389)	(43)	(636)
Balance at 31 December 2010	66,253	427,171	153,857	426,101	1,073,382
Accumulated depreciation:					
Balance at 1 January 2010	28,497	172,493	31,723	222,129	454,842
Depreciation charge for the year	2,442	28,196	6,857	20,479	57,974
Reclassifications	259	(9)	(21)	(229)	—
Written back on disposals	(319)	—	(771)	(4,867)	(5,957)
Foreign exchange loss	(14)	(218)	(8)	(20)	(260)
Reclassification to other assets	—	—	(77)	(6)	(83)
Balance at 31 December 2010	30,865	200,462	37,703	237,486	506,516
Provision for impairment losses:					
Balance at 1 January 2010	1,695	7,875	2,483	8,115	20,168
Additions for the year	660	1,789	1,070	4,048	7,567
Reclassifications	4	—	7	(11)	—
Written off for the year	(180)	—	(762)	(627)	(1,569)
Balance at 31 December 2010	2,179	9,664	2,798	11,525	26,166
Net book value:					
Balance at 31 December 2010	33,209	217,045	113,356	177,090	540,700
Balance at 31 December 2009	30,950	185,721	102,500	165,644	484,815

12 FIXED ASSETS (Continued)

The Company - by asset class

	Plants and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Machinery, equipment, vehicles and others RMB millions	Total RMB millions
Cost/valuation:					
Balance at 1 January 2010	43,332	314,118	114,278	287,719	759,447
Additions for the year	45	3,310	537	376	4,268
Transferred from construction in progress	4,450	53,423	14,423	32,608	104,904
Transferred from subsidiaries	157	—	172	51	380
Transferred to subsidiaries	(175)	—	(495)	(72)	(742)
Reclassifications	689	5	403	(1,097)	—
Disposals	(696)	—	(1,541)	(5,060)	(7,297)
Contributed to a jointly controlled entity	(290)	—	—	—	(290)
Reclassification to other assets	(107)	—	(370)	(42)	(519)
Balance at 31 December 2010	47,405	370,856	127,407	314,483	860,151
Accumulated depreciation:					
Balance at 1 January 2010	17,792	148,755	27,839	167,917	362,303
Depreciation charge for the year	1,807	22,117	5,444	15,332	44,700
Transferred from subsidiaries	31	—	84	19	134
Transferred to subsidiaries	(106)	—	(116)	(17)	(239)
Reclassifications	267	(9)	26	(284)	—
Written back on disposals	(278)	—	(724)	(4,236)	(5,238)
Reclassification to other assets	—	—	(66)	(5)	(71)
Balance at 31 December 2010	19,513	170,863	32,487	178,726	401,589
Provision for impairment losses:					
Balance at 1 January 2010	1,396	5,674	2,431	6,664	16,165
Addition for the year	634	1,789	957	3,565	6,945
Reclassifications	4	—	7	(11)	—
Written off for the year	(158)	—	(729)	(531)	(1,418)
Balance at 31 December 2010	1,876	7,463	2,666	9,687	21,692
Net book value:					
Balance at 31 December 2010	26,016	192,530	92,254	126,070	436,870
Balance at 31 December 2009	24,144	159,689	84,008	113,138	380,979

Notes: The additions in the exploration and production segment and oil and gas properties of the Group and the Company for year ended 31 December 2010 included RMB 3,389 million (2009: RMB 2,013 million) and RMB 3,278 million (2009: RMB 1,897 million), respectively of the estimated dismantlement costs for site restoration.

The factor resulting in the exploration and production ("E&P") segment impairment losses of RMB 1,889 million (2009: RMB 1,595 million) of fixed assets for the year ended 31 December 2010 was high operating and development costs. The carrying values of these E&P properties were written down to respective recoverable amounts which were determined based on the present values of the expected future cash flows of the assets using a pre-tax discount rate 15.6% (2009: 13.5%). The oil and gas pricing was a factor used in the determination of the present values of the expected future cash flows of the assets and had an impact on the recognition of the asset impairment.

Impairment losses recognised on fixed assets of the refining and chemicals segments were RMB 1,649 million (2009: RMB 377 million) and RMB 2,953 million (2009: RMB 3,728 million) for the year ended 31 December 2010. These impairment losses relate to certain refining and chemicals production facilities that are held for use. The carrying values of these facilities were written down to their recoverable amounts that were primarily determined based on the asset held for use model using the present value of the estimated future cash flows of the production facilities using the pre-tax discount rates ranging from 15.2% to 15.9% (2009: 11.2% to 12.1%). The primary factor resulting in the impairment losses on fixed assets of the refining and chemicals segments was due to higher operating and production costs caused by the increase in the prices of raw materials that are not expected to be covered through an increase in selling price.

Provision for impairment losses recognised on fixed assets of the marketing and distribution segment of RMB 1,055 million (2009: RMB 1,425 million) for the year ended 31 December 2010 primarily relate to certain service stations that were closed or disposed during the year. In measuring the amounts of impairment charges, the carrying amounts of these assets were compared to the present value of the expected future cash flows of the assets, as well as information about sales and purchases of similar properties in the same geographic area.

At 31 December 2010 and 2009, the Group and the Company had no individually significant fixed assets which were pledged.

At 31 December 2010 and 2009, the Group and the Company had no individually significant fixed assets which were temporarily idle or pending for disposal.

At 31 December 2010 and 2009, the Group and the Company had no individually significant fully depreciated fixed assets which were still in use.

13 CONSTRUCTION IN PROGRESS

The Group

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others RMB millions	Total RMB millions
Cost/valuation:						
Balance at 1 January 2010	46,886	13,720	17,410	38,589	3,931	120,536
Additions for the year	56,924	19,746	25,017	13,183	1,620	116,490
Transferred to a jointly controlled entity	—	—	—	(17,459)	—	(17,459)
Reclassification	—	—	219	(219)	—	—
Dry hole costs written off	(4,986)	—	—	—	—	(4,986)
Transferred to fixed assets	(67,922)	(11,922)	(12,370)	(22,964)	(2,872)	(118,050)
Reclassification to other assets	(528)	(270)	(2,757)	(2,145)	(426)	(6,126)
Other decreases	—	(83)	(9)	—	—	(92)
Balance at 31 December 2010	30,374	21,191	27,510	8,985	2,253	90,313
Provision for impairment losses:						
Balance at 1 January 2010	—	83	78	—	—	161
Additions for the year	—	516	128	—	—	644
Decreases for the year	—	(83)	(8)	—	—	(91)
Balance at 31 December 2010	—	516	198	—	—	714
Net book value:						
Balance at 31 December 2010	30,374	20,675	27,312	8,985	2,253	89,599
Balance at 31 December 2009	46,886	13,637	17,332	38,589	3,931	120,375

At 31 December 2010, major construction projects of the Group are as follows:

Project name	Budgeted amount RMB millions	Balance at 1 January 2010 RMB millions	Net additions/ (decreases) for the year RMB millions	Balance at capitalised at 31 December 2010 RMB millions	Percentage of Completion %	Source of funding	Accumulated interest 31 December 2010 RMB millions

Changling Crude Oil Quality Upgrading Project	5,704	1,060	2,504	3,564	64%	Bank loans & self-financing	39
Wuhan 800,000 tonnes per year Ethylene Construction Project	16,563	859	1,893	2,752	17%	Bank loans & self-financing	36
Beihai Refining Offsite Modification Petroleum & Chemical Project	6,069	366	2,125	2,491	41%	Bank loans & self-financing	5
15,000 million cubic per year Natural Gas Capacity Improvement Project	33,700	22,665	(20,427)	2,238	86%	Bank loans & self-financing	2,287
Yulin Jinan Pipeline Project	6,042	2,314	(1,006)	1,308	65%	Bank loans & self-financing	43

The interest rates per annum at which borrowing costs were capitalised during the year ended 31 December 2010 by the Group and the Company ranged from 3.0% to 6.5% (2009: 3.0% to 6.8%).

13 CONSTRUCTION IN PROGRESS (Continued)

The Company

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others RMB millions	Total RMB millions
Cost/valuation:						
Balance at 1 January 2010	45,832	12,418	13,487	36,710	3,924	112,371
Additions for the year	51,746	17,725	16,281	10,606	1,414	97,772
Contributed to a jointly controlled entity	—	—	—	(17,459)	—	(17,459)
Reclassification	—	—	219	(219)	—	—
Dry hole costs written off	(4,986)	—	—	—	—	(4,986)
Transferred to fixed assets	(62,683)	(10,280)	(8,291)	(20,934)	(2,716)	(104,904)
Reclassification to other assets	(509)	(201)	(2,005)	(2,143)	(426)	(5,284)
Other decreases	—	(83)	(9)	—	—	(92)
Balance at 31 December 2010	29,400	19,579	19,682	6,561	2,196	77,418
Provision for impairment losses:						
Balance at 1 January 2010	—	83	71	—	—	154
Additions for the year	—	516	9	—	—	525
Decreases for the year	—	(83)	(8)	—	—	(91)
Balance at 31 December 2010	—	516	72	—	—	588
Net book value:						
Balance at 31 December 2010	29,400	19,063	19,610	6,561	2,196	76,830
Balance at 31 December 2009	45,832	12,335	13,416	36,710	3,924	112,217

14 INTANGIBLE ASSETS

The Group

	Land use rights RMB millions	Patents RMB millions	Non-patent technology RMB millions	Operation rights RMB millions	Others RMB millions	Total RMB millions
Cost:						
Balance at 1 January 2010	19,259	3,523	1,518	3,397	1,256	28,953
Additions for the year	4,139	52	1,114	754	411	6,470
Contributed to a jointly controlled entity	(350)	—	—	(198)	—	(548)
Other decreases	(25)	—	—	—	—	(25)
Balance at 31 December 2010	23,023	3,575	2,632	3,953	1,667	34,850
Accumulated amortisation:						
Balance at 1 January 2010	2,070	2,383	642	297	620	6,012
Additions for the year	607	221	174	156	188	1,346
Contributed to a jointly controlled entity	—	—	—	(18)	—	(18)
Other decreases	(9)	—	—	—	—	(9)
Balance at 31 December 2010	2,668	2,604	816	435	808	7,331
Provision for impairment losses:						
Balance at 1 January 2010/31 December 2010	—	55	24	—	—	79
Net book value:						
Balance at 31 December 2010	20,355	916	1,792	3,518	859	27,440
Balance at 31 December 2009	17,189	1,085	852	3,100	636	22,862

Amortisation charged to the intangible assets of the Group for the year ended 31 December 2010 is RMB 1,279 million (2009: RMB 1,002 million).

14 INTANGIBLE ASSETS (Continued)

The Company

	Land use rights RMB millions	Patents RMB millions	Non-patent technology RMB millions	Operation rights RMB millions	Others RMB millions	Total RMB millions
Cost:						
Balance at 1 January 2010	12,063	2,789	1,365	3,310	914	20,441
Additions for the year	3,473	38	1,111	607	294	5,523
Contributed to a jointly controlled entity	(350)	—	—	(198)	—	(548)
Other decreases	(18)	—	—	—	—	(18)
Balance at 31 December 2010	15,168	2,827	2,476	3,719	1,208	25,398
Accumulated amortisation:						
Balance at 1 January 2010	852	2,141	559	287	510	4,349
Additions for the year	318	169	170	151	104	912
Contributed to a jointly controlled entity	—	—	—	(18)	—	(18)
Other decreases	(4)	—	—	—	—	(4)
Balance at 31 December 2010	1,166	2,310	729	420	614	5,239
Provision for impairment losses:						
Balance at 1 January 2010/31 December 2010	—	55	24	—	—	79
Net book value:						
Balance at 31 December 2010	14,002	462	1,723	3,299	594	20,080
Balance at 31 December 2009	11,211	593	782	3,023	404	16,01

Amortisation charged to the intangible assets of the Company for the year ended 31 December 2010 is RMB 905 million (2009: RMB 676 million).

15 GOODWILL

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

Name of investee	Balance at 1 January 2010 RMB millions	Increase/ (decrease) for the year RMB millions	Provision for impairment losses RMB millions	Net book value at 31 December 2010 RMB millions
Sinopec Beijing Yanshan Branch ("Sinopec Yanshan")	1,157	—	—	1,157
Sinopec Zhenhai Refining and Chemical Branch ("Sinopec Zhenhai")	4,043	—	—	4,043
Sinopec Qilu Branch ("Sinopec Qilu")	2,159	—	(2,159)	—
Sinopec Yangzi Petrochemical Company Limited ("Sinopec Yangzi")	2,737	—	(2,737)	—
Sinopec Shengli Oil Field Dynamic Company Limited ("Dynamic")	1,361	—	(1,361)	—
Hong Kong service stations	926	(31)	—	895
Multiple units without individually significant goodwill	1,780	432	(9)	2,203
Total	14,163	401	(6,266)	8,298

Goodwill represents the excess of the cost of purchase over the fair value of the underlying assets and liabilities. The recoverable amounts of the above cash generating units are determined based on value in use calculations. The calculations for Sinopec Yanshan, Sinopec Zhenhai, Sinopec Qilu, Sinopec Yangzi and Hong Kong service stations, use cash flow projections based on financial budgets approved by management covering a one-year period and forecast on market supply and demand for the second to the fifth year based on market research performed by an external research institution. Cash flows beyond the five-year period are maintained constant. The calculation for Dynamic use cash flow projection based on reserve estimation performed by an external reserve valuer and management expectation on crude oil price. The pre-tax discount rates range from 15.2% to 16.8% (2009: 11.2% to 13.6%).

Key assumptions used for the value in use calculations for these entities are the gross margin and sales volume. Management determined the budgeted gross margin based on the gross margin achieved in the period immediately before the budget period and management's expectation on the future trend of the prices of crude oil and petrochemical products. The sales volume was based on the production capacity and/or the sales volume in the period immediately before the budget period, and the forecast on market supply and demand based on market research performed by an external research institution.

During the year 2010, the carrying amounts of the cash-generating units, Sinopec Qilu, Sinopec Yangzi and Dynamic, were determined to be higher than their recoverable amounts. The reduction in recoverable amounts of Sinopec Qilu and Sinopec Yangzi was primarily due to the drop in future cash flow projections as a result of intense market competition caused by an increase in future supply of relevant petrochemical products in the international market. The reduction in recoverable amount of Dynamic was a result of unsuccessful development drilling in this cash-generating unit. The total impairment losses recognised on the goodwill of Sinopec Qilu, Sinopec Yangzi and Dynamic were RMB 6,257 million for the year 2010. Management believes any reasonably possible change in the key assumptions on which the recoverable amounts of Sinopec Yanshan, Sinopec Zhenhai and Hong Kong service stations are based would not cause carrying amounts of these cash generating units to exceed their recoverable amounts.

16 LONG-TERM DEFERRED EXPENSES

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

17 DEFERRED TAX ASSETS AND LIABILITIES

The Group

	Assets		Liabilities		Net balance	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Current						
Receivables and inventories	3,507	3,207	—	—	3,507	3,207
Accruals	1,588	815	—	—	1,588	815
Cash flow hedges	31	7	—	(18)	31	(11)
Non-current						
Fixed assets	7,961	5,601	(794)	(1,178)	7,167	4,423
Accelerated depreciation	—	—	(14,142)	(8,410)	(14,142)	(8,410)
Tax value of losses carried forward	2,116	3,954	—	—	2,116	3,954
Embedded derivative component of the Convertible Bonds	—	—	(64)	(96)	(64)	(96)
Others	375	99	(17)	(5)	358	94
Deferred tax assets / (liabilities)	15,578	13,683	(15,017)	(9,707)	561	3,976

17 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

The Company

	Assets		Liabilities		Net balance	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Current						
Receivables and inventories	3,084	2,928	—	—	3,084	2,928
Accruals	1,617	811	—	—	1,617	811
Non-current						
Fixed assets	6,852	4,803	(35)	(429)	6,817	4,374
Accelerated depreciation	—	—	(7,836)	(4,015)	(7,836)	(4,015)
Embedded derivative component of the Convertible Bonds	—	—	(64)	(96)	(64)	(96)
Others	279	54	(16)	(4)	263	50
Deferred tax assets / (liabilities)	11,832	8,596	(7,951)	(4,544)	3,881	4,052

At 31 December 2010, certain subsidiaries of the Company did not recognise the tax value of losses carried forward of RMB 4,215 million (2009: RMB 5,555 million), of which RMB 369 million (2009: RMB 472 million) was incurred for the year ended 31 December 2010, because it was not probable that the related tax benefit will be realised. The tax value of these losses carried forward of RMB 64 million, RMB 461 million, RMB 2,933 million, RMB 388 million and RMB 369 million will expire in 2011, 2012, 2013, 2014 and 2015, respectively.

Periodically, management performed assessment on 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.

18 DETAILS OF IMPAIRMENT LOSSES

At 31 December 2010, impairment losses of the Group are analysed as follows:

	Note	Balance at 1 January 2010 RMB millions	Provision for the year RMB millions	Written back for the year RMB millions	Written off for the year RMB millions	Balance at 31 December 2010 RMB millions
Allowance for doubtful accounts						
Included:						

Accounts receivable	7	1,921	48	(130)	(517)	1,322
Other receivables	8	2,486	308	(263)	(455)	2,076
		4,407	356	(393)	(972)	3,398
Provision for diminution in value of inventories	10	1,038	1,087	(77)	(957)	1,091
Long-term equity investments	11	197	11	—	(24)	184
Fixed assets	12	20,168	7,567	—	(1,569)	26,166
Construction in progress	13	161	644	—	(91)	714
Intangible assets	14	79	—	—	—	79
Goodwill	15	1,391	6,266	—	—	7,657
Others		49	—	(16)	(1)	32
Total		27,490	15,931	(486)	(3,614)	39,321

At 31 December 2010, impairment losses of the Company are analysed as follows:

	Note	Balance at 1 January 2010 RMB millions	Provision for the year RMB millions	Written back for the year RMB millions	Written off for the year RMB millions	Balance at 31 December 2010 RMB millions
Allowance for doubtful accounts						
Included:						
Accounts receivable	7	1,526	42	(118)	(363)	1,087
Other receivables	8	2,998	206	(115)	(833)	2,256
		4,524	248	(233)	(1,196)	3,343
Provision for diminution in value of inventories	10	582	739	(75)	(551)	695
Long-term equity investments	11	147	6,277	—	(24)	6,400
Fixed assets	12	16,165	6,945	—	(1,418)	21,692
Construction in progress	13	154	525	—	(91)	588
Intangible assets	14	79	—	—	—	79
Others		45	—	(16)	—	29
Total		21,696	14,734	(324)	(3,280)	32,826

See the note of each class of assets for the reason for its impairment losses recognised for the year.

19 SHORT-TERM LOANS

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

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Short-term bank loans	11,380	21,587	2,400	5,050
Loans from Sinopec Group Company and fellow subsidiaries	17,918	13,313	4,829	678
Total	29,298	34,900	7,229	5,728

At 31 December 2010, the Group's and the Company's weighted average interest rates per annum on short-term loans were 2.7% (2009: 2.5%) and 4.8% (2009: 4.6%), respectively. The majority of the above loans are by credit.

Except for the balances disclosed in Note 46, 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 31 December 2010 and 2009, the Group and the Company had no significant overdue short-term loan.

20 BILLS PAYABLE

Bills payable primarily represented bank accepted bills for the purchase of material, goods and products. The repayment term is normally within one year.

21 ACCOUNTS PAYABLE

Except for the balances disclosed in Note 46, there is no amount due to shareholders who hold 5% or more voting right of the Company included in the balance of accounts payable.

At 31 December 2010 and 2009, the Group and the Company had no individually significant accounts payable aged over one year.

22 ADVANCES FROM CUSTOMERS

Except for the balances disclosed in Note 46, there is no amount due to shareholders who hold 5% or more voting right of the Company included in the balance of advances from customers.

At 31 December 2010 and 2009, the Group and the Company had no individually significant advances from customers aged over one year.

23 EMPLOYEE BENEFITS PAYABLE

At 31 December 2010 and 2009, the Group's and the Company's employee benefits payable primarily represented wages payable and social insurance payable.

24 TAXES PAYABLE

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Recoverable value-added tax	(4,921)	(9,137)	(5,287)	(8,307)
Consumption tax	17,125	14,586	12,505	11,686
Income tax	10,754	3,034	7,620	1,953
Special oil income levy	5,249	3,719	5,242	3,703
Resources tax	779	796	711	722
Other taxes	4,828	3,779	3,807	3,060
Total	33,814	16,777	24,598	12,817

25 OTHER PAYABLES

At 31 December 2010 and 2009, the Group's and the Company's other payables primarily represented payables for constructions.

Except for the balances disclosed in Note 46, there is no amount due to shareholders who hold 5% or more voting right of the Company included in the balance of other payables.

At 31 December 2010 and 2009, the Group and the Company had no individually significant other payables aged over three years.

26 NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

The Group's and the Company's non-current liabilities due within one year represent:

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Long-term bank loans				
Renminbi loans	3,683	5,733	3,583	4,232
Japanese Yen loans	308	306	307	306
US Dollar loans	536	562	35	79
Euro loans	27	85	27	85
	4,554	6,686	3,952	4,702
Long-term other loans				
Renminbi loans	73	67	5	—
US Dollar loans	12	10	2	3
	85	77	7	3
Long-term loans from Sinopec Group Company and fellow subsidiaries				
Renminbi loans	150	330	150	160
US Dollar loans	741	2,223	—	—
	891	2,553	150	160
Long-term loans due within one year	5,530	9,316	4,109	4,865

At 31 December 2010 and 2009, the Group and the Company had no significant overdue long-term loans.

27 LONG-TERM LOANS

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

		The Group		The Company	
	Interest rate and final maturity	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Long-term bank loans					
Renminbi loans	Interest rates ranging from interest free to 5.64% per annum at 31 December 2010 with maturities through 2025	23,161	18,869	22,886	17,064
Japanese Yen loans	Interest rates ranging from 2.6%	1,488	1,660	1,488	1,660

	to 2.94% per annum at 31 December 2010 with maturities through 2024				
US Dollar loans	Interest rates ranging from interest free to 7.8% per annum at 31 D–ecember 2010 with maturities through 2031	972	3,171	301	390
Euro loans	Interest rates were 6.56% per annum at 31 December 2010 with maturities through 2011	27	116	27	116
Less: Current portion		4,554	6,686	3,952	4,702
Long-term bank loans		21,094	17,130	20,750	14,528
Long-term other loans					
Renminbi loans	Interest free to 4.32% per annum at 31 December 2010 with maturities through 2013	250	73	151	5
US Dollar loans	Interest rates ranging from interest free to 4.89% per annum at 31 December 2010 with maturities through 2015	26	29	16	19
Less: Current portion		85	77	7	3
Long-term other loans		191	25	160	21
Long-term loans from Sinopec Group Company and fellow subsidiaries					
Renminbi loans	Interest rates ranging from interest free to 6.54% per annum at 31 December 2010 with maturities through 2020	37,760	37,330	37,617	37,160

US Dollar loans	Interest rates were 0.92% per annum at 31 December 2010 with maturities through 2011	741	7,030	—	—
Less: Current portion		891	2,553	150	160
Long-term loans from Sinopec Group Company and fellow subsidiaries		37,610	41,807	37,467	37,000
Total		58,895	58,962	58,377	51,549

105

27 LONG-TERM LOANS (Continued)

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

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Between one and two years	4,655	10,982	4,625	3,944
Between two and five years	17,546	11,181	17,105	10,885
After five years	36,694	36,799	36,647	36,720
Total long-term loans	58,895	58,962	58,377	51,549

At 31 December 2010, the top five long-term loans (including long-term loans due within one year) of the Group are set out below:

Lenders	Borrowing dates	Maturity dates	Currency	Interest rate	Remaining balance at 31 December 2010 RMB millions	Remaining balance at 31 December 2009 RMB millions
Sinopec Group Company	18 October 2000	31 December 2020	RMB	interest free	35,561	35,561
China Development Bank	20 January 2005	20 December 2013	RMB	5.35 %	10,000	13,000
Agricultural Bank of China	2 March 2010	1 March 2013	RMB	4.86 %	3,500	—
Bank of China	31 August 2010	31 August 2013	RMB	4.86 %	2,000	—
Bank of China	19 January 2010	18 November 2013	RMB	5.04 %	2,000	—

Except for the balances disclosed in Note 46, 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.

Long-term loans are primarily unsecured, and carried at amortised costs.

28 DEBENTURES PAYABLE

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Short-term corporate bonds (i)				
Debentures payable:				

Corporate Bonds (ii)	78,500	58,500	78,500	58,500
Convertible Bonds (iii)	10,667	10,371	10,667	10,371
Convertible Bonds With Warrants (iv)	26,013	24,892	26,013	24,892
	115,180	93,763	115,180	93,763

(i) A subsidiary of the Group issued 330-day corporate bonds of face value at RMB 1 billion to corporate investors in the PRC debenture market on 3 April 2009 at par value of RMB 100. The effective yield of the 330-day corporate bonds is 2.05% per annum. The corporate bonds matured in March 2010.

The Company issued one-year corporate bonds of face value at RMB 15 billion to corporate investors in the PRC debenture market on 16 July 2009. The effective yield of the one-year corporate bonds is 1.88% per annum and interest is paid annually. The corporate bonds matured in July 2010.

The Company issued one-year corporate bonds of face value at RMB 15 billion to corporate investors in the PRC debenture market on 12 November 2009. The effective yield of the one-year corporate bonds is 2.30% per annum and interest is paid annually. The corporate bonds matured in November 2010.

A subsidiary of the Company issued one-year corporate bonds of face value at RMB 1 billion to corporate investors in the PRC debenture market on 22 June 2010 at par value of RMB 100. The effective yield of the one-year corporate bonds is 3.27% per annum and interest is paid annually. The corporate bonds will mature in June 2011.

28 DEBENTURES PAYABLE (Continued)

(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. The ten-year corporate bond bears a fixed interest rate of 4.61% per annum and interest is paid annually. Interest payable for the current period was included in other payables.

The Company issued ten-year corporate bonds of RMB 5 billion to corporate investors in the PRC on 10 May 2007. The ten-year corporate bond bears a fixed interest rate of 4.20% per annum and interest is paid annually. Interest payable for the current period was included in other payables.

The Company issued five-year corporate bonds of RMB 8.5 billion to corporate investors in the PRC on 13 November 2007. The five-year corporate bond bears a fixed interest rate of 5.40% per annum and interest is paid annually. Interest payable for the current period was included in other payables.

The Company issued ten-year corporate bonds of RMB 11.5 billion to corporate investors in the PRC on 13 November 2007. The ten-year corporate bond bears a fixed interest rate of 5.68% per annum and interest is paid annually. Interest payable for the current period was included in other payables.

The Company issued three-year corporate bonds of RMB 10 billion to corporate investors in the PRC debenture market on 27 March 2009. The three-year corporate bond bears a fixed interest rate of 2.25% per annum and interest is paid annually. Interest payable for the current period was included in other payables.

The Company issued three-year corporate bonds of RMB 20 billion to corporate investors in the PRC debenture market on 26 June 2009. The three-year corporate bond bears a fixed interest rate of 2.48% per annum and interest is paid annually. Interest payable for the current period was included in other payables.

The Company issued five-year corporate bonds of RMB 11 billion to corporate investors in the PRC debenture market on 21 May 2010. The five-year corporate bond bears a fixed interest rate of 3.75% per annum and interest is paid annually. Interest payable for the current period was included in other payables.

The Company issued ten-year corporate bonds of RMB 9 billion to corporate investors in the PRC debenture market on 21 May 2010. The ten-year corporate bond bears a fixed interest rate of 4.05% per annum and interest is paid annually. Interest payable for the current period was included in other payables.

(iii) On 24 April 2007, the Company issued zero coupon convertible bonds due 2014 with an aggregate principal amount of HK$11.7 billion (the "Convertible Bonds"). The Convertible Bonds are convertible into shares of the Company from 4 June 2007 onwards at a price of HK$10.76 per share, subject to adjustment for, amongst other things, subdivision or consolidation of shares, bonus issues, rights issues, capital distribution, change of control and other events, which have a dilutive effect on the issued share capital of the Company ("the Conversion component"). Unless previously redeemed, converted or purchased and cancelled, the Convertible Bonds will be redeemed on the maturity date at 121.069% of the principal amount. The Company has an early redemption option at any time after 24 April 2011 (subject to certain criteria) ("the Early Redemption Option") and a cash settlement option when the holders exercise their conversion right ("the Cash Settlement Option"). The holders also have an early redemption option to require the Company to redeem all or some of the Convertible Bonds on 24 April 2011 at an early redemption amount of 111.544% of the principal amount.

At 31 December 2010, the carrying amounts of liability and derivative components, representing the Conversion component, the Early Redemption Option and the Cash Settlement Option, of the Convertible Bonds were RMB 10,326 million (2009: RMB 10,153 million) and RMB 340 million (2009: RMB 218 million), respectively. No conversion of the Convertible Bonds has occurred up to 31 December 2010.

At 31 December 2010 and 2009, the fair value of the derivative component of the Convertible Bonds was calculated using the Black-Scholes Model. The following are the major inputs used in the Black-Scholes Model:

	2010	2009
Stock price of underlying shares	HKD 7.44	HKD 6.91
Conversion price	HKD 10.76	HKD 10.76
Option adjusted spread	125 basis points	150 basis points
Average risk free rate	1.46%	0.87%
Average expected life	1.8 years	2.8 years

Any change in the major inputs into the Black-Scholes Model will result in changes in the fair value of the derivative component. The change in the fair value of the conversion option from 31 December 2009 to 31 December 2010 resulted in a loss from changes in fair value of RMB 127 million (2009: loss from changes in fair value of RMB 218 million), which has been recorded as "loss from changes in fair value" in the income statement for the year ended 31 December 2010.

The initial carrying amount of the liability component is the residual amount, which is the cash proceeds from issuance of debentures after deducting the allocated issuance cost of the Convertible Bonds relating to the liability component and the fair value of the derivative component as at 24 April 2007. Interest expense is calculated using the effective interest method by applying the effective interest rate of 4.19% to the adjusted liability component. If the aforesaid derivative component has not been separated out and the entire Convertible Bonds is considered as the liability component, the effective interest rate would have been 3.03%.

28 DEBENTURES PAYABLE (Continued)

(iv) On 26 February 2008, the Company issued convertible bonds with stock warrants due 2014 with an aggregate principal amount of RMB 30 billion in the PRC (the "Bonds with Warrants"). The Bonds with Warrants, which bear a fixed interest rate of 0.80% per annum payable annually, were issued at par value of RMB 100. The Bonds with Warrants were guaranteed by Sinopec Group Company. Every ten Bonds with Warrants are entitled to warrants (the "warrants") to subscribe 50.5 A shares of the Company. The warrants were exercisable during the five trading days between 25 February and 3 March 2010. During the year ended 31 December 2010, 188,292 units of warrants were exercised at an exercise price of RMB 19.15 per share (Note 30) , the share premium of RMB 2 million has been recorded as capital reserve, and the remaining warrants were expired.

The initial recognition of the liability component of the Bond with Warrants is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Interest expense is calculated using the effective interest method by applying the effective interest rate of 5.40% to the liability component. Upon the expiry of the warrants, the amount initially recognised as the equity component in capital reserve of RMB 6,879 million was transferred to share premium.

29 PROVISIONS

Provisions primarily represent provision for future dismantlement costs of oil and gas properties. The Group has established certain standardised measures for the dismantlement of its retired oil and gas properties by making reference to the industry practices and is thereafter constructively obligated to take dismantlement measures of its retired oil and gas properties. Movement of provision of the Group's obligations for the dismantlement of its retired oil and gas properties is as follow:

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Balance at 1 January	11,789	9,547	10,882	8,794
Provision for the year	3,389	2,013	3,278	1,897
Accretion expenses	574	447	533	405
Utilised for the year	(242)	(218)	(231)	(214)
Balance at 31 December	15,510	11,789	14,462	10,882

30 SHARE CAPITAL

	The Group and the Company	
	2010 RMB millions	2009 RMB millions

Registered, issued and fully paid:		
69,922,039,774 domestic listed A shares (2009: 69,921,951,000) of RMB 1.00 each	69,922	69,922
16,780,488,000 overseas listed H shares (2009: 16,780,488,000) of RMB 1.00 each	16,780	16,780
	86,702	86,702

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

Pursuant to the resolutions passed at an 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.

On 25 September 2006, the shareholders of listed A shares accepted the proposal offered by the shareholders of state-owned A shares whereby the shareholders of state-owned A shares agreed to transfer 2.8 state-owned A shares to shareholders of listed A shares for every 10 listed A shares they held, in exchange for the approval for the listing of all state-owned A shares. 66,337,951,000 domestic stated-owned A shares have been granted trading right upon settlement of the above consideration. The 784,000,000 stated-owned A shares paid to the shareholders of the listed A shares were tradable on 10 October 2006.

On 3 March 2010, the Company issued 88,774 domestic listed A shares with a par value of RMB 1.00 each at RMB 19.15 as a result of exercise of 188,292 warrants entitled to the Bonds with Warrants (Note 28(iv)) with a net proceeds of RMB 1,700,022.

All A 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, KPMG-C (2001) CV No. 0006 and KPMG-A (2010) CR No. 0008 were issued on 22 February 2000, 27 February 2001, 23 July 2001 and 19 April 2010 respectively.

31 CAPITAL RESERVE

The movements in capital reserve are as follows:

	The Group RMB millions	The Company RMB millions
Balance at 1 January 2010	38,202	38,234
Changes in fair value of cash flow hedge, net of deferred tax (Note 43)	(221)	—
Changes in fair value of available-for-sale financial assets, net of deferred tax (i)	(9)	(9)
Share of other comprehensive income of associates	(533)	(533)
Consideration for the combination of entities under common control (Note 1)	(13,177)	—
Warrants exercised (Note 28 (iv))	2	2
Acquisition of minority interests of subsidiaries (ii)	(9)	—
Reclassified to retained profits (iii)	4,867	—
Government grants	321	257
Others	(29)	(29)
Balance at 31 December 2010	29,414	37,922

The capital reserve represents mainly: (a) 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; (b) share premiums derived from issuances of H shares and A shares by the Company and excess of cash paid by investors over their proportionate shares in share capital, and the proportionate shares of unexercised portion of the Bond with Warrants at the expiration date; (c) difference between consideration paid for the combination of entities under common control over the carrying amount of the net assets acquired; and (d) adjustment for changes in fair value of available-for-sale financial assets.

Notes:

(i) The available-for-sale financial assets held by the Group and the Company are carried at fair value with any change in fair value, net of deferred tax, recognised directly in capital reserve.

(ii) During the current year, the Group acquired minority interests from subsidiaries. The difference between the considerations paid over total amounts of the net assets acquired was recognised in capital reserve.

(iii) The Group acquired SSI from Sinopec Group Company during the current year (Note 1). According to the accounting policy of business combination involving entities under common control (Note 3(1)(a)), the Group's proportionate shares in retained profits' credit balance of SSI on the acquisition date were transferred to capital reserve, and the Group's proportionate shares of foreign currency exchange difference's debit balance of SSI on the acquisition date were transferred out from capital reserve.

32 SURPLUS RESERVES

Movements in surplus reserves are as follows:

	The Group and the Company		
	Statutory surplus reserve RMB millions	Discretionary surplus reserve RMB millions	Total RMB millions
Balance at 1 January 2010	48,031	67,000	115,031
Appropriation	6,680	20,000	26,680
Balance at 31 December 2010	54,711	87,000	141,711

The Articles of Association of the Company and the PRC Company Law have set out the following profit appropriation plans:

(a) 10% of the net profit is transferred to the statutory surplus reserve. In the event that the reserve balance reaches 50% of the registered capital, no transfer is needed;

(b) After the transfer to the statutory surplus reserve, the directors authorised the transfer of RMB 20,000 million, subject to the shareholders' approval at the Annual General Meeting, to discretionary surplus reserve.

33 OPERATING INCOME AND OPERATING COSTS

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Income from principal operations	1,876,758	1,315,915	1,153,494	849,049
Income from other operations	36,424	29,137	35,001	27,254
Total	1,913,182	1,345,052	1,188,495	876,303
Operating cost	1,537,131	1,029,443	900,404	638,169

The income from principal operations represents revenue from sales of crude oil, natural gas, petroleum and chemical products net of value added tax. Operating costs primarily represents the products cost related to the principal operations. The Group's segmental information is set out in Note 51.

For the year ended 31 December 2010, revenue from sales to top five customers amounted to RMB 154,500 million (2009: RMB 104,900 million) which accounted for 8% (2009: 8%) of total operating income of the Group.

34 SALES TAXES AND SURCHARGES

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Consumption tax	117,928	110,206	89,918	85,951
Special oil income levy	19,760	7,145	18,548	6,738
City construction tax	11,277	9,212	9,159	7,669
Education surcharge	6,339	5,043	5,229	4,240
Resources tax	1,318	857	1,274	815
Business tax	567	421	458	328
Total	157,189	132,884	124,586	105,741

The applicable tax rate of the sales taxes and surcharges are set out in Note 4.

35 FINANCIAL EXPENSES

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Interest expenses incurred	8,664	9,783	7,336	7,589
Less: Capitalised interest expenses	1,266	2,621	1,247	2,498
Net interest expenses	7,398	7,162	6,089	5,091
Accretion expenses (Note 29)	574	447	533	405
Interest income	(660)	(277)	(290)	(107)
Foreign exchange loss	609	345	302	236

Foreign exchange gain	(1,074)	(429)	(538)	(308)
Total	6,847	7,248	6,096	5,317

36 EXPLORATION EXPENSES

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

37 IMPAIRMENT LOSSES

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Receivables	(37)	(53)	15	(108)
Inventories	1,010	216	664	61
Goodwill/Long-term equity investments	6,277	5	6,277	5
Fixed assets	7,567	7,133	6,945	6,587
Construction in progress	644	73	525	69
Intangible assets	—	79	—	79
Others	(16)	—	(16)	—
Total	15,445	7,453	14,410	6,693

38 LOSS FROM CHANGES IN FAIR VALUE

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Changes in fair value of financial assets and liabilities held for trading during the year	52	147	95	63
Fair value loss on the derivative component of the Convertible Bonds (Note 28(iii))	127	218	127	218
Total	179	365	222	281

39 INVESTMENT INCOME

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Income from investment accounted for under cost method	132	40	18,706	10,456
Income from investment accounted for under equity method	5,390	2,997	3,179	1,920
Investment income from disposal of long-term equity investments	107	30	949	(6)
Investment income from disposal of available-for-sale financial assets	3	226	—	—
Investment (loss)/income from disposal of financial assets and liabilities held for trading	(3)	229	5	13
Gain/(loss) from ineffective portion of cash flow hedge	16	(16)	—	—
Others	26	83	234	73
Total	5,671	3,589	23,073	12,456

40 NON-OPERATING INCOME

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Gain on disposal of non-current assets	466	457	430	320
Others	1,642	818	1,373	780
Total	2,108	1,275	1,803	1,100

41 NON-OPERATING EXPENSES

	The Group	The Company

	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Loss on disposal of non-current assets	213	246	141	210
Fines, penalties and compensation	69	159	64	155
Donations	177	174	169	166
Others	823	822	642	677
Total	1,282	1,401	1,016	1,208

42 INCOME TAX EXPENSE

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Provision for PRC income tax for the year	22,177	19,229	14,426	12,387
Deferred taxation	3,457	874	171	(1,295)
Adjustment for over-provision for income tax in respect of preceding year	(299)	(512)	(340)	(566)
Total	25,335	19,591	14,257	10,526

111

42 INCOME TAX EXPENSE (Continued)

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

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Profit before taxation	102,178	86,112	81,055	60,051
Expected income tax expense at a tax rate of 25%	25,545	21,528	20,264	15,013
Tax effect of non-deductible expenses	2,361	326	2,249	214
Tax effect of non-taxable income	(1,815)	(1,571)	(6,864)	(3,552)
Tax effect of preferential tax rate (Note)	(1,525)	(1,621)	(1,052)	(583)
Effect of income taxes from foreign operations in excess of taxes at the PRC statutory tax rate (Note)	2,639	2,006	—	—
Tax effect of utilisation of previously unrecognised tax losses and temporary differences	(1,663)	(683)	—	—
Tax effect of tax losses not recognised	92	118	—	—
Adjustment for over-provision for income tax in respect of preceding year	(299)	(512)	(340)	(566)
Actual income tax expense	25,335	19,591	14,257	10,526

Note: The provision for current income tax is based on a statutory rate of 25% 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 preferential rates of 15% or 22%, and the foreign operation in the Republic of Angola (“Angola”) that is taxed at 50% of the assessable income as determined in accordance with the relevant income tax rules and regulations of Angola.

43 OTHER COMPREHENSIVE INCOME

(a) Tax effects relating to each component of other comprehensive income

The Group

	2010			2009		
	Before-tax amount RMB millions	Tax benefit RMB millions	Net-of-tax amount RMB millions	Before-tax amount RMB millions	Tax benefit RMB millions	Net-of-tax amount RMB millions
Cash flow hedges						
Available-for-sale financial assets	(9)	—	(9)	(227)	52	(175)
	(533)	—	(533)	806	—	806

Share of other comprehensive income of associates						
Translation difference in foreign currency statements	(1,360)	—	(1,360)	(4)	—	(4)
Other comprehensive income	(2,165)	42	(2,123)	640	41	681

The Company

	2010			2009		
	Before-tax amount RMB millions	Tax benefit RMB millions	Net-of-tax amount RMB millions	Before-tax amount RMB millions	Tax benefit RMB millions	Net-of-tax amount RMB millions
Available-for-sale financial assets	(9)	—	(9)	24	—	24
Share of other comprehensive income of associates	(533)	—	(533)	806	—	806
Other comprehensive income	(542)	—	(542)	830	—	830

43 OTHER COMPREHENSIVE INCOME (Continued)

(b) Reclassification adjustments relating to components of other comprehensive income:

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Cash flow hedges:				
Effective portion of changes in fair value of hedging instruments recognised during the year	(682)	(2,058)	—	—
Amounts transferred to initial carrying amount of hedged items	53	257	—	—
Reclassification adjustments for amounts transferred to the operating costs for the year	366	1,866	—	—
Net deferred tax benefit / (expense) recognisedin other comprehensive income	42	(11)	—	—
Net movement during the year recognised in other comprehensive income	(221)	54	—	—
Available-for-sale financial assets:				
Changes in fair value recognised during the year	(6)	(1)	(9)	24
Gain on disposal transferred to profit and loss (Note 39)	(3)	(226)	—	—
Net deferred tax benefit recognised in other comprehensive income	—	52	—	—
Net movement during the year recognised in other comprehensive income	(9)	(175)	(9)	24
Share of other comprehensive income in associates:				
Net movement during the year recognised in other comprehensive income	(533)	806	(533)	806
Translation difference in foreign currency statements:				
Net movement during the year recognised in other comprehensive income	(1,360)	(4)	—	—

44 DIVIDENDS

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

Pursuant to a resolution passed at the Directors' meeting on 25 March 2011, a final dividends in respect of the year ended 31 December 2010 of RMB 0.13 per share totalling RMB 11,271 million was proposed for shareholders' approval at the Annual General Meeting.

(b) Dividends of ordinary shares declared during the year

Pursuant to the Company's Articles of Association and a resolution passed at the Director's meeting on 20 August 2010, an interim dividends in respect of the year ended 31 December 2010 of RMB 0.08 per share (2009: RMB 0.07 per share) totalling RMB 6,936 million (2009: RMB 6,069 million) was declared.

Pursuant to the shareholders' approval at the Annual General Meeting on 18 May 2010, a final dividend of RMB 0.11 per share totalling RMB 9,537 million in respect of the year ended 31 December 2009 was declared.

Pursuant to the shareholders' approval at the Annual General Meeting on 22 May 2009, a final dividend of RMB 0.09 per share totalling RMB 7,803 million in respect of the year ended 31 December 2008 was declared.

45 SUPPLEMENTAL INFORMATION TO THE CASH FLOW STATEMENT

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

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Net profit	76,843	66,521	66,798	49,525
Add: Impairment losses on assets	15,445	7,453	14,410	6,693
Depreciation of fixed assets	57,974	53,044	44,700	40,109
Amortisation of intangible assets	1,279	1,002	905	676
Dry hole costs	4,986	4,761	4,986	4,761
Net gain on disposal of fixed assets	(253)	(211)	(289)	(110)
Fair value loss	179	365	222	281
Financial expenses	6,847	7,248	6,096	5,317
Investment income	(5,671)	(3,589)	(23,073)	(12,456)
Increase in deferred tax assets	(1,853)	(206)	(3,236)	(1,357)
Increase in deferred tax liabilities	5,310	1,080	3,407	62
Increase in inventories	(15,828)	(45,822)	(14,840)	(18,589)
(Increase)/decrease in operating receivables	(38,148)	7,353	(25,284)	9,246
Increase in operating payables	64,152	67,010	51,383	33,944
Net cash flow from operating activities	171,262	166,009	126,185	118,102

(b) Net change in cash and cash equivalents:

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Cash balance at the end of the year	130	140	110	111
Less: Cash balance at the beginning of the year	140	161	111	141
Add: Cash equivalents at the end of the year	16,878	8,642	11,771	4,589
Less: Cash equivalents at the beginning of the year	8,642	6,879	4,589	2,086
Net increase of cash and cash equivalents	8,226	1,742	7,181	2,473

(c) The analysis of cash and cash equivalents held by the Group and the Company is as follows:

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Cash at bank and on hand				
Cash on hand	130	140	110	111
Demand deposits	16,878	8,642	11,771	4,589
Cash and cash equivalents at the end of the year	17,008	8,782	11,881	4,700

46 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

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

The name of the company	:	China Petrochemical Corporation
Organisation code	:	10169286-X
Registered address	:	No. 22, Chaoyangmen North Street, Chaoyang District, Beijing
Principal activities	:	Exploration, production, storage and transportation (including pipeline transportation), sales and utilisation of crude oil and natural gas; refining; wholesale and retail of gasoline, kerosene and diesel; production, sales, storage and transportation of petrochemical and other chemical products; industrial investment and investment management; exploration, construction, installation and maintenance of petroleum and petrochemical constructions and equipments; manufacturing electrical equipment; research, development, application and consulting services of information technology and alternative energy products; import & export of goods and technology.
Relationship with the Group	:	Ultimate holding company
Types of legal entity	:	State-owned
Authorised representative	:	Su Shulin
Registered capital	:	RMB 182,029 million

Sinopec Group Company is an enterprise controlled by the PRC government. For the year ended 31 December 2010, Sinopec Group Company held 75.84% 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
Sinopec Shengli Petroleum Administration Bureau
Sinopec Zhongyuan Petroleum Exploration Bureau
Sinopec Assets Management Corporation
Sinopec Engineering Incorporation
Sinopec Century Bright Capital Investment Limited
Sinopec Petroleum Storage and Reserve Limited
Sinopec International Petroleum Exploration and Production Limited

Associates of the Group:

Sinopec Railway Oil Marketing Company Limited
China Aviation Oil Supply Company Limited
Sinopec Changjiang Fuel Company Limited
BPZR (Ningbo) LPG Company Limited

China Shipping & Sinopec Suppliers Company Limited

Jointly controlled entities of the Group:
Shanghai Secco Petrochemical Company Limited
BASF-YPC Company Limited
Fujian Refining and Petrochemical Company Limited
SINOPEC SABIC Tianjin Petrochemical Company Limited

(c) 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	The Group		The Company	
		2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Sales of goods	(i)	230,883	162,671	117,333	72,924
Purchases	(ii)	109,195	64,548	68,719	44,665
Transportation and storage	(iii)	1,407	1,251	1,191	1,115
Exploration and development services	(iv)	33,301	31,343	32,062	29,936
Production related services	(v)	10,287	17,603	8,704	16,036
Ancillary and social services	(vi)	3,693	3,329	3,607	3,254
Operating lease charges	(vii)	7,450	4,866	7,134	4,703
Agency commission income	(viii)	65	45	32	6
Interest received	(ix)	93	38	139	20
Interest paid	(x)	967	1,186	272	657
Net deposits placed with related parties	(ix)	3,267	4,640	4,496	2,274
Net loans (repaid to)/obtained from related parties	(xi)	(1,254)	(21,928)	4,608	(12,195)

The amounts set out in the table above in respect of the years ended 31 December 2010 and 2009 represent the relevant costs to the Group and the Company and income from related parties as determined by the corresponding contracts with the related parties.

46 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(c) 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: (Continued)

At 31 December 2010 and 2009, there were no guarantees given to banks by the Group and the Company in respect of banking facilities to Sinopec Group Company and fellow subsidiaries. Guarantees given to banks by the Group and the Company in respect of banking facilities to subsidiaries, associates and jointly controlled entities are disclosed in Note 50(b).

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. This opinion has been confirmed by independent non-executive directors.

Notes:

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

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

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

(iv) Exploration and development services comprise direct costs incurred in the exploration and development 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.

(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) Interest received represents interest received from deposits placed with Sinopec Finance Company Limited and Sinopec Century Bright Capital Investment Limited, finance companies controlled by Sinopec Group Company. The applicable interest rate is determined in accordance with the prevailing saving deposit rate. The balance of deposits at 31 December 2010 was RMB 8,603 million (2009: RMB 5,336 million).

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

(xi) The Group obtained or repaid loans from or to Sinopec Group Company and fellow subsidiaries. The calculated periodic balance of average loan for the year ended 31 December 2010, which is based on monthly average balances, was RMB 54,116 million (2009: RMB 61,019 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 year ended 31 December 2010. The terms of these agreements are summarised as follows:

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

the government-prescribed price;

where there is no government-prescribed price, the government guidance price;

where there is neither a government-prescribed price nor a government guidance price, the market price; or

where none of the above is applicable, the price to be agreed between the parties, which shall be based on a reasonable cost incurred in providing such services plus a profit margin not exceeding 6%.

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

116

46 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(c) 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: (Continued)

(c) The Company has entered into a number of lease agreements with Sinopec Group Company to lease certain land and buildings. The Company and Sinopec Group Company can renegotiate the rental amount every three years for land and the rental amount is approximately RMB 6,727 million (2009: RMB 4,225 million) per annum. The Company and Sinopec Group Company can renegotiate the rental amount for buildings every year. 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.

(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.

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

Pursuant to the resolution passed at the Directors' meeting on 26 March 2010, the Group acquired 55% equity interests of SSI from SOOGL, a subsidiary of Sinopec Group Company, and the shareholder's loans of USD 292 million provided by SOOGL to SSI, at a total cash consideration of USD 2,259 million (Note 1).

Pursuant to the resolutions passed at the Directors' meeting held on 27 March 2009, the Group acquired the entire equity interests of Sinopec Qingdao Petrochemical Company Limited and certain storage and distribution operations from Sinopec Group Company for total cash consideration of RMB 771 million (Note 1), and certain assets of the exploration and production and refining segments from Sinopec Group Company for total cash consideration of RMB 1,068 million.

Pursuant to the resolution passed at the Directors' meeting held on 21 August 2009, the Group acquired certain operating assets related to the others business segment from a subsidiary of Sinopec Group Company for total consideration of RMB 3,946 million.

(d) Balances with Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities

The balances with the Group's related parties at 31 December 2010 and 2009 are as follows:

	The ultimate holding company		Other related companies	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Cash and cash equivalents	—	—	8,603	5,336
Accounts receivable	—	1	10,734	1,031
Prepayments and other receivables	—	27	3,390	783
Accounts payable	—	—	12,304	3,813
Advances from customers	—	—	1,064	955
Other payables	29	5	8,216	11,019
Short-term loans	—	—	17,918	13,313
Long-term loans (including current portion) (Note)	—	—	38,501	44,360

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.

As at and for the year ended 31 December 2010, and as at and for the year ended 31 December 2009, no individually significant 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.

(e) 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:

	2010 RMB thousands	2009 RMB thousands
Short-term employee benefits	8,692	7,664
Retirement scheme contributions	318	287
	9,010	7,951

47 PRINCIPAL 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 it 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 3. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Oil and gas properties and reserves

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

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

Future dismantlement costs for oil and gas properties are estimated with reference to engineering estimates after taking into consideration the anticipated method of dismantlement required in accordance with industry practices in the similar geographic area, including estimation of economic life of oil and gas properties, technology and price level. The present values of these estimated future dismantlement costs are capitalised as oil and gas properties with equivalent amounts recognised as provisions for dismantlement costs.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expense, impairment expense and future dismantlement costs. 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 unit-of-production method.

(b) Impairment for assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with "ASBE 8 Impairment of Assets". The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. 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.

(c) Depreciation

Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. Management 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.

(d) Allowances for doubtful accounts

Management estimates impairment losses for bad and doubtful debts resulting from the inability of the Group's customers to make the required payments. Management bases the estimates on the ageing 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.

(e) Allowance for diminution in value of inventories

If the costs of inventories fall below their net realisable values, an allowance for diminution in value of inventories is recognised. Net realisable value represents 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. Management bases the estimates on all available information, including the current market prices of the finished goods and raw materials, and historical operating costs. If the actual selling prices were to be lower or the costs of completion were to be higher than estimated, the actual allowance for diminution in value of inventories could be higher than estimated.

48 PRINCIPAL SUBSIDIARIES

The Company's principal subsidiaries are limited companies operating in the PRC and have been consolidated into the Group's financial statements for the year ended 31 December 2010. The following list contains only the particulars of subsidiaries which principally affected the results, assets and liabilities of the Group:

Name of enterprise		Principal Activities	Registered capital/paid-up capital RMB millions	Actual investment at 31 December 2010 RMB millions	Percentage of equity interest / voting right held by the Group %	Minority interests at 31 Decembe Principal activities 2010 RMB millions
(a)	Subsidiaries acquired through group restructuring:					
	China Petrochemical International Company Limited	Trading of petrochemical products and equipments	1,400	1,788	100.00	—
	Sinopec Sales Company Limited	Marketing and distribution of refined petroleum products	1,700	1,700	100.00	—
	Sinopec Yangzi Petrochemical Company Limited	Manufacturing of intermediate petrochemical products and petroleum products	16,337	13,207	100.00	—
	Fujian Petrochemical Company Limited (i)	Manufacturing of plastics, intermediate petrochemical products and petroleum products	4,769	2,269	50.00	2,513
	Sinopec Shanghai Petrochemical Company Limited	Manufacturing of synthetic fibres, resin and plastics, intermediate petrochemical products and petroleum products	7,200	7,250	55.56	8,220
	Sinopec Kantons Holdings Limited	Trading of crude oil and petroleum products	HKD 104	HKD 243	72.34	1,080
	Sinopec Yizheng Chemical Fibre Company Limited (i)	Production and sale of polyester chips and polyester fibres	4,000	3,509	42.00	4,821
			3,040	4,585	100.00	—

	China International United Petroleum and Chemical Company Limited	Trading of crude oil and petrochemical products				
	Sinopec (Hong Kong) Limited	Trading of crude oil and petrochemical products	HKD 5,477	5,370	100.00	—
(b)	Subsidiaries established by the Group:					
	Sinopec Shell (Jiangsu) Petroleum Marketing Company Limited	Marketing and distribution of refined petroleum products	830	498	60.00	460
	BP Sinopec (Zhejiang) Petroleum Company Limited	Marketing and distribution of refined petroleum products	800	480	60.00	374
	Sinopec Qingdao Refining and Chemical Company Limited	Manufacturing of intermediate petrochemical products and petroleum products	5,000	4,250	85.00	642
	Sinopec Senmei (Fujian) Petroleum Limited	Marketing and distribution of refined petroleum products	1,840	1,012	55.00	1,382
	Sinopec International Petroleum Exploration and Production Limited	Investment in exploration, production and sales of petroleum and natural gas	8,000	8,000	100.00	—
	Sinopec Fuel Oil Sales Company Limited (ii)	Marketing and distribution of refined petroleum products	2,200	2,568	100.00	—
(c)	Subsidiaries acquired through business combination under common control:					
	Sinopec Zhongyuan Petrochemical Company Limited	Manufacturing of petrochemical products	2,400	2,244	93.51	63
	Sinopec Hainan Refining and Chemical Company Limited	Manufacturing of intermediate petrochemical products and petroleum products	3,986	2,990	75.00	988
	Sinopec Qingdao Petrochemical Company Limited	Manufacturing of intermediate petrochemical products and	1,595	3,940	100.00	—

petroleum products

Except for Sinopec Kantons Holdings Limited and Sinopec (Hong Kong) Limited, which are incorporated in Bermuda and Hong Kong, respectively, all of the above principal subsidiaries are incorporated in the PRC.

Notes:

(i) The Company consolidated the financial statements of the entity because the Company controlled the board of this entity and had the power to govern its financial and operating policies.

(ii) The Company consolidated the financial statements of the newly established Sinopec Fuel Oil Sales Company Limited since 2010.

49 COMMITMENTS

Operating lease commitments

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

At 31 December 2010 and 2009, the future minimum lease payments of the Group and the Company under operating leases are as follows:

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Within one year	10,555	6,088	10,083	5,988
Between one and two years	9,877	5,905	9,641	5,861
Between two and three years	9,721	5,834	9,459	5,803
Between three and four years	9,634	5,722	9,390	5,694
Between four and five years	9,522	5,604	9,297	5,577
After five years	224,292	145,338	218,335	145,116
Total	273,601	174,491	266,205	174,039

Capital commitments

At 31 December 2010 and 2009, the capital commitments are as follows:

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Authorised and contracted for	138,980	124,403	125,367	119,145
Authorised but not contracted for	37,450	62,144	35,534	50,539
Total	176,430	186,547	160,901	169,684

These capital commitments relate to oil and gas exploration and development, refining and petrochemical production capacity expansion projects and the construction of service stations and oil depots.

Exploration and production licenses