

OS AA01

P.O. 487970 | 100



Companies House

Statement of details of parent law and other
information for an overseas company

☒ **What this form is for**
You may use this form to
accompany your accounts
disclosed under parent law

☒ **What this form is NOT**
You cannot use this form
an alteration of manner
with accounting require

WEDNESDAY



A10 *A5LUBB1S* 14/12/2016 #79
COMPANIES HOUSE

Part 1 Corporate company name

Corporate name of overseas company ① CHINA PETROLEUM & CHEMICAL CORPORATION

UK establishment number B R 0 1 2 1 0 9

→ **Filling in this form**
Please complete in typescript or in
bold black capitals

All fields are mandatory unless
specified or indicated by *

① This is the name of the company in
its home state

**Part 2 Statement of details of parent law and other
information for an overseas company**

A1 Legislation

Please give the legislation under which the accounts have been prepared and,
if applicable, the legislation under which the accounts have been audited

Legislation ② The P R C Accounting Standerds for Business Enterprises

② This means the relevant rules or
legislation which regulates the
preparation and, if applicable, the
audit of accounts

A2 Accounting principles

Accounts Have the accounts been prepared in accordance with a set of generally accepted
accounting principles?

Please tick the appropriate box

☒ **No. Go to Section A3**

☐ **Yes** Please enter the name of the organisation or other
body which issued those principles below, and then go to **Section A3**

③ Please insert the name of the
appropriate accounting organisation
or body

Name of organisation
or body ③

A3 Accounts

Accounts Have the accounts been audited? Please tick the appropriate box

☐ **No** Go to **Section A5**

☒ **Yes** Go to **Section A4**

OS AA01**Statement of details of parent law and other information for an overseas company****A4****Audited accounts**

Audited accounts

Have the accounts been audited in accordance with a set of generally accepted auditing standards?

Please tick the appropriate box

☒ **No** Go to **Part 3 'Signature'**☐ **Yes** Please enter the name of the organisation or other body which issued those standards below, and then go to **Part 3 'Signature'****❶** Please insert the name of the appropriate accounting organisation or bodyName of organisation or body **❶****A5****Unaudited accounts**

Unaudited accounts

Is the company required to have its accounts audited?

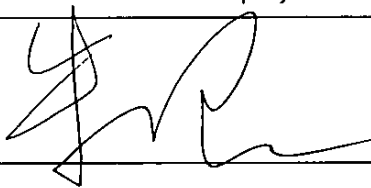
Please tick the appropriate box

☐ **No.**☐ **Yes****Part 3****Signature**

Signature

I am signing this form on behalf of the overseas company

Signature

X**X**This form may be signed by
Director, Secretary, Permanent representative

OS AA01

Statement of details of parent law and other information for an overseas company



Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

Contact name **Zhu Danlu**

Company name **Sinopec UK Representative Office**

Address **Office 308**

22a St James' Square

Post town

County/Region **London**

Postcode **S W 1 Y 4 J H**

Country **United Kingdom**

DX

Telephone **02038233633**



Checklist

We may return forms completed incorrectly or with information missing.

Please make sure you have remembered the following.

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register
- ☐ You have completed all sections of the form, if appropriate
- ☐ You have signed the form



Important information

Please note that all this information will appear on the public record.



Where to send

You may return this form to any Companies House address:

England and Wales

The Registrar of Companies, Companies House,
Crown Way, Cardiff, Wales, CF14 3UZ
DX 33050 Cardiff.

Scotland

The Registrar of Companies, Companies House,
Fourth floor, Edinburgh Quay 2,
139 Fountainbridge, Edinburgh, Scotland, EH3 9FF
DX ED235 Edinburgh 1
or LP - 4 Edinburgh 2 (Legal Post)

Northern Ireland:

The Registrar of Companies, Companies House,
Second Floor, The Linenhall, 32-38 Linenhall Street,
Belfast, Northern Ireland, BT2 8BG
DX 481 N R Belfast 1



Further information

For further information, please see the guidance notes on the website at www.companieshouse.gov.uk or email enquiries@companieshouse.gov.uk

This form is available in an alternative format. Please visit the forms page on the website at www.companieshouse.gov.uk



Huazhen

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

Beijing, The People's Republic of China

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

Hu Jianfei
Zhang Yansheng

25 March 2011

COMPANIES HOUSE

**(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
Chairman
(Authorised representative)

Wang Tianpu
Vice Chairman, President

Wang Xinhua
Chief Financial Officer

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

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
Chairman
(Authorised representative)

Wang Tianpu
Vice Chairman, President

Wang Xinhua
Chief Financial Officer

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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

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Su Shulin
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Wang Tianpu
Vice Chairman, President

Wang Xinhua
Chief Financial Officer

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
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Wang Xinhua
Chief Financial Officer

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
Chairman
(Authorised representative)

Wang Tianpu
Vice Chairman, President

Wang Xinhua
Chief Financial Officer

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
Chairman
(Authorised representative)

Wang Tianpu
Vice Chairman, President

Wang Xinhua
Chief Financial Officer

Financial Statements (PRC)

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 shareholders' 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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

for the year ended 31 December 2010

	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 PMB millions	Total shareholders' equity attributable to equity shareholders of the Company RMB millions	Minority interests PMB millions	Total shareholders' equity PMB 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 of entities under common control (Note 1)	—	(13,177)	—	—	—	—	(13,177)	—	(13,177)
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
Chairman
(Authorised representative)

Wang Tianpu
Vice Chairman, President

Wang Xinhua
Chief Financial Officer

Financial Statements (PRC)

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

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

for the year ended 31 December 2010

	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
Chairman
(Authorised representative)

Wang Tianpu
Vice Chairman, President

Wang Xinhua
Chief Financial Officer

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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 as 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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 knowledgeable, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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 from 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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 tonne, 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 Company Limited	2 year exemption and 3 year 50% reduction	Foreign investment enterprise

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

5 CASH AT BANK AND ON HAND

The Group

	Original currency millions	2010 Exchange rates	RMB millions	Original currency millions	2009 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

	Original currency millions	2010 Exchange rates	RMB millions	Original currency millions	2009 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

7 ACCOUNTS RECEIVABLE

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	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				The Company			
	2010		2009		2010		2009	
	Amount RMB millions	Percentage of total accounts receivable %	Amount RMB millions	Percentage of allowance to accounts receivable balance %	Amount RMB millions	Percentage of total accounts receivable %	Amount RMB millions	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				The Company			
	2010		2009		2010		2009	
	Amount RMB millions	Percentage of total accounts receivable %	Amount RMB millions	Percentage of allowance to accounts receivable balance %	Amount RMB millions	Percentage of total accounts receivable %	Amount 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

8 OTHER RECEIVABLES

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	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				The Company			
	2010		2009		2010		2009	
	Amount RMB millions	Percentage of total other receivables %	Allowance RMB millions	Percentage of allowance of other receivables balance %	Amount RMB millions	Percentage of total other receivables %	Allowance RMB millions	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				The Company			
	2010		2009		2010		2009	
	Amount RMB millions	Percentage of total other receivables %	Allowance RMB millions	Percentage of allowance of other receivables balance %	Amount RMB millions	Percentage of total other receivables %	Allowance RMB millions	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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

10 INVENTORIES

	The Group		The Company	
	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	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	Investments in associates	Other equity investments	Provision for impairment losses	Total
	RMB millions	RMB millions	RMB millions	RMB millions	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

	Investments in subsidiaries	Investments in jointly controlled entities	Investments in associates	Other equity investments	Provision for impairment losses	Total
	RMB millions	RMB millions	RMB millions	RMB millions	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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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 Province	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	2009 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).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

12 FIXED ASSETS (Continued)

The Company - by segment

	Exploration and product on RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others PMB 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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 31 December 2010 RMB millions	Percentage of Completion %	Source of funding	Accumulated interest capitalised at 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%)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

13 CONSTRUCTION IN PROGRESS (Continued)

The Company

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others PMB 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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	16,013

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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	2009	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

17 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

The Company

	Assets		Liabilities		Net balance	
	2010	2009	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

19 SHORT-TERM LOANS

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

	The Group		The Company	
	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	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	2009	2010	2009
	RMB millions	RMB millions	RMB millions	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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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	2009	2010	2009
	RMB millions	RMB millions	RMB millions	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	
	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	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% to 2.94% per annum at 31 December 2010 with maturities through 2024			
	1,488	1,660	1,488	1,660
US Dollar loans	Interest rates ranging from interest free to 7.8% per annum at 31 December 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

Financial Statements (PRC)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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	2009	2010	2009
	RMB millions	RMB millions	RMB millions	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	Remaining balance at 31 December 2009
					RMB millions	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	2009	2010	2009
	RMB millions	RMB millions	RMB millions	RMB millions
Short term corporate bonds (i)	1,000	31,000	—	30,000
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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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	2009	2010	2009
	RMB millions	RMB millions	RMB millions	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	2009
	RMB millions	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 state-owned A shares have been granted trading right upon settlement of the above consideration. The 784,000,000 state-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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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

- 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
- 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
- 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

- 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,
- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

38 LOSS FROM CHANGES IN FAIR VALUE

	The Group		The Company	
	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	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	2009	2010	2009
	RMB millions	RMB millions	RMB millions	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	2009	2010	2009
	RMB millions	RMB millions	RMB millions	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	2009	2010	2009
	RMB millions	RMB millions	RMB millions	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	2009	2010	2009
	RMB millions	RMB millions	RMB millions	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

Financial Statements (PRC)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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	(263)	42	(221)	65	(11)	54
Available for sale financial assets	(9)	—	(9)	(227)	52	(175)
Share of other comprehensive income of associates	(533)	—	(533)	806	—	806
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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

43 OTHER COMPREHENSIVE INCOME (Continued)

(b) Reclassification adjustments relating to components of other comprehensive income

	The Group		The Company	
	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	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) recognised in 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)	—	—

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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	2009	2010	2009
	RMB millions	RMB millions	RMB millions	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	2009	2010	2009
	RMB millions	RMB millions	RMB millions	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	2009	2010	2009
	RMB millions	RMB millions	RMB millions	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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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	2009	2010	2009
	RMB millions	RMB millions	RMB millions	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	2009
	RMB thousands	RMB thousands
Short term employee benefits	8,692	7,664
Retirement scheme contributions	318	287
	9,010	7,951

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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 December 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 24.3	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
China International United Petroleum and Chemical Company Limited	Trading of crude oil and petrochemical products	3,040	4,585	100.00	—
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 petroleum products	1,595	3,940	100.00	—

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 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	2009	2010	2009
	RMB millions	RMB millions	RMB millions	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	2009	2010	2009
	RMB millions	RMB millions	RMB millions	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

Exploration licenses for exploration activities are registered with the Ministry of Land and Resources. The maximum term of the Group's exploration licenses is 7 years, and may be renewed twice within 30 days prior to expiration of the original term with each renewal being for a two year term. The Group is obligated to make progressive annual minimum exploration investment relating to the exploration blocks in respect of which the license is issued. The Ministry of Land and Resources also issues production licenses to the Group on the basis of the reserve reports approved by relevant authorities. The maximum term of a full production license is 30 years unless a special dispensation is given by the State Council. The maximum term of the production licenses issued to the Group is 80 years as a special dispensation was given to the Group by the State Council. The Group's production license is renewable upon application by the Group 30 days prior to expiration.

The Group is required to make payments of exploration license fees and production right usage fees to the Ministry of Land and Resources annually which are expensed as incurred. Payments incurred were approximately RMB 450 million for the year ended 31 December 2010 (2009: RMB 395 million).

Estimated future annual payments are as follows:

	The Group		The Company	
	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	RMB millions
Within one year	119	136	119	136
Between one and two years	181	118	181	118
Between two and three years	22	21	22	21
Between three and four years	23	20	23	20
Between four and five years	23	20	23	20
After five years	645	689	645	689
Total	1,013	1,004	1,013	1,004

The implementation of commitments in previous year and the Group's commitments did not have material discrepancy.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

50 CONTINGENT LIABILITIES

- (a) The Company has been advised by its PRC lawyers that except for liabilities constituting or arising out of or relating to the business assumed by the Company in the Reorganisation, no other liabilities were assumed by the Company, and the Company is not jointly and severally liable for other debts and obligations incurred by Sinopec Group Company prior to the Reorganisation
- (b) At 31 December 2010 and 2009, guarantees given by the Group and the Company to banks in respect of banking facilities granted to the parties below are as follows

	The Group		The Company	
	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	RMB millions
Jointly controlled entities	7,548	14,815	4,894	9,543
Associates	152	181	43	61
Total	7,700	14,996	4,937	9,604

At 31 December 2010, the Company and a subsidiary have guaranteed to a jointly controlled entity in relation to the bank loans drawn down by the jointly controlled entity. The guarantees mature on 31 December 2015.

The Group monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognises any such losses under guarantees when those losses are estimable. At 31 December 2010 and 2009, it is not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Group's obligation under these guarantee arrangement.

Environmental contingencies

Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved, and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include i) the exact nature and extent of the contamination at various sites including, but not limited to refineries, oil fields, service stations, terminals and land development areas, whether operating, closed or sold, ii) the extent of required cleanup efforts, iii) varying costs of alternative remediation strategies, iv) changes in environmental remediation requirements, and v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. The Group paid normal routine pollutant discharge fees of approximately RMB 3,880 million for the year ended 31 December 2010 (2009 RMB 3,196 million).

Legal contingencies

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

51 SEGMENT REPORTING

Segment information is presented in respect of the Group's operating segments. The format is based on the Group's management and internal reporting structure. In view of the fact that the Company and its subsidiaries operate mainly in the PRC, no geographical segment information is presented.

In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment, the Group has identified the following five reportable segments. No operating segments have been aggregated to form the following reportable segments:

- Exploration and production – which explores and develops oil fields, produces crude oil and natural gas and sells such products to the refining segment of the Group and external customers
- Refining – which processes and purifies crude oil, which is sourced from the exploration and production segment of the Group and external suppliers, and manufactures and sells petroleum products to the chemicals and marketing and distribution segments of the Group and external customers
- Marketing and distribution – which owns and operates oil depots and service stations in the PRC, and distributes and sells refined petroleum products (mainly gasoline and diesel) in the PRC through wholesale and retail sales networks
- Chemicals – which manufactures and sells petrochemical products, derivative petrochemical products and other chemical products to external customers
- Others – which largely comprise the trading activities of the import and export companies of the Group and research and development undertaken by other subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

51 SEGMENT REPORTING (Continued)

The segments were determined primarily because the Group manages its exploration and production, refining, marketing and distribution, chemicals, and others businesses separately. The reportable segments are each managed separately because they manufacture and/or distribute distinct products with different production processes and due to their distinct operating and gross margin characteristics.

The Group's chief operating decision maker evaluates the performance and allocates resources to its operating segments on an operating income basis, without considering the effects of finance costs or investment income. The accounting policies of the Group's segments are the same as those described in the principal accounting policies (Note 3). Corporate administrative costs and assets are not allocated to the operating segments, instead operating segments are billed for direct corporate services. Inter segment transfer pricing is based on cost plus an appropriate margin as specified by the Group's policy.

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities. Segment assets include all tangible and intangible assets, except for cash at bank and on hand, long term equity investments, deferred tax assets and other non current assets. Segment liabilities exclude short term loans, short term debentures payable, long-term loans, debentures payable, deferred tax liabilities and other non current liabilities.

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

	2010 RMB millions	2009 RMB millions
Income from principal operations		
Exploration and production		
External sales	35,024	19,342
Inter segment sales	133,691	97,981
	168,715	117,323
Refining		
External sales	159,858	95,792
Inter segment sales	805,704	603,870
	965,562	699,662
Marketing and distribution		
External sales	1,032,900	778,417
Inter segment sales	3,258	2,372
	1,036,158	780,789
Chemicals		
External sales	285,596	192,735
Inter segment sales	35,581	21,125
	321,177	213,860
Others		
External sales	363,380	229,629
Inter segment sales	432,415	291,396
	795,795	521,025
Elimination of inter segment sales	(1,410,649)	(1,016,744)
Income from principal operations	1,876,758	1,315,915
Income from other operations		
Exploration and production	18,430	17,485
Refining	6,015	3,909
Marketing and distribution	4,540	2,302
Chemicals	6,445	4,597
Others	994	844
Income from other operations	36,424	29,137
Consolidated operating income	1,913,182	1,345,052

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

51 SEGMENT REPORTING (Continued)

	2010 RMB millions	2009 RMB millions
Operating profit/(loss)		
By segment		
Exploration and production	46,725	24,143
Refining	14,873	27,477
Marketing and distribution	30,622	30,280
Chemicals	14,763	13,288
Others	(2,821)	(2,323)
Elimination of inter segment profit	(1,455)	(2,603)
Total segment operating profit	102,707	90,262
Investment income		
Exploration and production	179	135
Refining	567	470
Marketing and distribution	1,054	908
Chemicals	3,234	1,395
Others	637	681
Total segment investment income	5,671	3,589
Financial expenses	(6,847)	(7,248)
Loss from changes in fair value	(179)	(365)
Operating profit	101,352	86,238
Add Non operating income	2,108	1,275
Less Non operating expenses	1,282	1,401
Profit before taxation	102,178	86,112
Assets		
Segment assets		
Exploration and production	298,710	277,255
Refining	229,266	210,502
Marketing and distribution	188,588	152,815
Chemicals	126,099	127,078
Others	60,695	60,263
Total segment assets	903,358	827,913
Cash at bank and on hand	18,140	10,018
Long term equity investments	45,037	33,503
Deferred tax assets	15,578	13,683
Other unallocated assets	3,276	1,779
Total assets	985,389	886,896
Liabilities		
Segment liabilities		
Exploration and production	58,364	51,731
Refining	49,713	53,567
Marketing and distribution	75,200	49,578
Chemicals	33,579	25,034
Others	75,635	55,908
Total segment liabilities	292,491	235,818
Short term loans	29,298	34,900
Short term debentures payable	1,000	31,000
Non current liabilities due within one year	5,530	9,316
Long term loans	58,895	58,962
Debentures payable	115,180	93,763
Deferred tax liabilities	15,017	9,707
Other non current liabilities	2,415	2,192
Other unallocated liabilities	12,881	4,690
Total liabilities	532,707	480,348

Financial Statements (PRC)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

51 SEGMENT REPORTING (Continued)

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year

	2010 RMB millions	2009 RMB millions
Capital expenditure for the year		
Exploration and production	52,680	54,272
Refining	20,015	15,468
Marketing and distribution	26,168	16,283
Chemicals	12,894	25,207
Others	1,894	1,505
	113,651	112,735
Depreciation, depletion and amortisation for the year		
Exploration and production	31,515	28,177
Refining	11,371	10,350
Marketing and distribution	6,489	5,999
Chemicals	8,848	8,584
Others	1,030	936
	59,253	54,046
Impairment losses on long-lived assets for the year		
Exploration and production	3,250	1,595
Refining	4,902	396
Marketing and distribution	1,183	1,479
Chemicals	5,121	3,807
Others	21	8
	14,477	7,285

52 FINANCIAL INSTRUMENTS

Overview

Financial assets of the Group include cash at bank, equity investments, accounts receivable, bills receivable, prepayments, financial assets held for trading, derivative financial instruments and other receivables. Financial liabilities of the Group include short term and long term loans, accounts payable, bills payable, advances from customers, debentures payable, derivative financial instruments and other payables.

The Group has exposure to the following risks from its use of financial instruments:

- credit risk,
- liquidity risk,
- market risk, and
- equity price risk

The Board of Directors has overall responsibility for the establishment, oversight of the Group's risk management framework, and developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. Internal audit department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group's audit committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's deposits placed with financial institutions and receivables from customers. To limit exposure to credit risk relating to deposits, the Group primarily places cash deposits only with large financial institution in the PRC with acceptable credit ratings. The majority of the Group's accounts receivable relates to sales of petroleum and chemical products to related parties and third parties operating in the petroleum and chemical industries. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable. The Group maintains an impairment loss for doubtful accounts and actual losses have been within management's expectations. No single customer accounted for greater than 10% of total accounts receivable.

The carrying amounts of cash at bank, time deposits with financial institutions, trade accounts and bills receivables, derivative financial instruments and other receivables, represent the Group's maximum exposure to credit risk in relation to financial assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

52 FINANCIAL INSTRUMENTS (Continued)

Liquidity risk

Liquidity risk is the risk that the Group encounters short fall of capital when meeting its obligation of financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed capital conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group prepares monthly cash flow budget to ensure that they will always have sufficient liquidity to meet its financial obligation as they fall due. The Group arranges and negotiates financing with financial institutions and maintains a certain level of standby credit facilities to reduce the liquidity risk.

At 31 December 2010, the Group has standby credit facilities with several PRC financial institutions which provide the Group to borrow up to RMB 167,500 million (2009 RMB 159,500 million) on an unsecured basis, at a weighted average interest rate of 2.61% (2009 3.33%). At 31 December 2010, the Group's outstanding borrowings under these facilities were RMB 6,622 million (2009 RMB 9,361 million) and were included in short term bank loans.

The following table sets out the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on prevailing rates current at the balance sheet date) and the earliest date the Group and the Company would be required to repay.

The Group

	2010					
	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years RMB millions
Short term loans	29,298	29,617	29,617	—	—	—
Non current liabilities due within one year	5,530	5,641	5,641	—	—	—
Short term debentures payable	1,000	1,016	1,016	—	—	—
Long term loans	58,895	61,908	1,133	5,685	18,341	36,749
Debentures payable	115,180	133,512	3,222	41,244	60,435	28,611
Bills payable	3,818	3,818	3,818	—	—	—
Accounts payable	132,528	132,528	132,528	—	—	—
Other payables and employee benefits payable	65,390	65,390	65,390	—	—	—
Total	411,639	433,430	242,365	46,929	78,776	65,360

	2009					
	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years RMB millions
Short term loans	34,900	35,412	35,412	—	—	—
Non current liabilities due within one year	9,316	9,650	9,650	—	—	—
Short term debentures payable	31,000	31,454	31,454	—	—	—
Long term loans	58,962	61,454	866	11,785	11,936	36,867
Debentures payable	93,763	113,426	2,445	2,445	89,446	19,090
Bills payable	23,111	23,114	23,114	—	—	—
Accounts payable	96,762	96,762	96,762	—	—	—
Other payables and employee benefits payable	57,304	57,304	57,304	—	—	—
Total	405,118	428,576	257,007	14,230	101,382	55,957

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

52 FINANCIAL INSTRUMENTS (Continued)

Liquidity risk (Continued)

The Company

	2010					
	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years RMB millions
Short term loans	7,229	7,292	7,292	—	—	—
Non current liabilities due within one year	4,109	4,210	4,210	—	—	—
Long term loans	58,377	61,358	1,117	5,640	17,898	36,703
Debentures payable	115,180	133,512	3,222	41,244	60,435	28,611
Bills payable	2,670	2,670	2,670	—	—	—
Accounts payable	87,244	87,244	87,244	—	—	—
Other payables and employee benefits payable	83,923	83,923	83,923	—	—	—
Total	358,732	380,209	189,678	46,884	78,333	65,314

	2009					
	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years RMB millions
Short term loans	5,728	5,865	5,865	—	—	—
Non current liabilities due within one year	4,865	5,072	5,072	—	—	—
Short term debentures payable	30,000	30,451	30,451	—	—	—
Long term loans	51,549	53,725	695	4,624	11,620	36,786
Debentures payable	93,763	113,426	2,445	2,445	89,446	19,090
Bills payable	14,084	14,087	14,087	—	—	—
Accounts payable	63,067	63,067	63,067	—	—	—
Other payables and employee benefits payable	81,603	81,603	81,603	—	—	—
Total	344,659	367,296	203,285	7,069	101,066	55,876

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(a) Currency risk

Currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Group's currency risk exposure primarily relates to short term and long term debts and loans from Sinopec Group Company and fellow subsidiaries denominated in US Dollars, Japanese Yen and Hong Kong Dollars, and the Group enters into foreign exchange contracts to manage currency risk exposure.

Included in derivative financial instruments short term and long term loans of the Group are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2010 millions	2009 millions	2010 millions	2009 millions
Gross exposure arising from loans and borrowings				
US Dollars	USD 501	USD 1,341	USD 48	USD 60
Japanese Yen	JPY 18,313	JPY 22,500	JPY 18,313	JPY 22,500
Hong Kong Dollars	HKD 12,114	HKD 11,779	HKD 12,114	HKD 11,779

A 5 percent strengthening of Renminbi against the following currencies at 31 December 2010 and 2009 would have increased net profit for the year and retained profits of the Group by the amounts shown below. This analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the foreign currency balances to which the Group has significant exposure as stated above, and that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

52 FINANCIAL INSTRUMENTS (Continued)

Market risk (Continued)

(a) Currency risk (Continued)

	The Group	
	2010	2009
	RMB millions	RMB millions
US Dollars	124	343
Japanese Yen	56	62
Hong Kong Dollars	400	389

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

(b) Interest rate risk

The Group's interest rate risk exposure arises primarily from its short term and long term loans. Loans carrying interest at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates and terms of repayment of short term and long term loans of the Group are disclosed in Note 19 and Note 27, respectively.

At 31 December 2010 it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would decrease/increase the Group's net profit for the year and retained profits by approximately RMB 259 million (for the year ended 31 December 2009 RMB 266 million). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and the change was applied to the Group's loans outstanding at that date with exposure to cash flow interest rate risk. The analysis is performed on the same basis for 2009.

(c) Commodity price risk

The Group engages in oil and gas operations and is exposed to commodity price risk related to price volatility of crude oil and refined petroleum products. The fluctuations in prices of crude oil and refined petroleum products could have significant impact on the Group. The Group uses derivative financial instruments including commodity futures and swaps, to manage a portion of such risk. At 31 December 2010, the Group had certain commodity contracts of crude oil and refined oil products designated as qualified cash flow hedges, effective fair value hedge and economic hedges. At 31 December 2010, the net fair value of such derivative hedging financial instruments is derivative financial assets of RMB 148 million (2009 RMB 142 million) recognised in other receivables and derivative financial liabilities of RMB 907 million (2009 RMB 319 million) recognised in other payables. At 31 December 2010 and 2009, the Company does not have any such derivative financial instruments.

At 31 December 2010, it is estimated that a general increase/decrease of USD 10 per barrel in crude oil and refined petroleum products, with all other variables held constant, would decrease/increase the Group's profit for the year and retained profits by approximately RMB 229 million (2009 decrease/increase RMB 215 million), and decrease/increase the Group's capital reserve by approximately RMB 1,066 million (2009 increase/decrease RMB 1,991 million). This sensitivity analysis has been determined assuming that the change in prices had occurred at the balance sheet date and the change was applied to the Group's derivative financial instruments at that date with exposure to commodity price risk. The analysis is performed on the same basis for 2009.

(d) Equity price risk

The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of derivatives of the Group. At 31 December 2010, the Group is exposed to this risk through the derivative embedded in the Convertible Bonds issued by the Company as disclosed in Note 28.

At 31 December 2010, it is estimated that an increase of 20% in the Company's own share price would decrease the Group's profit for the year and retained profits by approximately RMB 218 million (2009 RMB 306 million) while a decrease of 20% in the Company's own share price would increase the Group's profit for the year and retained profits by approximately RMB 108 million (2009 RMB 156 million). The sensitivity analysis has been determined assuming that the changes in the Company's own share price had occurred at the balance sheet date and that all other variables remain constant.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

52 FINANCIAL INSTRUMENTS (Continued)

Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy. With the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level) fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2 fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level) fair values measured using valuation techniques in which any significant input is not based on observable market data

2010

	Level 1 RMB millions	The Group Level 2 RMB millions	Level 3 RMB millions	Total RMB millions	Level 1 RMB millions	The Company Level 2 RMB millions	Level 3 RMB millions	Total RMB millions
Assets								
Financial assets held for trading	700	1,750	—	2,450	—	—	—	—
Available for sale financial assets								
– Listed	52	—	—	52	18	—	—	18
Derivative financial instruments								
– Derivative financial assets	113	223	—	336	—	1	—	1
	865	1,973	—	2,838	18	1	—	19
Liabilities								
Derivative financial instruments								
– Derivative components of the Convertible Bonds	—	340	—	340	—	340	—	340
– Other derivative financial liabilities	164	1,299	—	1,463	—	259	—	259
	164	1,639	—	1,803	—	599	—	599

2009

	Level 1 RMB millions	The Group Level 2 RMB millions	Level 3 RMB millions	Total RMB millions	Level 1 RMB millions	The Company Level 2 RMB millions	Level 3 RMB millions	Total RMB millions
Assets								
Available for sale financial assets								
– Listed	61	—	—	61	25	—	—	25
– Unlisted	—	1,400	—	1,400	—	—	—	—
Derivative financial instruments								
– Derivative financial assets	17	307	—	324	—	3	—	3
	78	1,707	—	1,785	25	3	—	28
Liabilities								
Derivative financial instruments								
– Derivative components of the Convertible Bonds	—	218	—	218	—	218	—	218
– Other derivative financial liabilities	4	754	—	758	—	171	—	171
	4	972	—	976	—	389	—	389

During the year there were no transfers between instruments in Level 1 and Level 2.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

52 FINANCIAL INSTRUMENTS (Continued)

Fair values (Continued)

(ii) Fair values of financial instruments carried at other than fair value

The fair values of the Group's financial instruments (other than long term debts and security investments) approximate their carrying amounts due to the short term maturity of these instruments. The fair values of long term debts are estimated by discounting future cash flows using current market interest rates offered to the Group for debt with substantially the same characteristics and maturities ranging 3.87% to 6.14% (2009 4.18% to 5.94%). The following table presents the carrying amount and fair value of the Group's long term debts other than loans from Sinopec Group Company and fellow subsidiaries at 31 December 2010 and 2009.

	2010 RMB millions	2009 RMB millions
Carrying amount	141,004	115,139
Fair value	139,999	114,471

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

At 31 December 2010, the fair value of the Group's available for sale financial assets quoted at market price is RMB 52 million. Other unquoted equity investments are individually and in the aggregate not material to the Group's financial position or results of operations. There are no listed market prices for such interests in the PRC and, accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs. The Group intends to hold these unquoted equity investments for long term purpose.

Except for the above items, the financial assets and liabilities of the Group are carried at amounts not materially different from their fair values as at 31 December 2010 and 2009.

53 EXTRAORDINARY GAIN AND LOSS

Pursuant to "Questions and answers in the prepayment of information disclosures of companies issuing public shares, No 1 – Extraordinary gain and loss" (2008), the extraordinary gains and losses of the Group are as follows:

	2010 RMB millions	2009 RMB millions
Extraordinary (gain)/loss for the year		
Gain on disposal of non current assets	(253)	(211)
Donations	177	174
Gain on holding and disposal of various investments	(71)	(322)
Net profit of subsidiaries generated from a business combination involving entities under common control before acquisition date	(3,043)	(2,583)
Other non operating income and expenses, net	(734)	190
	(3,924)	(2,752)
Tax effect	220	42
Total	(3,704)	(2,710)
Attributable to		
Equity shareholders of the Company	(2,368)	(1,419)
Minority interests	(1,336)	(1,291)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

54 BASIC AND DILUTED EARNINGS PER SHARE

(i) Basic earning per share

Basic earnings per share is calculated by the net profit attributable to equity shareholders of the Company and the weighted average number of outstanding ordinary shares of the Company

	2010	2009
Net profit attributable of equity shareholders of the Company (RMB millions)	70,713	62,677
Weighted average number of outstanding ordinary shares of the Company (millions)	86,702	86,702
Basic earnings per share (RMB/share)	0.816	0.723

The calculation of the weighted average number of ordinary shares is as follows

	2010	2009
Weighted average number of outstanding ordinary shares of the Company (millions)	86,702	86,702

(ii) Diluted earnings per share

Diluted earnings per share is calculated by the net profit attributable to equity shareholders of the Company (diluted) and the weighted average number of ordinary shares of the Company (diluted)

	2010	2009
Net profit attributable to equity shareholders of the Company (diluted) (RMB millions)	70,934	63,053
Weighted average number of outstanding ordinary shares of the Company (diluted) (millions)	87,790	87,790
Diluted earnings per share (RMB/share)	0.808	0.718

The calculation of the weighted average number of ordinary shares (diluted) is as follows

	2010	2009
The weighted average number of the ordinary shares issued at 31 December (millions)	86,702	86,702
Effect of the Convertible Bonds (millions)	1,088	1,088
Weighted average number of the ordinary shares issued at 31 December (diluted) (millions)	87,790	87,790

The calculation of diluted earnings per share for the year ended 31 December 2009 excludes the effect of the Warrants (Note 28(iv)), since it did not have any diluted effect

55 POST BALANCE SHEET EVENT

In March 2011, the Company issued convertible bonds due 2017 with an aggregate principal amount of RMB 23 billion in the PRC (the "2011 Convertible Bonds"). The 2011 Convertible Bonds are issued at par value of RMB 100 with an initial exercise price of RMB 9.73 per share. The interest rate of the 2011 Convertible Bonds per annum payable annually is 0.5% for the first year, 0.7% for the second year, 1.0% for the third year, 1.3% for the fourth year, 1.8% for the fifth year and 2.0% for the sixth year.

REPORT OF THE INTERNATIONAL AUDITOR



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

We have audited the consolidated financial statements of China Petroleum & Chemical Corporation ("the Company") and its subsidiaries (together "the Group") set out on pages 140 to 194, which comprise the consolidated and company balance sheets as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements that give a true and fair view 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 the directors, as well as evaluating the overall presentation of the consolidated financial statements

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

25 March 2011

(B) FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")
CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2010
(Amounts in millions, except per share data)

	Note	2010 RMB	2009 PMB
Turnover and other operating revenues			
Turnover	3	1,876,758	1,315,915
Other operating revenues	4	36,424	29,137
		1,913,182	1,345,052
Operating expenses			
Purchased crude oil products and operating supplies and expenses		(1,482,484)	(980,564)
Selling, general and administrative expenses	5	(51,048)	(40,539)
Depreciation, depletion and amortisation		(59,223)	(54,016)
Exploration expenses, including dry holes		(10,955)	(10,545)
Personnel expenses	6	(33,672)	(28,895)
Taxes other than income tax	7	(157,189)	(132,884)
Other operating expenses net	8	(13,607)	(6,910)
Total operating expenses		(1,808,178)	(1,254,353)
Operating profit		105,004	90,699
Finance costs			
Interest expense	9	(7,972)	(7,609)
Interest income		660	277
Unrealised loss on embedded derivative component of the Convertible Bonds	29(c)	(127)	(218)
Foreign currency exchange losses		(609)	(345)
Foreign currency exchange gains		1,074	429
Net finance costs		(6,974)	(7,466)
Investment income		273	374
Share of profits less losses from associates and jointly controlled entities		5,390	2,997
Profit before taxation		103,693	86,604
Tax expense	10	(25,689)	(19,599)
Profit for the year		78,004	67,005
Attributable to			
Equity shareholders of the Company		71,800	63,147
Non controlling interests		6,204	3,858
Profit for the year		78,004	67,005
Earnings per share	16		
Basic		0.828	0.728
Diluted		0.820	0.724

The notes on pages 148 to 194 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 14.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010
(Amounts in millions)

	Note	2010 RMB	2009 RMB
Profit for the year		78,004	67,005
Other comprehensive income for the year (after tax and reclassification adjustments)	15		
Cash flow hedges		(221)	54
Available for sale securities		(9)	(175)
Share of other comprehensive income of associates		(533)	806
Foreign currency translation differences		(1 360)	(4)
Total other comprehensive income		(2,123)	681
Total comprehensive income for the year		75,881	67,686
Attributable to			
Equity shareholders of the Company		69,793	63,867
Non controlling interests		6,088	3,819
Total comprehensive income for the year		75,881	67,686

The notes on pages 148 to 194 form part of these financial statements

CONSOLIDATED BALANCE SHEET

as at 31 December 2010
(Amounts in millions)

	Note	2010 RMB	2009 RMB
Non-current assets			
Property, plant and equipment, net	17	540,700	484,815
Construction in progress	18	89,599	120,375
Goodwill	19	8,207	14,072
Interest in associates	21	22,815	18,162
Interest in jointly controlled entities	22	20,199	13,928
Investments	23	2,075	2,174
Deferred tax assets	28	15,516	13,975
Lease prepayments		19,464	16,238
Long term prepayments and other assets	24	16,350	13,045
Total non-current assets		734,925	696,784
Current assets			
Cash and cash equivalents		17,008	8,782
Time deposits with financial institutions		1,132	1,236
Trade accounts receivable, net	25	43,093	26,592
Bills receivable	25	15,950	2,110
Inventories	26	156,546	141,727
Prepaid expenses and other current assets	27	26,500	21,032
Total current assets		260,229	201,479
Current liabilities			
Short term debts	29	17,019	59,350
Loans from Sinopec Group Company and fellow subsidiaries	29	18,809	15,866
Trade accounts payable	30	132,528	96,762
Bills payable	30	3,818	23,111
Accrued expenses and other payables	31	153,478	117,798
Income tax payable		10,754	3,034
Total current liabilities		336,406	315,921
Net current liabilities		(76,177)	(114,442)
Total assets less current liabilities		658,748	582,342
Non-current liabilities			
Long term debts	29	136,465	110,918
Loans from Sinopec Group Company and fellow subsidiaries	29	37,610	41,807
Deferred tax liabilities	28	15,017	9,707
Provisions	32	15,573	11,860
Other liabilities		3,715	3,234
Total non-current liabilities		208,380	177,526
Equity		450,368	404,816
Share capital	33	86,702	86,702
Reserves		332,345	292,238
Total equity attributable to equity shareholders of the Company		419,047	378,940
Non-controlling interests		31,321	25,876
Total equity		450,368	404,816

Approved and authorised for issue by the board of directors on 25 March 2011

Su Shulin
Chairman

Wang Tianpu
Vice Chairman, President

Wang Xinhua
Chief Financial Officer

The notes on pages 148 to 194 form part of these financial statements

BALANCE SHEET

as at 31 December 2010
(Amounts in millions)

	Note	2010 RMB	2009 RMB
Non-current assets			
Property, plant and equipment net	17	436,870	380,979
Construction in progress	18	76,830	112,217
Investments in subsidiaries	20	81,686	67,574
Interest in associates	21	12,160	9,076
Interest in jointly controlled entities	22	9,330	6,011
Investments	23	895	769
Deferred tax assets	28	11,789	8,815
Lease prepayments		12,412	9,570
Long term prepayments and other assets	24	13,304	11,333
Total non-current assets		655,276	606,344
Current assets			
Cash and cash equivalents		11,881	4,700
Time deposits with financial institutions		1	24
Trade accounts receivable net	25	16,660	10,990
Bills receivable	25	11,093	123
Inventories	26	103,170	88,993
Prepaid expenses and other current assets	27	44,205	33,235
Total current assets		187,010	138,065
Current liabilities			
Short term debts	29	6,359	39,755
Loans from Sinopec Group Company and fellow subsidiaries	29	4,979	838
Trade accounts payable	30	87,244	63,067
Bills payable	30	2,670	14,084
Accrued expenses and other payables	31	158,901	134,526
Income tax payable		7,620	1,953
Total current liabilities		267,773	254,223
Net current liabilities		(80,763)	(116,158)
Total assets less current liabilities		574,513	490,186
Non-current liabilities			
Long term debts	29	136,090	108,312
Loans from Sinopec Group Company and fellow subsidiaries	29	37,467	37,000
Deferred tax liabilities	28	7,951	4,544
Provisions	32	14,462	10,883
Other liabilities		1,909	1,625
Total non-current liabilities		197,879	162,364
		376,634	327,822
Equity			
Share capital	33	86,702	86,702
Reserves	34	289,932	241,120
Total equity		376,634	327,822

Approved and authorised for issue by the board of directors on 25 March 2011

Su Shulin
Chairman

Wang Tianpu
Vice Chairman, President

Wang Xinhua
Chief Financial Officer

The notes on pages 148 to 194 form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010
(Amounts in millions)

	Share capital RMB	Capital reserve RMB	Statutory share premium RMB	Discretionary surplus reserve RMB	Surplus reserve RMB	Other reserves RMB	Retained earnings RMB	Total equity attributable to equity shareholders of the Company RMB	Non-controlling interests RMB	Total equity RMB
Balance at 1 January 2009, as previously reported	86,702	(16,293)	18,072	43,078	47,000	(6)	149,336	327,889	20,653	348,542
Adjustment for the Acquisition of SSI (Note 1)	—	—	—	—	—	1,894	—	1,894	1,552	3,446
Balance at 1 January 2009, as adjusted	86,702	(16,293)	18,072	43,078	47,000	1,888	149,336	329,783	22,205	351,988
Profit for the year	—	—	—	—	—	—	63,147	63,147	3,858	67,005
Other comprehensive income	—	—	—	—	—	—	—	—	—	—
Cash flow hedges	—	—	—	—	—	54	—	54	—	54
Available for sale securities	—	—	—	—	—	(138)	—	(138)	(37)	(175)
Share of other comprehensive income of associates	—	—	—	—	—	806	—	806	—	806
Foreign currency translation differences	—	—	—	—	—	(2)	—	(2)	(2)	(4)
Total other comprehensive income	—	—	—	—	—	720	—	720	(39)	681
Total comprehensive income for the year	—	—	—	—	—	720	63,147	63,867	3,819	67,686
Transactions with owners, recorded directly in equity	—	—	—	—	—	—	—	—	—	—
Contributions by and distributions to owners	—	—	—	—	—	—	—	—	—	—
Final dividend for 2008 (Note 14)	—	—	—	—	—	—	(7,803)	(7,803)	—	(7,803)
Interim dividend for 2009 (Note 14)	—	—	—	—	—	—	(6,069)	(6,069)	—	(6,069)
Appropriation (Note (a) and (b))	—	—	—	4,953	20,000	—	(24,953)	—	—	—
Transfer from retained earnings to other reserves	—	—	—	—	—	1,387	(1,387)	—	—	—
Transfer from other reserves to capital reserve	—	(1,551)	—	—	—	1,551	—	—	—	—
Consideration for the Acquisition of the Acquired Group (Note 1)	—	—	—	—	—	(771)	—	(771)	—	(771)
Distribution to Sinopec Group Company	—	(49)	—	—	—	—	—	(49)	—	(49)
Distributions by subsidiaries to non controlling interests net of contributions	—	—	—	—	—	—	—	—	(144)	(144)
Total contributions by and distributions to owners	—	(1,600)	—	4,953	20,000	2,167	(40,212)	(14,692)	(144)	(14,836)
Changes in ownership interests in subsidiaries that do not result in a loss of control	—	—	—	—	—	—	—	—	—	—
Acquisitions of non controlling interests of subsidiaries	—	(18)	—	—	—	—	—	(18)	(4)	(22)
Total transactions with owners	—	(1,618)	—	4,953	20,000	2,167	(40,212)	(14,710)	(148)	(14,858)
Realisation of deferred tax on lease prepayments	—	—	—	—	—	(8)	8	—	—	—
Balance at 31 December 2009	86,702	(17,911)	18,072	48,031	67,000	4,767	172,279	378,940	25,876	404,816

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

for the year ended 31 December 2010
(Amounts in millions)

	Share capital RMB	Capital reserve RMB	Statutory share premium RMB	Discretionary surplus reserve RMB	surplus reserve RMB	Other reserves RMB	Retained earnings RMB	Total equity attributable to equity shareholders of the Company RMB	Non-controlling interests RMB	Total equity RMB
Balance at 1 January 2010	86,702	(17,911)	18,072	48,031	67,000	4,767	172,279	378,940	25,876	404,816
Profit for the year	—	—	—	—	—	—	71,800	71,800	6,204	78,004
Other comprehensive income	—	—	—	—	—	—	—	—	—	—
Cash flow hedges	—	—	—	—	—	(221)	—	(221)	—	(221)
Available for sale securities	—	—	—	—	—	(9)	—	(9)	—	(9)
Share of other comprehensive income of associates	—	—	—	—	—	(533)	—	(533)	—	(533)
Foreign currency translation differences	—	—	—	—	—	(1,244)	—	(1,244)	(116)	(1,360)
Total other comprehensive income	—	—	—	—	—	(2,007)	—	(2,007)	(116)	(2,123)
Total comprehensive income for the year	—	—	—	—	—	(2,007)	71,800	69,793	6,088	75,881
Transactions with owners recorded directly in equity	—	—	—	—	—	—	—	—	—	—
Contributions by and distributions to owners	—	—	—	—	—	—	—	—	—	—
Warrants exercised (Note 33)	—	—	2	—	—	—	—	2	—	2
Expiry of warrants (Note 29 (d))	—	(6,879)	6,879	—	—	—	—	—	—	—
Final dividend for 2009 (Note 14)	—	—	—	—	—	—	(9,537)	(9,537)	—	(9,537)
Interim dividend for 2010 (Note 14)	—	—	—	—	—	—	(6,936)	(6,936)	—	(6,936)
Appropriation (Note (a) and (b))	—	—	—	6,680	20,000	—	(26,680)	—	—	—
Transfer from retained earnings to other reserve	—	—	—	—	—	1,672	(1,672)	—	—	—
Transfer from other reserves to capital reserve	—	(8,310)	—	—	—	8,310	—	—	—	—
Consideration for the Acquisition of SSI (Note 1)	—	—	—	—	—	(13,177)	—	(13,177)	—	(13,177)
Distribution to Sinopec Group Company	—	(29)	—	—	—	—	—	(29)	—	(29)
Distributions by subsidiaries to non controlling interests net of contributions	—	—	—	—	—	—	—	—	(643)	(643)
Total contributions by and distributions to owners	—	(15,218)	6,881	6,680	20,000	(3,195)	(44,825)	(29,677)	(643)	(30,320)
Changes in ownership interests in subsidiaries that do not result in a loss of control	—	—	—	—	—	—	—	—	—	—
Acquisitions of non controlling interests of subsidiaries	—	(9)	—	—	—	—	—	(9)	—	(9)
Total transactions with owners	—	(15,227)	6,881	6,680	20,000	(3,195)	(44,825)	(29,686)	(643)	(30,329)
Realisation of deferred tax on lease prepayments	—	—	—	—	—	(8)	8	—	—	—
Others (Note(f))	—	—	—	—	—	1,325	(1,325)	—	—	—
Balance at 31 December 2010	86,702	(33,138)	24,953	54,711	87,000	882	197,937	419,047	31,321	450,368

Notes

(a) According to the Company's Articles of Association the Company is required to transfer 10% of its net profit in accordance with the PRC accounting policies adopted by the Group to statutory surplus reserve. In the event that the reserve balance reaches 50% of the registered capital, no transfer is needed. The transfer to this reserve must be made before distribution of a dividend to shareholders. Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

During the year ended 31 December 2010, the Company transferred RMB 6,680 million (2009: RMB 4,953 million), being 10% of the current year's net profit determined in accordance with the PRC accounting policies complying with "Interpretation of Accounting Standards for Business Enterprises ("ASBE")" to this reserve.

(b) For the year ended 31 December 2010, the directors authorised the transfer of RMB 20,000 million (2009: RMB 20,000 million), subject to the shareholders' approval at the Annual General Meeting to the discretionary surplus reserve. The usage of the discretionary surplus reserve is similar to that of statutory surplus reserve.

(c) According to the Company's Articles of Association, the amount of retained earnings available for distribution to equity shareholders of the Company is the lower of the amount determined in accordance with the accounting policies complying with ASBE and the amount determined in accordance with the accounting policies complying with International Financial Reporting Standards ("IFRS"). At 31 December 2010, the amount of retained earnings available for distribution was RMB 112,921 million (2009: RMB 91,772 million), being the amount determined in accordance with the accounting policies complying with IFRS. Final dividend for the year ended 31 December 2010 of RMB 11,271 million (2009: RMB 9,537 million) proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(d) The capital reserve represents (i) the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from Sinopec Group Company in connection with the Reorganisation; (ii) the difference between the considerations paid over the amount of the net assets of entities and related operations acquired from Sinopec Group Company and non controlling interests.

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

(f) During the year ended 31 December 2010, the Group transferred RMB 1,325 million (2009: RMB nil) from retained earnings to other reserves, being the net balance of the reserve for the safety production fund determined according to relevant PRC regulations.

The notes on pages 148 to 194 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2010
(Amounts in millions)

	Note	2010 RMB	2009 RMB
Net cash generated from operating activities	(a)	170,333	165,513
Investing activities			
Capital expenditure		(106,371)	(107,487)
Exploratory wells expenditure		(7,392)	(8,708)
Purchase of investments, investments in associates and investments in jointly controlled entities		(11,310)	(3,240)
Proceeds from disposal of investments and investments in associates		1,687	504
Proceeds from disposal of property, plant and equipment		16,126	594
Purchase of time deposits with financial institutions		(3,522)	(2,304)
Proceeds from maturity of time deposits with financial institutions		3,626	1,820
Interest received		660	277
Investment and dividend income received		1,335	1,133
Payments for derivative financial instruments		(5,273)	(3,197)
Proceeds from derivative financial instruments		4,646	3,253
Net cash used in investing activities		(105,788)	(117,355)
Financing activities			
Proceeds of issuance of corporate bonds		21,000	61,000
Proceeds of issuance of shareholders		2	—
Proceeds from bank and other loans		663,491	781,212
Repayments of corporate bonds		(31,000)	(15,000)
Repayments of bank and other loans		(672,804)	(850,683)
Distributions by subsidiaries to non controlling interests		(1,051)	(858)
Contributions to subsidiaries from non-controlling interests		408	714
Acquisitions of non controlling interests of subsidiaries		—	(213)
Dividend paid		(16,391)	(13,559)
Interest paid		(6,739)	(7,762)
Distributions to Sinopec Group Company		(13,210)	(1,262)
Net cash used in financing activities		(56,294)	(46,411)
Net increase in cash and cash equivalents		8,251	1,747
Cash and cash equivalents at 1 January		8,782	7,040
Effect of foreign currency exchange rate changes		(25)	(5)
Cash and cash equivalents at 31 December		17,008	8,782

The notes on pages 148 to 194 form part of these financial statements

NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2010
(Amounts in millions)

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

	2010 RMB	2009 RMB
Operating activities		
Profit before taxation	103,693	86,604
Adjustments for		
Depreciation, depletion and amortisation	59,223	54,016
Dry hole costs	4,986	4,761
Share of profits less losses from associates and jointly controlled entities	(5,390)	(2,997)
Investment income	(273)	(374)
Interest income	(660)	(277)
Interest expense	7,972	7,609
Unrealised gain on foreign currency exchange rate changes and derivative financial instruments	(438)	(81)
Gain on disposal of property, plant and equipment, net	(253)	(211)
Impairment losses on long lived assets	14,477	7,285
Unrealised loss on embedded derivative component of the Convertible Bonds	127	218
	183,464	156,553
Increase in trade accounts receivable	(16,500)	(13,467)
(Increase)/decrease in bills receivable	(13,840)	1,568
Increase in inventories	(14,819)	(45,606)
(Increase)/decrease in prepaid expenses and other current assets	(7,062)	13,989
Increase in lease prepayments	(3,226)	(5,073)
Decrease in long term prepayments and other assets	2,831	4,378
Increase in trade accounts payable	35,765	40,943
(Decrease)/increase in bills payable	(19,293)	4,353
Increase in accrued expenses and other payables	37,318	13,417
(Decrease)/increase in other liabilities	(147)	503
	184,491	171,558
Income tax paid	(14,158)	(6,045)
Net cash generated from operating activities	170,333	165,513

The notes on pages 148 to 194 form part of these financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2010

1 PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PREPARATION

Principal activities

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

Organisation

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

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

Basis of preparation

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, the Acquired Group and SSI are under the common control of Sinopec Group Company, the Acquisition of the Acquired Group and the Acquisition of SSI have been reflected in the accompanying consolidated financial statements as combination of entities under common control in a manner similar to a pooling of interests. Accordingly, the assets and liabilities of the Acquired Group and SSI have been accounted for at historical cost and the consolidated financial statements of the Company prior to these acquisitions have been restated to include the results of operation and the assets and liabilities of the Acquired Group and SSI on a combined basis. The differences between the total considerations paid over the amounts of the net assets of the Acquired Group and SSI were RMB 1,551 million and RMB 8,310 million, respectively, which were accounted for as equity transactions.

The financial condition and the results of operation as at and for the year ended 31 December 2009 previously reported by the Group have been restated to include the results of operations and the assets and liabilities of SSI on a combined basis as set out below.

	The Group, as previously reported RMB millions	SSI RMB millions	Elimination RMB millions	The Group, as restated RMB millions
Results of operation for the year ended 31 December 2009				
Operating revenue	1,345,052	10,973	(10,973)	1,345,052
Profit attributable to the equity shareholders of the Company	61,760	1,387	—	63,147
Basic earnings per share (RMB)	0.712	—	—	0.728
Diluted earnings per share (RMB)	0.708	—	—	0.724
Financial condition as at 31 December 2009				
Current assets	201,280	1,186	(987)	201,479
Total assets	877,842	21,408	(987)	898,263
Current liabilities	313,419	3,489	(987)	315,921
Total liabilities	478,989	15,445	(987)	493,447
Total equity attributable to equity shareholders of the Company	375,661	3,279	—	378,940

- SSI sold its crude oil to the Group. The transactions between the Group and the SSI have been eliminated on combination. All other significant balances and transactions between the Group and SSI have been eliminated on combination.

The accompanying financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). IFRS includes International Accounting Standards ("IAS") and related interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group and the Company are set out in Note 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

1 PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PREPARATION (Continued)

Basis of preparation (Continued)

The IASB has issued certain new and revised IFRS that are first effective for the current accounting period of the Group and the Company. There have been no significant changes to the accounting policy applied in these financial statements for the years presented as a result of these developments.

The Group has not adopted any new standard or interpretation that is not yet effective for the current accounting period (Note 42).

In prior years, investment and dividend income received, and interest received and paid were classified as operating activities in the consolidated statement of cash flows. Since 2010, investment and dividend income and interest received are classified as investing activities and interest paid are classified as financing activities, in the consolidated statement of cash flows. The change is to align the presentation with the Group's financial statements prepared in accordance with the PRC accounting policies complying with ASBE. This change has been applied retrospectively.

The accompanying financial statements are prepared on the historical cost basis except for the remeasurement of available for sale securities (Note 2(k)), securities held for trading (Note 2(k)), derivative financial instruments (Note 2(l) and (m)) and derivative component of the convertible bonds (Note 2(q)) to their fair values.

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

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

Key assumptions and estimation made by management in the application of IFRS that have significant effect on the financial statements and the major sources of estimation uncertainty are disclosed in Note 41.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

(i) Subsidiaries and non-controlling interests

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

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

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

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

The particulars of the Group's principal subsidiaries are set out in Note 39.

(ii) Associates and jointly controlled entities

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

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or the Company and other parties, where the contractual arrangement establishes that the Group or the Company and one or more of the other parties share joint control over the economic activity of the entity.

Investments in associates and jointly controlled entities are accounted for in the consolidated financial statements using the equity method from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (Note 2(j) and (n)).

The Group's share of the post acquisition, post tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post acquisition post tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

(iii) Transactions eliminated on consolidation

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

(b) Translation of foreign currencies

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

Exchange differences, other than those capitalised as construction in progress, are recognised as income or expense in the "finance costs" section of the consolidated income statement.

The results of foreign operations are translated into Renminbi at the applicable rates quoted by the PBOC prevailing on the transaction dates. Balance sheet items, including goodwill arising on consolidation of foreign operations are translated into Renminbi at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated in equity in the other reserves.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the consolidated income statement when the profit or loss on disposal is recognised.

(c) Cash and cash equivalents

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

(d) Trade, bills and other receivables

Trade, bills and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (Note 2(n)). Trade, bills and other receivables are derecognised if the Group's contractual rights to the cash flows from these financial assets expire or if the Group transfers these financial assets to another party without retaining control or substantially all risks and rewards of the assets.

(e) Inventories

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

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

(f) Property, plant and equipment

An item of property, plant and equipment is recorded at cost, less accumulated depreciation and impairment losses (Note 2(n)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use. The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred, it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other expenditure is recognised as an expense in the consolidated income statement in the year in which it is incurred.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment, other than oil and gas properties, are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised as income or expense in the consolidated income statement on the date of retirement or disposal.

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

Buildings	15 to 45 years
Plant, machinery equipment, and others	4 to 18 years
Oil depots, storage tanks and service stations	8 to 25 years

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Oil and gas properties

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

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

Management 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 a 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.

(h) Lease prepayments

Lease prepayments represent land use rights paid to the relevant government authorities. Land use rights are carried at cost less the accumulated amount charged to expense and impairment losses (Note 2(n)). The cost of lease prepayments are charged to expense on a straight line basis over the respective periods of the rights.

(i) Construction in progress

Construction in progress represents buildings, oil and gas properties, various plant and equipment under construction and pending installation and is stated at cost less impairment losses (Note 2(n)). Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the periods of construction.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(j) Goodwill

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

Prior to 1 January 2008, the acquisition of the non controlling interests of a consolidated subsidiary was accounted for using the acquisition method whereby the difference between the cost of acquisition and the fair value of the net identifiable assets acquired (on a proportionate share) was recognised as goodwill. From 1 January 2008, any difference between the amount by which the non controlling interest is adjusted (such as through an acquisition of the non controlling interests) and the cash or other considerations paid is recognised in equity.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to cash generating units, or groups of cash generating units, that is expected to benefit the synergies of the combination and is tested annually for impairment (Note 2(n)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (Note 2(n)).

(k) Investments

Investments in available for sale securities are carried at fair value with any change in fair value recognised in other comprehensive income and accumulated separately in equity in other reserves. When these investments are derecognised or impaired, the cumulative gain or loss is reclassified from equity to the consolidated income statement. Investments in equity securities, other than investments in associates and jointly controlled entities, that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (Note 2(n)).

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in the consolidated income statement as incurred. At each balance sheet date, the fair value is remeasured with any resultant gain or loss being recognised in the consolidated income statement.

(l) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on re-measurement to fair value is recognised immediately in the consolidated income statement, except where the derivatives qualify for cash flow hedge accounting or the hedge of the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (Note 2(m)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Hedging

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on re-measurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in other reserves. The ineffective portion of any gain or loss is recognised immediately in the consolidated income statement.

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 reclassified from equity to be included in the initial cost or other carrying amount of the non financial asset or liability.

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 reclassified from equity to the consolidated income statement in the same period or periods during which the asset acquired or liability assumed affects the consolidated income statement (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to the consolidated income statement in the same period or periods during which the hedged forecast transaction affects the consolidated income statement.

When a hedging instrument expires or is sold, terminated, exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to the consolidated income statement immediately.

(ii) Hedge of net investments in foreign operations

The portion of the gain or loss on re-measurement to fair value of an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised in other comprehensive income and accumulated separately in equity in the exchange reserve until the disposal of the foreign operation, at which time the cumulative gain or loss is reclassified from equity to the consolidated income statement. The ineffective portion is recognised immediately in the consolidated income statement.

(n) Impairment of assets

- (i) Trade accounts receivable, other receivables and investment in equity securities that do not have an quoted market price in an active market are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is determined and recognised.

The impairment loss is measured as the difference between the asset's carrying amount and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material, and is recognised as an expense in the consolidated income statement. Impairment losses for trade and other receivables are reversed through the income statement if in a subsequent period the amount of the impairment losses decreases. Impairment losses for equity securities carried at cost are not reversed.

For investments in associates and jointly controlled entities accounted under the equity method (Note 2(a)(ii)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with the accounting policy set out in Note 2(n)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with the accounting policy set out in Note 2(n)(ii).

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

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

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

The amount of the reduction is recognised as an expense in the consolidated income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then, to reduce the carrying amount of the other assets in the unit on a pro-rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

Management assesses at each balance sheet date whether there is any indication that an impairment loss recognised for a long lived asset, except in the case of goodwill, in prior years may no longer exist. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset when the circumstances and events that led to the write down or write off cease to exist, is recognised as an income. The reversal is reduced by the amount that would have been recognised as depreciation had the write down or write off not occurred. An impairment loss in respect of goodwill is not reversed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Trade, bills and other payables

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

(p) Interest-bearing borrowings

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

(q) Convertible bonds

(i) 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 that 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 issuance 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 on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until 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 share premium as consideration for the shares issued. If the bond is redeemed, the capital reserve is transferred to retained earnings

(ii) Other convertible bonds

Convertible bonds issued with a cash settlement option and other embedded derivative features are accounted for as compound financial instruments that contain a liability component and a derivative component

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 issuance 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 the consolidated income statement

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 the consolidated income statement. The liability component is subsequently carried at amortised cost until extinguished on conversion or redemption. The interest expense recognised in the consolidated income statement 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 the consolidated income statement

(r) Provisions and contingent liability

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

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

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 cost, is reflected as an adjustment to the provision and oil and gas properties

A provision for onerous contracts is recognised when the expected 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Revenue recognition

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

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

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

(t) Borrowing costs

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

(u) Repairs and maintenance expenditure

Repairs and maintenance expenditure is expensed as incurred.

(v) Environmental expenditures

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

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

(w) Research and development expense

Research and development expenditures are expensed in the period in which they are incurred. Research and development expense amounted to RMB 4,835 million for the year ended 31 December 2010 (2009: RMB 3,816 million).

(x) Operating leases

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

(y) Employee benefits

The contributions payable under the Group's retirement plans are recognised as an expense in the consolidated income statement as incurred and according to the contribution determined by the plans. Further information is set out in Note 37.

Termination benefits, such as employee reduction expenses, are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(z) Income tax

Income tax comprises current and deferred tax. Current tax is calculated on taxable income by applying the applicable tax rates. Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes only to the extent that it is probable that future taxable income will be available against which the assets can be utilised. Deferred tax is calculated on the basis of the enacted tax rates or substantially enacted tax rates that are expected to apply in the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged or credited to the consolidated income statement, except for the effect of a change in tax rate on the carrying amount of deferred tax assets and liabilities which were previously charged or credited to other comprehensive income or directly in equity.

The tax value of losses expected to be available for utilisation against future taxable income is set off against the deferred tax liability within the same legal tax unit and jurisdiction to the extent appropriate, and is not available for set off against the taxable profit of another legal tax unit. The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(aa) Dividends

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

(bb) Segment reporting

Operating segments and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's chief operating decision maker for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business.

3 TURNOVER

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

4 OTHER OPERATING REVENUES

	The Group	
	2010	2009
	RMB millions	RMB millions
Sale of materials, service and others	36,032	28,749
Rental income	392	388
	36,424	29,137

5 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The following items are included in selling general and administrative expenses

	The Group	
	2010	2009
	RMB millions	RMB millions
Operating lease charges	10,452	7,564
Auditors' remuneration audit services	82	84
Impairment losses		
- trade accounts receivable	48	70
- other receivables	308	222

6 PERSONNEL EXPENSES

	The Group	
	2010	2009
	RMB millions	RMB millions
Salaries, wages and other benefits	28,825	24,248
Contributions to retirement schemes (Note 37)	4,847	4,647
	33,672	28,895

7 TAXES OTHER THAN INCOME TAX

	The Group	
	2010	2009
	RMB millions	RMB millions
Consumption tax (i)	117,928	110,206
Special oil income levy (ii)	19,760	7,145
City construction tax (iii)	11,277	9,212
Education surcharge	6,339	5,043
Resources tax	1,318	857
Business tax	567	421
	157,189	132,884

Note

- (i) The consumption tax rates on gasoline diesel naphtha solvent oil lubricant oil fuel oil and jet fuel oil are 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 tonne respectively
- (ii) Special oil income levy is levied on oil exploration and production entities based on the progressive rates ranging from 20% to 40% on the portion of the monthly weighted average sales price of the crude oil produced in the PRC exceeding USD 40 per barrel
- (iii) City construction tax is levied on an entity based on its total amount of value added tax, consumption tax and business tax

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

8 OTHER OPERATING EXPENSES, NET

	The Group	
	2010	2009
	RMB millions	RMB millions
Fines, penalties and compensations	69	159
Donations	177	174
Gain on disposal of property, plant and equipment, net	(253)	(211)
Impairment losses on long lived assets (i)	14 477	7,285
Net realised and unrealised losses/(gains) on derivative financial instruments not qualified as hedging	55	(82)
Ineffective portion of change in fair value of cash flow hedges	(16)	16
Others	(902)	(431)
	13,607	6,910

Note

(i) The primary factor resulting in the exploration and production ("E&P") segment impairment losses of RMB 3 250 million (2009 RMB 1,595 million) for the year ended 31 December 2010 that comprised of impairment losses of RMB 1 889 million (2009 RMB 1 595 million) of property plant and equipment (Note 17) and RMB 1 361 million (2009 RMB nil) of goodwill in respect of Dynamic (Note 19), was unsuccessful development drilling and high operating and development costs for certain small oil fields. The carrying values of these E&P properties and associated goodwill 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 and goodwill impairment.

Impairment losses recognised for the chemicals segment were RMB 5,121 million (2009 RMB 3,807 million) for the year ended 31 December 2010 that comprised of impairment losses of RMB 2 953 million (2009 RMB 3 728 million) of property plant and equipment (Note 17) RMB 2 168 million (2009 nil) of goodwill primarily in respect of Sinopec Qilu (Note 19) and RMB nil (2009 RMB 79 million) of other long term assets. Impairment losses recognised for the refining segment were RMB 4,902 million (2009 RMB 396 million) for the year ended 31 December 2010 that comprised of impairment losses of RMB 1,649 million (2009 RMB 377 million) of property, plant and equipment, RMB 2 737 million (2009 nil) of goodwill primarily in respect of Sinopec Yangzi (Note 19) and RMB 516 million (2009 RMB 19 million) of construction in progress. These impairment losses relate to certain refining and chemicals production facilities that are held for use. The carrying values of these facilities and associated goodwill were written down to their recoverable amounts that were primarily determined based on the asset held for use model using the present value of 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 property plant and equipment 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.

Impairment losses recognised on long lived assets of the marketing and distribution segment were RMB 1,183 million (2009 RMB 1 479 million) for the year ended 31 December 2010 that comprised of impairment losses of RMB 1 055 million (2009 RMB 1,425 million) and RMB 128 million (2009 RMB 54 million) on property plant and equipment and construction in progress. The impairment losses primarily related to certain service stations and certain construction in progress that were closed or abandoned 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.

9 INTEREST EXPENSE

	The Group	
	2010	2009
	RMB millions	RMB millions
Interest expense incurred	8 664	9 783
Less: Interest expense capitalised*	(1,266)	(2,621)
	7,398	7,162
Accretion expenses (Note 32)	574	447
Interest expense	7,972	7,609
* Interest rates per annum at which borrowing costs were capitalised for construction in progress	3.0% to 6.5%	3.0% to 6.8%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

10 TAX EXPENSE

Tax expense in the consolidated income statement represents

	The Group	
	2010	2009
	RMB millions	RMB millions
Current tax		
- Provision for the year	22,177	19,229
- Over provision in prior years	(299)	(512)
Deferred taxation (Note 28)	3,811	882
	25,689	19,599

Reconciliation between actual income tax expense and the expected income tax at applicable statutory tax rates is as follows

	The Group	
	2010	2009
	RMB millions	RMB millions
Profit before taxation	103,693	86,604
Expected PRC income tax expense at a statutory tax rate of 25%	25,923	21,651
Tax effect of preferential tax rate (i)	(1,525)	(1,621)
Effect of income taxes from foreign operations in excess of taxes at the PRC statutory tax rate (i)	2,639	2,006
Tax effect of non deductible expenses	2,361	326
Tax effect of non taxable income	(1,839)	(1,686)
Tax effect of utilisation of previously unrecognised tax losses	(1,663)	(683)
Tax effect of tax losses not recognised	92	118
Over provision in prior years	(299)	(512)
Actual income tax expense	25,689	19,599

Note

- (i) The provision for PRC current income tax is based on a statutory income tax 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 in the PRC that 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

11 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Directors' and supervisors' emoluments are as follows

Name	Directors' and supervisors' fee RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	2010 Total RMB'000
Directors					
Su Shulin	—	—	—	—	—
Wang Tianpu	—	337	602	28	967
Zhang Jianhua	—	337	602	28	967
Wang Zhigang	—	337	602	28	967
Dai Houliang	—	337	602	28	967
Cai Xiyou	—	337	602	28	967
Zhang Yaocang	—	—	—	—	—
Cao Yaofeng	—	—	—	—	—
Li Chunguang	—	—	—	—	—
Liu Yun	—	—	—	—	—
Independent non-executive directors					
Liu Zhongli (resigned on 28 Apr 2010)	100	—	—	—	100
Ye Qing (resigned on 28 Apr 2010)	100	—	—	—	100
Li Deshui	240	—	—	—	240
Xie Zhongyu	240	—	—	—	240
Chen Xiaojin	240	—	—	—	240
Ma Weihua (appointed on 19 May 2010)	140	—	—	—	140
Wu Xiaogen (appointed on 19 May 2010)	140	—	—	—	140
Supervisors					
Wang Zuoran	—	—	—	—	—
Geng Limin	—	—	—	—	—
Zou Huiping	—	202	241	29	472
Su Wensheng (resigned on 28 Apr 2010)	—	61	52	9	122
Yu Renming (appointed on 16 Dec 2010)	—	16	13	3	32
Cui Guoqi (appointed on 28 Apr 2010)	—	152	212	19	383
Chang Zhenyong (appointed on 28 Apr 2010)	—	134	245	19	398
Liu Xiaohong (resigned on 28 Apr 2010)	—	61	52	9	122
Zhou Shiliang	—	202	226	29	457
Chen Mingzheng	—	181	241	58	480
Jiang Zhenying (appointed on 16 Dec 2010)	—	14	12	3	29
Independent supervisors					
Zhang Youcai	240	—	—	—	240
Li Yonggui	240	—	—	—	240
Total	1,680	2,708	4,304	318	9,010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

11 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

Directors' and supervisors' emoluments are as follows (Continued)

Name	Directors' and supervisors' fee RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	2009 Total RMB'000
Directors					
Su Shulin	—	—	—	—	—
Zhou Yuan (resigned on 22 May 2009)	—	—	—	—	—
Wang Tianpu	—	320	380	26	726
Zhang Jianhua	—	307	388	26	721
Wang Zhigang	—	307	388	26	721
Dai Houliang	—	307	388	26	721
Cai Xiyu (appointed on 22 May 2009)	—	307	388	26	721
Zhang Yaocang (appointed on 22 May 2009)	—	—	—	—	—
Cao Yaofeng (appointed on 22 May 2009)	—	—	—	—	—
Li Chunguang (appointed on 22 May 2009)	—	—	—	—	—
Liu Yun (appointed on 22 May 2009)	—	—	—	—	—
Yao Zhongmin (resigned on 22 May 2009)	12	—	—	—	12
Fan Yifei (resigned on 22 May 2009)	12	—	—	—	12
Independent non-executive directors					
Liu Zhongli	240	—	—	—	240
Ye Qing (appointed on 22 May 2009)	140	—	—	—	140
Li Deshui	240	—	—	—	240
Xie Zhongyu (appointed on 22 May 2009)	140	—	—	—	140
Chen Xiaojin (appointed on 22 May 2009)	140	—	—	—	140
Shi Wanpeng (resigned on 22 May 2009)	100	—	—	—	100
Supervisors					
Wang Zuoran	—	—	—	—	—
Geng Limin	—	—	—	—	—
Zou Huiping	—	194	227	26	447
Su Wensheng	—	181	243	26	450
Kang Xianzhang	—	—	—	—	—
Zhang Jitian (resigned on 22 May 2009)	—	74	212	—	286
Cui Guoqi (resigned on 22 May 2009)	—	80	227	10	317
Li Zhonghua (resigned on 22 May 2009)	—	74	227	9	310
Liu Xiaohong (appointed on 22 May 2009)	—	110	192	16	318
Zhou Shiliang (appointed on 22 May 2009)	—	114	192	16	322
Chen Mingzheng (appointed on 22 May 2009)	—	102	231	54	387
Independent supervisors					
Zhang Youcai	240	—	—	—	240
Li Yonggui	240	—	—	—	240
Total	1,504	2,477	3,683	287	7,951

12 SENIOR MANAGEMENT'S EMOLUMENTS

For the years ended 31 December 2010 and 2009, all the five highest paid individuals are directors whose emoluments are disclosed in Note 11

13 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB 45 892 million (2009 RMB 37,022 million) which has been dealt with in the financial statements of the Company

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

14 DIVIDENDS

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

	2010 RMB millions	2009 RMB millions
Dividends declared and paid during the year of RMB 0 08 per share (2009 RMB 0 07 per share)	6,936	6,069
Dividends declared after the balance sheet date of RMB 0 13 per share (2009 RMB 0 11 per share)	11,271	9,537
	18,207	15,606

Pursuant to the Company's Articles of Association and a resolution passed at the Directors' meeting on 20 August 2010, the directors declared an interim dividend for the year ended 31 December 2010 of RMB 0 08 (2009 RMB 0 07) per share totalling RMB 6,936 million (2009 RMB 6,069 million) and the dividends were paid on 30 September 2010

Pursuant to a resolution passed at the directors meeting on 25 March 2011, a final dividend in respect of the year ended 31 December 2010 of RMB 0 13 (2009 RMB 0 11) per share totalling RMB 11,271 million (2009 RMB 9,537 million) was proposed for shareholders' approval at the Annual General Meeting. Final dividend of RMB 11,271 million (2009 RMB 9,537 million) proposed after the balance sheet date has not been recognised as a liability at the balance sheet date

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

	2010 RMB millions	2009 RMB millions
Final dividends in respect of the previous financial year, approved and paid during the year of RMB 0 11 per share (2009 RMB 0 09 per share)	9,537	7,803

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 and paid on 30 June 2010

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 and paid on 30 June 2009

15 OTHER COMPREHENSIVE INCOME

(a) Tax effects relating to each component of other comprehensive income

	Before-tax amount RMB millions	2010 Tax benefit RMB millions	Net-of-tax amount RMB millions	Before-tax amount RMB millions	2009 Tax (expense)/ benefit RMB millions	Net-of-tax amount RMB millions
Cash flow hedges	(263)	42	(221)	65	(11)	54
Available for sale securities	(9)	—	(9)	(227)	52	(175)
Share of other comprehensive income of associates	(533)	—	(533)	806	—	806
Foreign currency translation differences	(1,360)	—	(1,360)	(4)	—	(4)
Other comprehensive income	(2,165)	42	(2,123)	640	41	681

(b) Reclassification adjustments relating to components of other comprehensive income

	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 cost of inventories for the year	366	1,866
Net deferred tax benefit/(expense) recognised in other comprehensive income	42	(11)
Net movement during the year recognised in other comprehensive income	(221)	54
Available for sale securities		
Changes in fair value recognised during the year	(6)	(1)
Gain on disposal transferred to the consolidated income statement	(3)	(226)
Net deferred tax benefit recognised in other comprehensive income	—	52
Net movement during the year recognised in other comprehensive income	(9)	(175)
Share of other comprehensive income of associates		
Net movement during the year recognised in other comprehensive income	(533)	806
Foreign currency translation differences		
Net movement during the year recognised in other comprehensive income	(1,360)	(4)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

16 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2010 is based on the profit attributable to ordinary equity shareholders of the Company of RMB 71,800 million (2009 RMB 63,147 million) and the weighted average number of shares of 86,702,513,472 (2009 86,702,439,000) during the year

The calculation of diluted earnings per share for the year ended 31 December 2010 is based on the profit attributable to ordinary equity shareholders of the Company of RMB 72,021 million (2009 RMB 63,523 million) and the weighted average number of the shares of 87,789,874,067 (2009 87,789,799,595) calculated as follows

(i) Profit attributable to ordinary equity shareholders of the Company (diluted)

	2010 RMB millions	2009 RMB millions
Profit attributable to ordinary equity shareholders of the Company	71,800	63,147
After tax effect of interest expense (net of exchange gain) of the Convertible Bonds	126	212
After tax effect of unrealised loss on embedded derivative component of the Convertible Bonds	95	164
Profit attributable to ordinary equity shareholders of the Company (diluted)	72,021	63,523

(ii) Weighted average number of shares (diluted)

	2010 Number of shares	2009 Number of shares
Weighted average number of shares at 31 December	86,702,513,472	86,702,439,000
Effect of conversion of the Convertible Bonds	1,087,360,595	1,087,360,595
Weighted average number of shares (diluted) at 31 December	87,789,874,067	87,789,799,595

The calculation of diluted earnings per share for the years ended 31 December 2009 excludes the effect of the Warrants (Note 29(d)), since it did not have any dilutive effect

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

17 PROPERTY, PLANT AND EQUIPMENT

The Group - by segment

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Corporate and others RMB millions	Total RMB millions
Cost						
Balance at 1 January 2009	363,535	179,551	107,657	189,478	8,741	848,962
Additions	2,143	178	693	754	20	3,788
Transferred from construction in progress	63,587	18,291	9,690	15,146	1,170	107,884
Acquisitions (ii)	60	999	—	—	1,722	2,781
Reclassification	—	6,008	214	(6,089)	(133)	—
Exchange adjustment	(24)	—	(13)	—	(4)	(41)
Reclassification to lease prepayments and other assets	—	—	(650)	—	(16)	(666)
Disposals	(606)	(1,812)	(1,511)	(4,333)	(192)	(8,454)
Balance at 31 December 2009	428,695	203,215	116,080	194,956	11,308	954,254
Balance at 1 January 2010	428,695	203,215	116,080	194,956	11,308	954,254
Additions	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
Reclassification	343	144	271	(169)	(589)	—
Contributed to a jointly controlled entity	—	—	—	(290)	—	(290)
Reclassification to lease prepayments and other assets	—	(39)	(451)	—	(146)	(636)
Exchange adjustment	(809)	—	(103)	—	(4)	(916)
Disposals	(370)	(2,980)	(2,144)	(2,603)	(141)	(8,238)
Balance at 31 December 2010	499,802	212,385	127,123	214,946	13,555	1,067,811
Accumulated depreciation						
Balance at 1 January 2009	177,059	84,976	28,815	122,403	3,068	416,321
Depreciation charge for the year	28,075	10,212	5,578	8,313	866	53,044
Acquisitions (ii)	—	591	—	—	159	750
Impairment losses for the year (Note 8 (i))	1,595	377	1,425	3,728	8	7,133
Reclassification	—	(44)	91	2	(49)	—
Exchange adjustment	(6)	—	(3)	—	(2)	(11)
Reclassification to lease prepayments and other assets	—	—	(80)	—	—	(80)
Written back on disposals	(590)	(1,693)	(1,346)	(3,906)	(183)	(7,718)
Balance at 31 December 2009	206,133	94,419	34,480	130,540	3,867	469,439
Balance at 1 January 2010	206,133	94,419	34,480	130,540	3,867	469,439
Depreciation charge for the year	31,393	11,227	5,946	8,483	925	57,974
Impairment losses for the year (Note 8 (i))	1,889	1,649	1,055	2,953	21	7,567
Reclassification	12	(3)	25	(145)	111	—
Reclassification to lease prepayments and other assets	—	(3)	(68)	—	(12)	(83)
Exchange adjustment	(218)	—	(41)	—	(1)	(260)
Written back on disposals	(177)	(2,778)	(1,953)	(2,499)	(119)	(7,526)
Balance at 31 December 2010	239,032	104,511	39,444	139,332	4,792	527,111
Net book value						
Balance at 1 January 2009	186,476	94,575	78,842	67,075	5,673	432,641
Balance at 31 December 2009	222,562	108,796	81,600	64,416	7,441	484,815
Balance at 31 December 2010	260,770	107,874	87,679	75,614	8,763	540,700

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for the year ended 31 December 2010

17 PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company - by segment

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Corporate and others RMB millions	Total RMB millions
Cost						
Balance at 1 January 2009	311,041	143,865	84,423	115,869	6,727	661,925
Additions	2,014	105	573	78	2	2,772
Transferred from construction in progress	58,100	14,776	6,917	11,322	1,147	92,262
Transferred from subsidiaries	—	—	—	3,540	—	3,540
Transferred to subsidiaries	—	(235)	(845)	(107)	—	(1,187)
Acquisitions (ii)	60	999	—	—	1,722	2,781
Reclassification	—	5,828	—	(5,828)	—	—
Reclassification to lease prepayments and other assets	—	—	(619)	—	—	(619)
Disposals	(606)	(1,738)	(1,425)	(3,601)	(146)	(7,516)
Balance at 31 December 2009	370,609	163,600	89,024	121,273	9,452	753,958
Balance at 1 January 2010	370,609	163,600	89,024	121,273	9,452	753,958
Additions	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)
Reclassification	343	142	279	(178)	(586)	—
Contributed to a jointly controlled entity	—	—	—	(290)	—	(290)
Reclassification to lease prepayments and other assets	—	(39)	(432)	—	(48)	(519)
Disposals	(369)	(2,869)	(1,899)	(2,055)	(105)	(7,297)
Balance at 31 December 2010	437,174	171,307	94,814	139,946	11,421	854,662
Accumulated depreciation						
Balance at 1 January 2009	155,389	74,959	25,409	71,996	2,260	330,013
Depreciation charge for the year	22,053	7,610	4,271	5,462	713	40,109
Transferred from subsidiaries	—	—	—	2,770	—	2,770
Transferred to subsidiaries	—	(115)	(85)	(70)	—	(270)
Acquisitions (ii)	—	591	—	—	159	750
Impairment losses for the year	1,595	288	1,205	3,491	8	6,587
Reclassification	—	8	—	(8)	—	—
Reclassification to lease prepayments and other assets	—	—	(78)	—	—	(78)
Written back on disposals	(590)	(1,621)	(1,298)	(3,249)	(144)	(6,902)
Balance at 31 December 2009	178,447	81,720	29,424	80,392	2,996	372,979
Balance at 1 January 2010	178,447	81,720	29,424	80,392	2,996	372,979
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)
Impairment losses for the year	1,856	1,638	946	2,484	21	6,945
Reclassification	12	(16)	41	(186)	149	—
Reclassification to lease prepayments and other assets	—	(3)	(68)	—	—	(71)
Written back on disposals	(176)	(2,672)	(1,752)	(1,954)	(102)	(6,656)
Balance at 31 December 2010	205,304	89,249	32,738	86,677	3,824	417,792
Net book value						
Balance at 1 January 2009	155,652	68,906	59,014	43,873	4,467	331,912
Balance at 31 December 2009	192,162	81,880	59,600	40,881	6,456	380,979
Balance at 31 December 2010	231,870	82,058	62,076	53,269	7,597	436,870

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

17 PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group - by asset class

	Buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
Cost					
Balance at 1 January 2009	52,561	317,307	116,766	362,328	848,962
Additions	372	2,022	413	981	3,788
Transferred from construction in progress	6,847	41,213	23,840	35,984	107,884
Acquisitions (ii)	1,912	—	342	527	2,781
Reclassification	(63)	—	(2,505)	2,568	—
Exchange adjustment	(17)	(24)	—	—	(41)
Reclassification to lease prepayments and other assets	(81)	—	(585)	—	(666)
Disposals	(389)	—	(1,565)	(6,500)	(8,454)
Balance at 31 December 2009	61,142	360,518	136,706	395,888	954,254
Balance at 1 January 2010	61,142	360,518	136,706	395,888	954,254
Additions	259	3,421	1,023	884	5,587
Transferred from construction in progress	5,150	58,465	17,889	36,546	118,050
Reclassification	996	5	325	(1,326)	—
Contributed to a jointly controlled entity	(290)	—	—	—	(290)
Reclassification to lease prepayments and other assets	(204)	—	(389)	(43)	(636)
Exchange adjustment	(33)	(809)	(22)	(52)	(916)
Disposals	(767)	—	(1,675)	(5,796)	(8,238)
Balance at 31 December 2010	66,253	421,600	153,857	426,101	1,067,811
Accumulated depreciation					
Balance at 1 January 2009	27,507	147,320	28,880	212,614	416,321
Depreciation charge for the year	2,309	25,930	5,936	18,869	53,044
Acquisitions (ii)	213	—	292	245	750
Impairment losses for the year	579	1,553	1,076	3,925	7,133
Reclassification	(63)	—	(505)	568	—
Exchange adjustment	(5)	(6)	—	—	(11)
Reclassification to lease prepayments and other assets	(8)	—	(72)	—	(80)
Written back on disposals	(340)	—	(1,401)	(5,977)	(7,718)
Balance at 31 December 2009	30,192	174,797	34,206	230,244	469,439
Balance at 1 January 2010	30,192	174,797	34,206	230,244	469,439
Depreciation charge for the year	2,442	28,196	6,857	20,479	57,974
Impairment losses for the year	660	1,789	1,070	4,048	7,567
Reclassification	263	(9)	(14)	(240)	—
Reclassification to lease prepayments and other assets	—	—	(77)	(6)	(83)
Exchange adjustment	(14)	(218)	(8)	(20)	(260)
Written back on disposals	(499)	—	(1,533)	(5,494)	(7,526)
Balance at 31 December 2010	33,044	204,555	40,501	249,011	527,111
Net book value					
Balance at 1 January 2009	25,054	169,987	87,886	149,714	432,641
Balance at 31 December 2009	30,950	185,721	102,500	165,644	484,815
Balance at 31 December 2010	33,209	217,045	113,356	177,090	540,700

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

17 PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company - by asset class

	Build ings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant machinery equ ipment and others RMB millions	Total RMB mill ions
Cost					
Balance at 1 January 2009	35,949	270,651	95,484	259,841	661,925
Additions	141	1,897	389	345	2,772
Transferred from construction in progress	5,598	36,081	22,864	27,719	92,262
Transferred from subsidiaries	351	—	—	3,189	3,540
Transferred to subsidiaries	(67)	—	(907)	(213)	(1,187)
Acquisitions (ii)	1,912	—	342	527	2,781
Reclassification	(134)	—	(1,850)	1,984	—
Reclassification to lease prepayments and other assets	(82)	—	(537)	—	(619)
Disposals	(336)	—	(1,507)	(5,673)	(7,516)
Balance at 31 December 2009	43,332	308,629	114,278	287,719	753,958
Balance at 1 January 2010	43,332	308,629	114,278	287,719	753,958
Additions	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)
Reclassification	689	5	403	(1,097)	—
Contributed to a jointly controlled entity	(290)	—	—	—	(290)
Reclassification to lease prepayments and other assets	(107)	—	(370)	(42)	(519)
Disposals	(696)	—	(1,541)	(5,060)	(7,297)
Balance at 31 December 2010	47,405	365,367	127,407	314,483	854,662
Accumulated depreciation					
Balance at 1 January 2009	16,898	127,336	26,163	159,616	330,013
Depreciation charge for the year	1,644	20,051	4,732	13,682	40,109
Transferred from subsidiaries	249	—	—	2,521	2,770
Transferred to subsidiaries	(26)	—	(187)	(57)	(270)
Acquisitions (ii)	213	—	292	245	750
Impairment losses for the year	484	1,553	1,028	3,522	6,587
Reclassification	40	—	(325)	285	—
Reclassification to lease prepayments and other assets	(11)	—	(67)	—	(78)
Written back on disposals	(303)	—	(1,366)	(5,233)	(6,902)
Balance at 31 December 2009	19,188	148,940	30,270	174,581	372,979
Balance at 1 January 2010	19,188	148,940	30,270	174,581	372,979
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)
Impairment losses for the year	634	1,789	957	3,565	6,945
Reclassification	271	(9)	33	(295)	—
Reclassification to lease prepayments and other assets	—	—	(66)	(5)	(71)
Written back on disposals	(436)	—	(1,453)	(4,767)	(6,656)
Balance at 31 December 2010	21,389	172,837	35,153	188,413	417,792
Net book value					
Balance at 1 January 2009	19,051	143,315	69,321	100,225	331,912
Balance at 31 December 2009	24,144	159,689	84,008	113,138	380,979
Balance at 31 December 2010	26,016	192,530	92,254	126,070	436,870

Notes

- (i) The additions to the exploration and production segment and oil and gas properties of the Group and the Company for the year ended 31 December 2010 included RMB 3,389 million (2009: 2,013 million) and RMB 3,278 million (2009: RMB 1,897 million) of the estimated dismantlement costs for site restoration (Note 32).
- (ii) During the year ended 31 December 2009, the Group acquired certain property, plant and equipment from Sinopec Group Company (Note 36).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

18 CONSTRUCTION IN PROGRESS

The Group

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Corporate and others RMB millions	Total RMB millions
Balance at 1 January 2009	56,542	18,091	14,302	29,765	3,766	122,466
Additions	58,882	14,600	15,547	25,083	1,379	115,491
Dry hole costs written off	(4,761)	—	—	—	—	(4,761)
Transferred to property, plant and equipment	(63,587)	(18,291)	(9,690)	(15,146)	(1,170)	(107,884)
Reclassification to lease prepayments and other assets	(190)	(744)	(2,773)	(1,113)	(44)	(4,864)
Impairment losses for the year (Note 8 (i))	—	(19)	(54)	—	—	(73)
Balance at 31 December 2009	46,886	13,637	17,332	38,589	3,931	120,375
Balance at 1 January 2010	46,886	13,637	17,332	38,589	3,931	120,375
Additions	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 property, plant and equipment	(67,922)	(11,922)	(12,370)	(22,964)	(2,872)	(118,050)
Reclassification to lease prepayments and other assets	(528)	(270)	(2,758)	(2,145)	(426)	(6,127)
Impairment losses for the year (Note 8 (i))	—	(516)	(128)	—	—	(644)
Balance at 31 December 2010	30,374	20,675	27,312	8,985	2,253	89,599

As at 31 December 2010, the amount of capitalised cost of exploratory wells included in the Group's construction in progress related to the exploration and production segment was RMB 10,652 million (2009 RMB 8,823 million). The geological and geophysical costs paid during the year ended 31 December 2010 were RMB 6,433 million (2009 RMB 5,437 million).

The Company

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Corporate and others RMB millions	Total RMB millions
Balance at 1 January 2009	55,878	16,107	10,859	26,620	3,746	113,210
Additions	53,003	11,283	12,029	21,949	1,365	99,629
Dry hole costs written off	(4,761)	—	—	—	—	(4,761)
Transferred to property, plant and equipment	(58,100)	(14,776)	(6,917)	(11,322)	(1,147)	(92,262)
Transferred from a subsidiary	—	—	—	580	—	580
Reclassification to lease prepayments and other assets	(188)	(260)	(2,505)	(1,117)	(40)	(4,110)
Impairment losses for the year	—	(19)	(50)	—	—	(69)
Balance at 31 December 2009	45,832	12,335	13,416	36,710	3,924	112,217
Balance at 1 January 2010	45,832	12,335	13,416	36,710	3,924	112,217
Additions	51,746	17,725	16,281	10,606	1,414	97,772
Transferred to a jointly controlled entity	—	—	—	(17,459)	—	(17,459)
Reclassification	—	—	219	(219)	—	—
Dry hole costs written off	(4,986)	—	—	—	—	(4,986)
Transferred to property, plant and equipment	(62,683)	(10,280)	(8,291)	(20,934)	(2,716)	(104,904)
Reclassification to lease prepayments and other assets	(509)	(201)	(2,006)	(2,143)	(426)	(5,285)
Impairment losses for the year	—	(516)	(9)	—	—	(525)
Balance at 31 December 2010	29,400	19,063	19,610	6,561	2,196	76,830

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

19 GOODWILL

	The Group	
	2010	2009
	RMB millions	RMB millions
Cost		
Balance at 1 January	15,463	15,628
Additions	441	241
Disposals	(9)	(406)
Exchange adjustment	(31)	—
Balance at 31 December	15,864	15,463
Accumulated impairment losses		
Balance at 1 January	(1,391)	(1,391)
Impairment losses for the year	(6,266)	—
Balance at 31 December	(7,657)	(1,391)
Net book value		
Balance at 31 December	8,207	14,072

Impairment tests for cash-generating units containing goodwill
Goodwill is allocated to the following Group's cash generating units

	2010	2009
	RMB millions	RMB millions
Sinopec Beijing Yanshan Branch ("Sinopec Yanshan")	1,157	1,157
Sinopec Zhenhai Refining and Chemical Branch ("Sinopec Zhenhai")	3,952	3,952
Hong Kong service stations	895	926
Sinopec Qilu Branch ("Sinopec Qilu")	—	2,159
Sinopec Yangzi Petrochemical Company Limited ("Sinopec Yangzi")	—	2,737
Sinopec Shengli Oil Field Dynamic Company Limited ("Dynamic")	—	1,361
Multiple units without individual significant goodwill	2,203	1,780
	8,207	14,072

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, Hong Kong service stations, Sinopec Qilu and Sinopec Yangzi 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 ended 31 December 2010, the carrying amounts of the cash generating units Sinopec Qilu, Sinopec Yangzi and Dynamic, were determined to be higher than its 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 ended 31 December 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

20 INVESTMENTS IN SUBSIDIARIES

	The Company 2010 RMB millions	2009 RMB millions
Investments in subsidiaries, at cost	81,686	67,574

Details of the Company's principal subsidiaries at 31 December 2010 are set out in Note 39

21 INTEREST IN ASSOCIATES

	The Group 2010 RMB millions	2009 RMB millions	The Company 2010 RMB millions	2009 RMB millions
Investments in associates, at cost	—	—	12,160	9,076
Share of net assets	22,815	18,162	—	—
	22,815	18,162	12,160	9,076

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

Name of company	Form of business structure	Particulars of issued and paid up capital	Percentage of equity held by the Company %	Percentage of equity held by the Company's subsidiaries %	Principal activities
Sinopec Finance Company Limited	Incorporated	Registered capital RMB 8,000,000,000	49.00	—	Provision of non banking financial services
China Aviation Oil Supply Company Limited	Incorporated	Registered capital RMB 3,800,000,000	—	29.00	Marketing and distribution of refined petroleum products
Zhongtian Synergetic Energy Company Limited	Incorporated	Registered capital RMB 3,678,400,000	38.75	—	Manufacturing of coal-chemical products
Shanghai Chemical Industry Park Development Company Limited	Incorporated	Registered capital RMB 2,372,439,000	—	38.26	Planning, development and operation of the Chemical Industry Park in Shanghai, the PRC
Shanghai Petroleum Company Limited	Incorporated	Registered capital RMB 900,000,000	30.00	—	Exploration and production of crude oil and natural gas

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

22 INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Group		The Company	
	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	RMB millions
Investments in jointly controlled entities, at cost	—	—	9,330	6,011
Share of net assets	20,199	13,928	—	—
	20,199	13,928	9,330	6,011

The Group's and the Company's principal interests in jointly controlled entities are primarily engaged in the refining and chemical operations in the PRC as follows

Name of company	Form of business structure	Particulars of issued and paid up capital	Percentage of equity held by the Company or	Percentage of equity held by the Company's subsidiaries or	Principal activities
Shanghai Secco Petrochemical Company Limited	Incorporated	Registered capital USD 901,440,964	30.00	20.00	Manufacturing and distribution of petrochemical products
BASF YPC Company Limited	Incorporated	Registered capital RMB 13,633,770,000	30.00	10.00	Manufacturing and distribution of petrochemical products
Fujian Refining and Petrochemical Company Limited	Incorporated	Registered capital RMB 12,806,000,000	—	50.00	Manufacturing and distribution of petrochemical products
Sinopec SABIC Tianjin Petrochemical Company limited	Incorporated	Registered capital RMB 6,120,000,000	50.00	—	Manufacturing and distribution of petrochemical products

The Group's effective interest share of the jointly controlled entities' results of operation, financial condition and cash flows are as follows

	2010	2009
	RMB millions	RMB millions
Results of operation		
Operating revenue	61,523	25,141
Expenses	(58,344)	(23,901)
Net profit	3,179	1,240
Financial condition		
Current assets	15,677	9,857
Non current assets	39,274	32,353
Current liabilities	(11,239)	(9,038)
Non current liabilities	(23,513)	(19,244)
Net assets	20,199	13,928
Cash flows		
Net cash generated from operating activities	5,800	345
Net cash used in investing activities	(10,505)	(3,905)
Net cash generated from financing activities	6,430	3,911
Net increase in cash and cash equivalents	1,725	351

23 INVESTMENTS

	The Group		The Company	
	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	RMB millions
Available for sale financial assets				
– Equity securities, listed and at quoted market price	52	61	18	25
– Investment in other available for sale security	—	700	—	—
Investments in equity securities unlisted and at cost	2,207	1,610	1,011	891
	2,259	2,371	1,029	916
Less: Impairment losses for investments	(184)	(197)	(134)	(147)
	2,075	2,174	895	769

Unlisted investments represent the Group's and the Company's interests in PRC privately owned enterprises which are mainly engaged in non oil and gas activities and operations

The impairment losses relating to investments for the year ended 31 December 2010 amounted to RMB 11 million (2009: RMB 5 million)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

24 LONG-TERM PREPAYMENTS AND OTHER ASSETS

Long term prepayments and other assets primarily represent prepaid rental expenses over one year, computer software, catalysts and operating rights of service stations.

25 TRADE ACCOUNTS RECEIVABLE, NET AND BILLS RECEIVABLE

	The Group		The Company	
	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	RMB millions
Amounts due from third parties	33,681	27,481	2,293	2,326
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
	44,415	28,513	17,747	12,516
Less: Impairment losses for bad and doubtful debts	(1,322)	(1,921)	(1,087)	(1,526)
Trade accounts receivable, net	43,093	26,592	16,660	10,990
Bills receivable	15,950	2,110	11,093	123
	59,043	28,702	27,753	11,113

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

	The Group		The Company	
	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	RMB millions
Within one year	58,987	28,525	27,713	10,946
Between one and two years	36	154	15	150
Between two and three years	11	11	17	8
Over three years	9	12	8	9
	59,043	28,702	27,753	11,113

Impairment losses for bad and doubtful debts are analysed as follows:

	The Group		The Company	
	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	RMB millions
Balance at 1 January	1,921	2,406	1,526	1,983
Impairment losses recognised for the year	48	70	42	65
Reversal of impairment losses	(130)	(245)	(118)	(226)
Written off	(517)	(310)	(363)	(296)
Balance at 31 December	1,322	1,921	1,087	1,526

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

Trade accounts and bills receivables (net of impairment losses for bad and doubtful debts) primarily represent receivables that are neither past due nor impaired. These receivables relate to a wide range of customers for whom there is no recent history of default.

26 INVENTORIES

	The Group		The Company	
	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	RMB millions
Crude oil and other 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: Allowance for diminution in value of inventories	(1,091)	(1,038)	(695)	(582)
	156,546	141,727	103,170	88,993

The cost of inventories recognised as an expense in the consolidated income statement amounted to RMB 1,542,923 million for the year ended 31 December 2010 (2009: RMB 1,033,313 million), which includes the write down of inventories of RMB 1,087 million (2009: RMB 401 million) that primarily related to the refining and chemicals segments, and the reversal of write down of inventories made in prior years of RMB 1,034 million (2009: RMB 8,552 million), that mainly was due to the sales of inventories. The write down of inventories and the reversal of write down of inventories were recorded in purchased crude oil, products and operating supplies and expenses in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

27 PREPAID EXPENSES AND OTHER CURRENT ASSETS

	The Group		The Company	
	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	RMB millions
Advances to third parties	937	1,214	695	1,167
Amounts due from Sinopec Group Company and fellow subsidiaries	930	787	686	672
Amounts due from associates and jointly controlled entities	2,460	23	2,438	6
Amounts due from subsidiaries	—	—	26,210	18,449
Other receivables	858	1,181	72	125
Loans and receivables	5,185	3,205	30,101	20,419
Purchase deposits and other assets	4,469	2,320	2,559	645
Prepayments in connection with construction work and equipment purchases	988	1,906	786	1,082
Prepaid value added tax and customs duty	13,072	12,577	10,758	11,086
Financial assets held for trading	2,450	—	—	—
Available for sale financial assets	—	700	—	—
Derivative financial instruments – hedging	148	142	—	—
Derivative financial instruments – non hedging	188	182	1	3
	26,500	21,032	44,205	33,235

28 DEFERRED TAX ASSETS AND LIABILITIES

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

The Group

	Assets		Liabilities		Net balance	
	2010	2009	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	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						
Property, plant and equipment	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
Lease prepayments	284	292	—	—	284	292
Embedded derivative component of the Convertible Bonds	—	—	(64)	(96)	(64)	(96)
Others	29	99	(17)	(5)	12	94
Deferred tax assets/(liabilities)	15,516	13,975	(15,017)	(9,707)	499	4,268

The Company

	Assets		Liabilities		Net balance	
	2010	2009	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Current						
Receivables and inventories	3,084	2,928	—	—	3,084	2,928
Accruals	1,617	811	—	—	1,617	811
Non current						
Property, plant and equipment	6,852	4,803	(35)	(429)	6,817	4,374
Accelerated depreciation	—	—	(7,836)	(4,015)	(7,836)	(4,015)
Lease prepayments	213	219	—	—	213	219
Embedded derivative component of the Convertible Bonds	—	—	(64)	(96)	(64)	(96)
Others	23	54	(16)	(4)	7	50
Deferred tax assets/(liabilities)	11,789	8,815	(7,951)	(4,544)	3,838	4,271

As at 31 December 2010, certain subsidiaries of the Company did not recognise the tax value of loss 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

28 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

Movements in the deferred tax assets and liabilities are as follows

The Group

	Balance at 1 January 2009 RMB millions	Recognised in consolidated income statement RMB millions	Recognised in other comprehensive income RMB millions	Acquisition RMB millions	Balance at 31 December 2009 RMB millions
Current					
Receivables and inventories	4,434	(1,227)	—	—	3,207
Accruals	261	554	—	—	815
Cash flow hedges	—	—	(11)	—	(11)
Non current					
Property, plant and equipment	2,605	1,844	—	(26)	4,423
Accelerated depreciation	(7,116)	(1,294)	—	—	(8,410)
Tax value of losses carried forward	4,796	(842)	—	—	3,954
Lease prepayments	300	(8)	—	—	292
Available for sale securities	(52)	—	52	—	—
Embedded derivative component of the Convertible Bonds	(151)	55	—	—	(96)
Others	56	36	—	2	94
Net deferred tax assets	5,133	(882)	41	(24)	4,268

	Balance at 1 January 2010 RMB millions	Recognised in consolidated income statement RMB millions	Recognised in other comprehensive income RMB millions	Balance at 31 December 2010 RMB millions
Current				
Receivables and inventories	3,207	300	—	3,507
Accruals	815	773	—	1,588
Cash flow hedges	(11)	—	42	31
Non current				
Property, plant and equipment	4,423	2,744	—	7,167
Accelerated depreciation	(8,410)	(5,732)	—	(14,142)
Tax value of losses carried forward	3,954	(1,838)	—	2,116
Lease prepayments	292	(8)	—	284
Embedded derivative component of the Convertible Bonds	(96)	32	—	(64)
Others	94	(82)	—	12
Net deferred tax assets	4,268	(3,811)	42	499

The Company

	Balance at 1 January 2009 RMB millions	Recognised in income statement RMB millions	Acquisition RMB millions	Balance at 31 December 2009 RMB millions
Current				
Receivables and inventories	3,810	(882)	—	2,928
Accruals	252	559	—	811
Non current				
Property, plant and equipment	2,619	1,781	(26)	4,374
Accelerated depreciation	(3,799)	(216)	—	(4,015)
Lease prepayments	224	(5)	—	219
Embedded derivative component of the Convertible Bonds	(151)	55	—	(96)
Others	50	(2)	2	50
Net deferred tax assets	3,005	1,290	(24)	4,271

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

28 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

	Balance at 1 January 2010 RMB millions	Recognised in income statement PMB millions	Balance at 31 December 2010 RMB millions
Current			
Receivables and inventories	2,928	156	3,084
Accruals	811	806	1,617
Non current			
Property, plant and equipment	4,374	2,443	6,817
Accelerated depreciation	(4,015)	(3,821)	(7,836)
Lease prepayments	219	(6)	213
Embedded derivative component of the Convertible Bonds	(96)	32	(64)
Others	50	(43)	7
Net deferred tax assets	4,271	(433)	3,838

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

Short term debts represent

	The Group		The Company	
	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	RMB millions
Third parties' debts				
Short term bank loans	11,380	21,587	2,400	5,050
Current portion of long term bank loans	4,554	6,686	3,952	4,702
Current portion of long term other loans	85	77	7	3
	4,639	6,763	3,959	4,705
Corporate bonds (Note (a))	1,000	31,000	—	30,000
	17,019	59,350	6,359	39,755
Loans from Sinopec Group Company and fellow subsidiaries				
Short term loans	17,918	13,313	4,829	678
Current portion of long term loans	891	2,553	150	160
	18,809	15,866	4,979	838
	35,828	75,216	11,338	40,593

The Group's and the Company's weighted average interest rate on short term loans were 2.7% (2009: 2.5%) and 4.8% (2009: 4.6%) at 31 December 2010, respectively.

Long term debts comprise

	The Group		The Company	
	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	RMB millions
Third parties' debts				
Long-term bank loans				
Renminbi denominated	Interest rates ranging from interest free to 5.64% per annum at 31 December 2010 with maturities through 2025			
	23,161	18,869	22,886	17,064
Japanese Yen denominated	Interest rates ranging from 2.6% to 2.94% per annum at 31 December 2010 with maturities through 2024			
	1,488	1,660	1,488	1,660
US Dollar denominated	Interest rates ranging from interest free to 7.8% per annum at 31 December 2010 with maturities through 2031			
	972	3,171	301	390
Euro denominated	Fixed interest rate at 6.56% per annum at 31 December 2010 with maturity in 2011			
	27	116	27	116
	25,648	23,816	24,702	19,230

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

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

Interest rate and final maturity		The Group 2010 RMB millions	2009 RMB millions	The Company 2010 RMB millions	2009 RMB millions
Long-term other loans					
Renminbi denominated	Interest rates ranging from interest free to 4.32% at 31 December 2010 with maturities through 2013	250	73	151	5
US Dollar denominated	Interest rates ranging from interest free to 4.89% per annum at 31 December 2010 with maturities through 2015	26	29	16	19
		276	102	167	24
Corporate bonds					
Renminbi denominated	Fixed interest rate at 4.61% per annum at 31 December 2010 with maturity in February 2014 (Note (b))	3,500	3,500	3,500	3,500
	Fixed interest rate at 4.20% per annum at 31 December 2010 with maturity in May 2017 (Note (b))	5,000	5,000	5,000	5,000
	Fixed interest rate at 5.40% per annum at 31 December 2010 with maturity in November 2012 (Note (b))	8,500	8,500	8,500	8,500
	Fixed interest rate at 5.68% per annum at 31 December 2010 with maturity in November 2017 (Note (b))	11,500	11,500	11,500	11,500
	Fixed interest rate at 2.25% per annum at 31 December 2010 with maturity in March 2012 (Note (b))	10,000	10,000	10,000	10,000
	Fixed interest rate at 2.48% per annum at 31 December 2010 with maturity in June 2012 (Note (b))	20,000	20,000	20,000	20,000
	Fixed interest rate at 3.75% per annum at 31 December 2010 with maturity in May 2015 (Note (b))	11,000	—	11,000	—
	Fixed interest rate at 4.05% per annum at 31 December 2010 with maturity in May 2020 (Note (b))	9,000	—	9,000	—
		78,500	58,500	78,500	58,500
Convertible bonds					
Hong Kong Dollar denominated	Zero coupon convertible bonds with maturity in April 2014 (Note (c))	10,667	10,371	10,667	10,371
Renminbi denominated	Bonds with Warrants with fixed interest rate at 0.8% per annum and maturity in February 2014 (Note (d))	26,013	24,892	26,013	24,892
		36,680	35,263	36,680	35,263
Total third parties' long-term debts		141,104	117,681	140,049	113,017
Less: Current portion		(4,639)	(6,763)	(3,959)	(4,705)
		136,465	110,918	136,090	108,312
Long-term loans from Sinopec Group Company and fellow subsidiaries					
Renminbi denominated	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 denominated	Fixed interest rates at 0.92% per annum at 31 December 2010 with maturity in 2011	741	7,030	—	—
Less: Current portion		(891)	(2,553)	(150)	(160)
		37,610	41,807	37,467	37,000
		174,075	152,725	173,557	145,312

Short term and long term debts and loans from Sinopec Group Company and fellow subsidiaries, other than Convertible Bonds (Note (c)), are primarily unsecured and carried at amortised cost

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2010

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

Notes

- (a) A subsidiary of the Company issued 330 day corporate bonds of face value 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 subsidiary redeemed the corporate bonds in March 2010.

The Company issued one year corporate bonds of face value RMB 15 billion to corporate investors in the PRC debenture market on 16 July 2009 at par value of RMB 100. The effective yield of the one year corporate bonds is 1.88% per annum. The Company redeemed the corporate bonds in July 2010.

The Company issued one year corporate bonds of face value RMB 15 billion to corporate investors in the PRC debenture market on 12 November 2009 at par value of RMB 100. The effective yield of the one year corporate bonds is 2.30% per annum. The Company redeemed the corporate bonds in November 2010.

A subsidiary of the Company issued one year corporate bonds of face value 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. The corporate bonds will mature in June 2011.

- (b) These corporate bonds are guaranteed by Sinopec Group Company.

- (c) 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 holders can convert the Convertible Bonds 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.

As at 31 December 2010, the carrying amount of the liability component and the derivative component 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.

As at 31 December 2010 and 2009, the fair value of the derivative components 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	HKD7.44	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 an unrealised loss of RMB 127 million (2009: RMB 218 million) which has been recorded in the "finance costs" section of the consolidated income statement for the year ended 31 December 2010.

The initial carrying amount of the liability component of the Convertible Bonds is the residual amount which is 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. Should the aforesaid derivative components not been separated out and the entire Convertible Bonds been considered as the liability component, the effective interest rate would have been 3.03%.

- (d) On 26 February 2008, the Company issued 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 are guaranteed by Sinopec Group Company. Every ten Bonds with Warrants are entitled to 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 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 ("market interest rate"). Interest expense is calculated using the effective interest method by applying the market 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

30 TRADE ACCOUNTS AND BILLS PAYABLE

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Amounts due to third parties	120,224	92,949	37,998	32,887
Amounts due to Sinopec Group Company and fellow subsidiaries	6,613	2,127	3,465	1,190
Amounts due to associates and jointly controlled entities	5,691	1,686	1,341	731
Amounts due to subsidiaries	—	—	44,440	28,259
	132,528	96,762	87,244	63,067
Bills payable	3,818	23,111	2,670	14,084
Trade accounts and bills payable measured at amortised cost	136,346	119,873	89,914	77,151

The maturities of trade accounts and bills payables are as follows

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Due within 1 month or on demand	97,358	74,323	52,719	35,225
Due after 1 month but within 6 months	38,864	45,420	37,099	41,855
Due after 6 months	124	130	96	71
	136,346	119,873	89,914	77,151

31 ACCRUED EXPENSES AND OTHER PAYABLES

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Accrued expenditures	44,113	35,465	40,446	31,226
Advances from third parties	3,336	2,796	2,599	2,437
Amounts due to Sinopec Group Company and fellow subsidiaries	9,309	11,979	8,635	9,666
Amounts due to subsidiaries	—	—	27,009	33,290
Others	7,169	6,306	4,975	4,813
Financial liabilities carried at amortised costs	63,927	56,546	83,664	81,432
Taxes other than income tax	31,827	24,178	25,107	20,291
Receipts in advance	56,261	36,316	49,871	32,632
Derivative financial instruments - hedging	907	319	—	—
Derivative financial instruments - non hedging	556	439	259	171
	153,478	117,798	158,901	134,526

32 PROVISIONS

Provisions primarily represent provision for future dismantlement costs of oil and gas properties. The Group has committed to the PRC government to establish certain standardised measures for the dismantlement of its oil and gas properties by making reference to the industry practices and is thereafter constructively obligated to take dismantlement measures of its oil and gas properties

Movement of provision of the Group and the Company's obligations for the dismantlement of its 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	(242)	(218)	(231)	(214)
Balance at 31 December	15,510	11,789	14,462	10,882

33 SHARE CAPITAL

	The Group and the Company	
	2010 RMB millions	2009 RMB millions
Registered, issued and fully paid		
69,922 039,774 listed A shares (2009 69,921,951,000) of RMB 1.00 each	69,922	69,922
16,780 488 000 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 shares with a par value of RMB 1.00 each. Such shares were issued to Sinopec Group Company in consideration for the assets and liabilities of the Predecessor Operations transferred to the Company (Note 1)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

33 SHARE CAPITAL (Continued)

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

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

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

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. In October 2006, the 67,121,951,000 domestic state owned A shares became listed A shares.

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 29(d)) with a net proceeds of RMB 1,700,022.

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

Capital management

Management optimises the structure of the Group's capital, which comprises of equity and loans. In order to maintain or adjust the capital structure of the Group, management may cause the Company to issue new shares, adjust the capital expenditure plan, sell assets to reduce debt, or adjust the proportion of short term and long term loans. Management monitors capital on the basis of debt to equity ratio, which is calculated by dividing long term loans (excluding current portion), including long term debts and loans from Sinopec Group Company and fellow subsidiaries, by the total of equity attributable to equity shareholders of the Company and long term loans (excluding current portion), and liability to asset ratio, which is calculated by dividing total liabilities by total assets. Management's strategy is to make appropriate adjustments according to the Group's operating and investment needs and the changes of market conditions, and to maintain the debt to equity ratio and the liability to asset ratio of the Group at a range considered reasonable. As at 31 December 2010, the debt to equity ratio and the liability to asset ratio of the Group were 29.3% (2009: 28.8%) and 54.7% (2009: 55.0%), respectively.

The schedule of the contractual maturities of loans and commitments are disclosed in Notes 29 and 35, respectively.

There were no changes in the management's approach to capital management of the Group during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

34 RESERVES

The reconciliation between the opening and closing balances of each component of the Group's consolidated reserves is set out in the consolidated statement of change in equity. Details of the change in the Company's individual component of reserves between the beginning and the end of the year are as follows:

	The Company	
	2010	2009
	RMB millions	RMB millions
Capital reserve		
Balance at 1 January	16,059	17,659
Expiry of warrants (Note 29(d))	(6,879)	—
Transfer from other reserves to capital reserve	—	(1,551)
Distribution to Sinopec Group Company	(29)	(49)
Balance at 31 December	9,151	16,059
Share premium		
Balance at 1 January	18,072	18,072
Warrants exercised (Note 33)	2	—
Expiry of warrants (Note 29(d))	6,879	—
Balance at 31 December	24,953	18,072
Statutory surplus reserve		
Balance at 1 January	48,031	43,078
Appropriation	6,680	4,953
Balance at 31 December	54,711	48,031
Discretionary surplus reserve		
Balance at 1 January	67,000	47,000
Appropriation	20,000	20,000
Balance at 31 December	87,000	67,000
Other reserves		
Balance at 1 January	186	168
Change in fair value of available for sale financial assets, net of deferred tax	(9)	24
Realisation of deferred tax on lease prepayments	(6)	(6)
Transfer from other reserves to capital reserve	—	1,551
Consideration paid over the net assets of the Acquired Group	—	(1,551)
Others	1,025	—
Balance at 31 December	1,196	186
Retained earnings		
Balance at 1 January	91,772	82,147
Profit for the year	65,321	48,444
Final dividend for 2009 (Note 14)	(9,537)	(7,803)
Interim dividend for 2010 (Note 14)	(6,936)	(6,069)
Appropriation	(26,680)	(24,953)
Realisation of deferred tax on lease prepayments	6	6
Others	(1,025)	—
Balance at 31 December	112,921	91,772
	289,932	241,120

35 COMMITMENTS AND CONTINGENT LIABILITIES

Operating lease commitments

The Group leases 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 under operating leases are as follows:

	The Group		The Company	
	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	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
Thereafter	224,292	145,338	218,335	145,116
	273,601	174,491	266,205	174,039

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

35 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Capital commitments

At 31 December 2010 and 2009, capital commitments are as follows

	The Group		The Company	
	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	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
	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

Exploration licenses for exploration activities are registered with the Ministry of Land and Resources. The maximum term of the Group's exploration licenses is 7 years, and may be renewed twice within 30 days prior to expiration of the original term with each renewal being for a two year term. The Group is obligated to make progressive annual minimum exploration investment relating to the exploration blocks in respect of which the license is issued. The Ministry of Land and Resources also issues production licenses to the Group on the basis of the reserve reports approved by relevant authorities. The maximum term of a full production license is 30 years unless a special dispensation is given by the State Council. The maximum term of production licenses issued to the Group is 80 years as a special dispensation was given to the Group by the State Council. The Group's production license is renewable upon application by the Group 30 days prior to expiration.

The Group is required to make payments of exploration license fees and production right usage fees to the Ministry of Land and Resources annually which are expensed as incurred. Payments incurred were approximately RMB 450 million for the year ended 31 December 2010 (2009: RMB 395 million).

Estimated future annual payments are as follows

	The Group and the Company	
	2010	2009
	RMB millions	RMB millions
Within one year	119	136
Between one and two years	181	118
Between two and three years	22	21
Between three and four years	23	20
Between four and five years	23	20
Thereafter	645	689
	1,013	1,004

Contingent liabilities

At 31 December 2010 and 2009, guarantees given to banks in respect of banking facilities granted to the parties below were as follows

	The Group		The Company	
	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	RMB millions
Jointly controlled entities	7,548	14,815	4,894	9,543
Associates	152	181	43	61
	7,700	14,996	4,937	9,604

As at 31 December 2010, the Company and a subsidiary have guaranteed to a jointly controlled entity in relation to the bank loans drawn down by the jointly controlled entity. The guarantees will mature on 31 December 2015.

Management monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognise any such losses under guarantees when those losses are estimable. At 31 December 2010 and 2009, it is not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued for the Group's obligation under these guarantee arrangements.

Environmental contingencies

Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved, and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect management's ability to estimate the ultimate cost of remediation efforts. These uncertainties include i) the exact nature and extent of the contamination at various sites including, but not limited to refineries, oil fields, service stations, terminals and land development areas, whether operating, closed or sold, ii) the extent of required cleanup efforts, iii) varying costs of alternative remediation strategies, iv) changes in environmental remediation requirements, and v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. The Group paid normal routine pollutant discharge fees of approximately RMB 3,880 million for the year ended 31 December 2010 (2009: RMB 3,196 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

35 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Legal contingencies

The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the ordinary course of business. Management has assessed the likelihood of an unfavourable outcome of such contingencies, lawsuits or other proceedings and believes that any resulting liabilities will not have a material adverse effect on the financial position, operating results or cash flows of the Group.

36 RELATED PARTY TRANSACTIONS

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

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

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

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

	Note	2010 RMB millions	2009 RMB millions
Sales of goods	(i)	230,883	162,671
Purchases	(ii)	109,195	64,548
Transportation and storage	(iii)	1,407	1,251
Exploration and development services	(iv)	33,301	31,343
Production related services	(v)	10,287	17,603
Ancillary and social services	(vi)	3,693	3,329
Operating lease charges	(vii)	7,450	4,866
Agency commission income	(viii)	65	45
Interest received	(ix)	93	38
Interest paid	(x)	967	1,186
Net deposits placed with related parties	(ix)	3,267	4,640
Net loans repaid to related parties	(xi)	1,254	21,928

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 income from related parties as determined by the corresponding contracts with the related parties.

At 31 December 2010 and 2009, there were no guarantees given to banks by the Group in respect of banking facilities to Sinopec Group Company and fellow subsidiaries. Guarantees given to banks by the Group in respect of banking facilities to associates and jointly controlled entities are disclosed in Note 35.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

36 RELATED PARTY TRANSACTIONS (Continued)

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

Notes

- (i) Sales of goods represent the sale of crude oil, intermediate petrochemical products, petroleum products and ancillary materials.
- (ii) Purchases represent the purchase of materials and utility supplies directly related to the Group's operations such as the procurement of raw and ancillary materials and related services, supply of water, electricity and gas.
- (iii) Transportation and storage represent the cost for the use of railway, road and marine transportation services, pipelines, loading, unloading and storage facilities.
- (iv) Exploration and development services comprise direct costs incurred in the exploration and development such as geophysical, drilling, well testing and well measurement services.
- (v) Production related services represent ancillary services rendered in relation to the Group's operations such as equipment repair and general maintenance, insurance premium, technical research, communications, fire fighting, security, product quality testing and analysis, information technology, design and engineering, construction 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 fellow subsidiaries.
- (xi) The Group obtained or repaid loans from or to Sinopec Group Company and fellow subsidiaries.

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

- (a) The Company has entered into a non exclusive Agreement for Mutual Provision of Products and Ancillary Services ("Mutual Provision Agreement") with Sinopec Group Company effective from 1 January 2000 in which Sinopec Group Company has agreed to provide the Group with certain ancillary production services, construction services, information advisory services, supply services and other services and products. While each of Sinopec Group Company and the Company is permitted to terminate the Mutual Provision Agreement upon at least six months notice, Sinopec Group Company has agreed not to terminate the agreement if the Group is unable to obtain comparable services from a third party. The pricing policy for these services and products provided by Sinopec Group Company to the Group is as follows:
 - the government prescribed price,
 - where there is no government prescribed price, the government-guidance price,
 - where there is neither a government prescribed price nor a government guidance price, the market price, or
 - where none of the above is applicable, the price to be agreed between the parties, which shall be based on a reasonable cost incurred in providing such services plus a profit margin not exceeding 6%.
- (b) The Company has entered into a non exclusive Agreement for Provision of Cultural and Educational, Health Care and Community Services with Sinopec Group Company effective from 1 January 2000 in which Sinopec Group Company has agreed to provide the Group with certain cultural, educational, health care and community services on the same pricing terms and termination conditions as described in the above Mutual Provision Agreement.
- (c) The Company has entered into a series of lease agreements with Sinopec Group Company to lease certain land and buildings. The Company and Sinopec Group Company can renegotiate the rental amount every three years for land. For the year ended 31 December 2010, the rental amount is approximately RMB 6,727 million per annum (2009: RMB 4,225 million). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

36 RELATED PARTY TRANSACTIONS (Continued)

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

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

Pursuant to the resolutions 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 millions 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 considerations of RMB 771 million (Note 1). In addition, the Group acquired certain operating assets related to the E&P and refining segments from Sinopec Group Company, for total cash considerations of RMB 1,068 million

Pursuant to the resolutions passed at the Directors' meeting held on 21 August 2009, the Group acquired certain operating assets related to the corporate and others business segment from a subsidiary of Sinopec Group Company for total cash considerations of RMB 3,946 million

Amounts due from/to Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities included in the following accounts captions are summarised as follows

	2010 RMB millions	2009 RMB millions
Trade accounts receivable	10,734	1,032
Prepaid expenses and other current assets	3,390	810
Total amounts due from Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities	14,124	1,842
Trade accounts payable	12,304	3,813
Accrued expenses and other payables	9,309	11,979
Short term loans and current portion of long term loans from Sinopec Group Company and fellow subsidiaries	18,809	15,866
Long term loans excluding current portion from Sinopec Group Company and fellow subsidiaries	37,610	41,807
Total amounts due to Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities	78,032	73,465

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

As at and for the years ended 31 December 2010 and 2009, no individually significant impairment losses for bad and doubtful debts were recognised in respect of amounts due from Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities

(b) Key management personnel emoluments

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

	2010 RMB'000	2009 RMB'000
Short term employee benefits	8,692	7,664
Retirement scheme contributions	318	287
	9,010	7,951

Total emoluments are included in "personnel expenses" as disclosed in Note 6

(c) Contributions to defined contribution retirement plans

The Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The details of the Group's employee benefits plan are disclosed in Note 37. As at 31 December 2010 and 2009, the accrual for the contribution to post employment benefit plans was not material

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

36 RELATED PARTY TRANSACTIONS (Continued)

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

The Group is a state controlled energy and chemical enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government through its government authorities, agencies, affiliations and other organisations (collectively referred as "state controlled entities")

Apart from transactions with Sinopec Group Company and fellow subsidiaries, the Group has transactions with other state controlled entities include but not limited to the following

- sales and purchase of goods and ancillary materials,
- rendering and receiving services,
- lease of assets,
- depositing and borrowing money, and
- use of public utilities

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state controlled. The Group has established procurement policies, pricing strategy and approval processes for purchases and sales of products and services which do not consider or depend on whether the counterparties are state controlled entities or not

Having considered the transactions potentially affected by related party relationships, the Group's pricing strategy, procurement policies and approval processes, and the information that would be necessary for an understanding of the potential effect of the related party relationship on the financial statements, the directors are of the opinion that the following related party transactions require disclosure of numeric details

(i) Transactions with other state-controlled energy and chemical companies

The Group's major domestic suppliers of crude oil and refined petroleum products are China National Petroleum Corporation and its subsidiaries ("CNPC Group") and China National Offshore Oil Corporation and its subsidiaries ("CNOOC Group"), which are state controlled entities

During the year ended 31 December 2010, the aggregate amount of crude oil purchased by the Group's refining segment from CNPC Group and CNOOC Group and refined petroleum purchased by the Group's marketing and distribution segment from CNPC Group was RMB 145,200 million (2009 RMB 100,641 million)

The aggregate amounts due from/to CNPC Group and CNOOC Group included in the following accounts captions are summarised as follows

	2010 RMB millions	2009 RMB millions
Trade accounts receivable	868	318
Prepaid expenses and other current assets	20	17
Total amounts due from CNPC Group and CNOOC Group	888	335
Trade accounts payable	3,797	3,628
Accrued expenses and other payables	290	361
Total amounts due to CNPC Group and CNOOC Group	4,087	3,989

(ii) Transactions with state-controlled banks

The Group deposits its cash with several state controlled banks in the PRC. The Group also obtains short term and long term loans from these banks in the ordinary course of business. The interest rates of the bank deposits and loans are regulated by the PBOC. The Group's interest income generated from and interest expense incurred to these state controlled banks in the PRC is as follows

	2010 RMB millions	2009 RMB millions
Interest income	153	238
Interest expense	2,736	2,830

The amounts of cash deposited at and loans from state controlled banks in the PRC included in the following accounts captions are summarised as follows

	2010 RMB millions	2009 RMB millions
Cash and cash equivalents	8,617	3,046
Time deposits with financial institutions	509	1,236
Total deposits at state-controlled banks in the PRC	9,126	4,282
Short term loans and current portion of long term loans	12,546	23,081
Long term loans excluding current portion of long term loans	21,094	16,983
Total loans from state-controlled banks in the PRC	33,640	40,064

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

37 EMPLOYEE BENEFITS PLAN

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The Group is required to make contributions to the retirement plans at rates ranging from 18.0% to 23.0% of the salaries, bonuses and certain allowances of its staff. A member of the above plans is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the year ended 31 December 2010 were RMB 4,847 million (2009 RMB 4,647 million).

38 SEGMENT REPORTING

Segment information is presented in respect of the Group's business segments. The format is based on the Group's management and internal reporting structure. In view of the fact that the Company and its subsidiaries operate mainly in the PRC, no geographical segment information is presented.

In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment, the Group has identified the following five reportable segments. No operating segments have been aggregated to form the following reportable segments:

- (i) Exploration and production, which explores and develops oil fields, produces crude oil and natural gas and sells such products to the refining segment of the Group and external customers;
- (ii) Refining, which processes and purifies crude oil, that is sourced from the exploration and production segment of the Group and external suppliers, and manufactures and sells petroleum products to the chemicals and marketing and distribution segments of the Group and external customers;
- (iii) Marketing and distribution, which owns and operates oil depots and service stations in the PRC, and distributes and sells refined petroleum products (mainly gasoline and diesel) in the PRC through wholesale and retail sales networks;
- (iv) Chemicals, which manufactures and sells petrochemical products, derivative petrochemical products and other chemical products mainly to external customers;
- (v) Corporate and others, which largely comprise the trading activities of the import and export companies of the Group and research and development undertaken by other subsidiaries.

The reportable segments are each managed separately because they manufacture and/or distribute distinct products with different production processes and due to their distinct operating and gross margin characteristics.

Group's chief operating decision maker evaluates the performance and allocates resources to its operating segments on an operating income basis without considering the effects of finance costs or investment income. Inter segment transfer pricing is based on cost plus an appropriate margin, as specified by the Group's policy.

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities. Segment assets include all tangible and intangible assets, except for cash and cash equivalents, time deposits with financial institutions, investments, deferred tax assets and other non-current assets. Segment liabilities exclude short-term and long-term debts, loans from Sinopec Group Company and fellow subsidiaries, income tax payable, deferred tax liabilities and other non-current liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

38 SEGMENT REPORTING (Continued)

Information on the Group's reportable segments is as follows

	2010 RMB millions	2009 RMB millions
Turnover		
Exploration and production		
External sales	35,024	19,342
Inter segment sales	133,691	97,981
	168,715	117,323
Refining		
External sales	159,858	95,792
Inter segment sales	805,704	603,870
	965,562	699,662
Marketing and distribution		
External sales	1,032,900	778,417
Inter segment sales	3,258	2,372
	1,036,158	780,789
Chemicals		
External sales	285,596	192,735
Inter segment sales	35,581	21,125
	321,177	213,860
Corporate and others		
External sales	363,380	229,629
Inter segment sales	432,415	291,396
	795,795	521,025
Elimination of inter segment sales	(1,410,649)	(1,016,744)
Turnover	1,876,758	1,315,915
Other operating revenues		
Exploration and production	18,430	17,485
Refining	6,015	3,909
Marketing and distribution	4,540	2,302
Chemicals	6,445	4,597
Corporate and others	994	844
Other operating revenues	36,424	29,137
Turnover and other operating revenues	1,913,182	1,345,052

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

38 SEGMENT REPORTING (Continued)

	2010 RMB millions	2009 RMB millions
Result		
Operating profit/(loss)		
By segment		
- Exploration and production	47,149	23,894
- Refining	15,855	27,508
- Marketing and distribution	30,760	30,300
- Chemicals	15,037	13,805
- Corporate and others	(2,342)	(2,205)
- Elimination	(1,455)	(2,603)
Total segment operating profit	105,004	90,699
Share of profits less losses from associates and jointly controlled entities		
- Exploration and production	158	136
- Refining	557	478
- Marketing and distribution	864	690
- Chemicals	3,211	1,084
- Corporate and others	600	609
Aggregate share of profits less losses from associates and jointly controlled entities	5,390	2,997
Investment income / (loss)		
- Exploration and production	21	(1)
- Refining	26	(8)
- Marketing and distribution	169	47
- Chemicals	20	311
- Corporate and others	37	25
Aggregate investment income	273	374
Net finance costs	(6,974)	(7,466)
Profit before taxation	103,693	86,604
	2010 RMB millions	2009 RMB millions
Assets		
Segment assets		
- Exploration and production	305,413	283,430
- Refining	230,925	213,027
- Marketing and distribution	190,368	153,777
- Chemicals	125,586	128,322
- Corporate and others	60,897	60,433
Total segment assets	913,189	838,989
Interest in associates and jointly controlled entities	43,014	32,090
Investments	2,075	2,174
Deferred tax assets	15,516	13,975
Cash and cash equivalents and time deposits with financial institutions	18,140	10,018
Other unallocated assets	3,220	1,017
Total assets	995,154	898,263
Liabilities		
Segment liabilities		
- Exploration and production	65,067	57,907
- Refining	51,554	56,277
- Marketing and distribution	76,981	50,540
- Chemicals	33,836	27,074
- Corporate and others	75,832	56,077
Total segment liabilities	303,270	247,875
Short term debts	17,019	59,350
Income tax payable	10,754	3,034
Long term debts	136,465	110,918
Loans from Sinopec Group Company and fellow subsidiaries	56,419	57,673
Deferred tax liabilities	15,017	9,707
Other unallocated liabilities	5,842	4,890
Total liabilities	544,786	493,447

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

38 SEGMENT REPORTING (Continued)

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year

	2010 RMB millions	2009 RMB millions
Capital expenditure		
Exploration and production	52,680	54,272
Refining	20,015	15,468
Marketing and distribution	26,168	16,283
Chemicals	12,894	25,207
Corporate and others	1,894	1,505
	113,651	112,735
Depreciation, depletion and amortisation		
Exploration and production	31,515	28,177
Refining	11,351	10,330
Marketing and distribution	6,489	5,999
Chemicals	8,838	8,574
Corporate and others	1,030	936
	59,223	54,016
Impairment losses on long-lived assets		
Exploration and production	3,250	1,595
Refining	4,902	396
Marketing and distribution	1,183	1,479
Chemicals	5,121	3,807
Corporate and others	21	8
	14,477	7,285

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

39 PRINCIPAL SUBSIDIARIES

At 31 December 2010, the following list contains the particulars of subsidiaries which principally affected the results, assets and liabilities of the Group.

Name of company	Particulars of issued capital (millions)	Percentage of equity %	Principal activities
China Petrochemical International Company Limited	RMB 1,400	100.00	Trading of petrochemical products and equipments
Sinopec Sales Company Limited	RMB 1,700	100.00	Marketing and distribution of refined petroleum products
Sinopec Yangzi Petrochemical Company Limited	RMB 16,337	100.00	Manufacturing of intermediate petrochemical products and petroleum products
Fujian Petrochemical Company Limited (Note)	RMB 4,769	50.00	Manufacturing of plastics, intermediate petrochemical products and petroleum products
Sinopec Shanghai Petrochemical Company Limited	RMB 7,200	55.56	Manufacturing of synthetic fibres, resin and plastics, intermediate petrochemical products and petroleum products
Sinopec Kantons Holdings Limited	HKD 104	72.34	Trading of crude oil and petroleum products
Sinopec Yizheng Chemical Fibre Company Limited (Note)	RMB 4,000	42.00	Production and sale of polyester chips and polyester fibres
Sinopec Zhongyuan Petrochemical Company Limited	RMB 2,400	93.51	Manufacturing of petrochemical products
Sinopec Shell (Jiangsu) Petroleum Marketing Company Limited	RMB 830	60.00	Marketing and distribution of refined petroleum products
BP Sinopec (Zhejiang) Petroleum Company Limited	RMB 800	60.00	Marketing and distribution of refined petroleum products
Sinopec Qingdao Refining and Chemical Company Limited	RMB 5,000	85.00	Manufacturing of intermediate petrochemical products and petroleum products
China International United Petroleum and Chemical Company Limited	RMB 3,040	100.00	Trading of crude oil and petrochemical products
Sinopec Hainan Refining and Chemical Company Limited	RMB 3,986	75.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec (Hong Kong) Limited	HKD 5,477	100.00	Trading of crude oil and petrochemical products
Sinopec Senmei (Fujian) Petroleum Limited	RMB 1,840	55.00	Marketing and distribution of refined petroleum products
Sinopec Qingdao Petrochemical Company Limited	RMB 1,595	100.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec International Petroleum Exploration and Production Limited	RMB 8,000	100.00	Investment in exploration, production and sales of petroleum and natural gas
Sinopec Fuel Oil Sales Company Limited	RMB 2,200	100.00	Marketing and distribution of refined 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. All of the above principal subsidiaries are limited companies.

Note: The Company consolidated the financial statements of the entity because it controlled the board of this entity and had the power to govern its financial and operating policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

40 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Overview

Financial assets of the Group include cash and cash equivalents, time deposits with financial institutions, investments, trade accounts receivable, bills receivable, amounts due from Sinopec Group Company and fellow subsidiaries, advances to third parties, amounts due from associates and jointly controlled entities, derivative financial instruments and other receivables. Financial liabilities of the Group include short term and long term debts, loans from Sinopec Group Company and fellow subsidiaries, trade accounts payable, bills payable, amounts due to Sinopec Group Company and fellow subsidiaries, derivative financial instruments and advances from third parties.

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk,
- market risk and
- equity price risk

The Board of Directors has overall responsibility for the establishment, oversight of the Group's risk management framework, and developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management controls and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. Internal audit department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group's audit committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's deposits placed with financial institutions and receivables from customers. To limit exposure to credit risk relating to deposits, the Group primarily places cash deposits only with large financial institution in the PRC with acceptable credit ratings. The majority of the Group's trade accounts receivable relate to sales of petroleum and chemical products to related parties and third parties operating in the petroleum and chemical industries. Management performs ongoing credit evaluations of the Group's customers' financial condition and generally does not require collateral on trade accounts receivable. The Group maintains an impairment loss for doubtful accounts and actual losses have been within management's expectations. No single customer accounted for greater than 10% of total trade accounts receivable. The details of the Group's credit policy and quantitative disclosures in respect of the Group's exposure on credit risk for trade receivables are set out in Note 25.

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

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach in managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Management prepares monthly cash flow budget to ensure that the Group will always have sufficient liquidity to meet its financial obligation as they fall due. The Group arranges and negotiates financing with financial institutions and maintains a certain level of standby credit facilities to reduce the Group's liquidity risk.

At 31 December 2010, the Group has standby credit facilities with several PRC financial institutions which provide borrowings up to RMB 167,500 million (2009: RMB 159,500 million) on an unsecured basis, at a weighted average interest rate of 2.61% (2009: 3.33%) per annum. At 31 December 2010, the Group's outstanding borrowings under these facilities were RMB 6,622 million (2009: RMB 9,361 million) and were included in short term debts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

40 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

Liquidity risk (Continued)

The following table sets out the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on prevailing rates current at the balance sheet date) and the earliest date the Group and the Company would be required to repay

The Group

	2010					
	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years RMB millions
Short term debts	17,019	17,202	17,202	—	—	—
Long term debts	136,465	157,394	4,240	46,617	76,737	29,800
Loans from Sinopec Group Company and fellow subsidiaries	56,419	57,098	19,187	312	2,039	35,560
Trade accounts payable	132,528	132,528	132,528	—	—	—
Bills payable	3,818	3,818	3,818	—	—	—
Accrued expenses and other payables	65,390	65,390	65,390	—	—	—
	411,639	433,430	242,365	46,929	78,776	65,360

	2009					
	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years RMB millions
Short term debts	59,350	60,298	60,298	—	—	—
Long term debts	110,918	132,588	3,131	9,118	99,942	20,397
Loans from Sinopec Group Company and fellow subsidiaries	57,673	58,510	16,398	5,112	1,440	35,560
Trade accounts payable	96,762	96,762	96,762	—	—	—
Bills payable	23,111	23,114	23,114	—	—	—
Accrued expenses and other payables	57,304	57,304	57,304	—	—	—
	405,118	428,576	257,007	14,230	101,382	55,957

The Company

	2010					
	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years RMB millions
Short term debts	6,359	6,475	6,475	—	—	—
Long term debts	136,090	156,985	4,229	46,575	76,427	29,754
Loans from Sinopec Group Company and fellow subsidiaries	42,446	42,912	5,137	309	1,906	35,560
Trade accounts payable	87,244	87,244	87,244	—	—	—
Bills payable	2,670	2,670	2,670	—	—	—
Accrued expenses and other payables	83,923	83,923	83,923	—	—	—
	358,732	380,209	189,678	46,884	78,333	65,314

	2009					
	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years RMB millions
Short term debts	39,755	40,540	40,540	—	—	—
Long term debts	108,312	129,851	3,062	6,847	99,626	20,316
Loans from Sinopec Group Company and fellow subsidiaries	37,838	38,148	926	222	1,440	35,560
Trade accounts payable	63,067	63,067	63,067	—	—	—
Bills payable	14,084	14,087	14,087	—	—	—
Accrued expenses and other payables	81,603	81,603	81,603	—	—	—
	344,659	367,296	203,285	7,069	101,066	55,876

Management believes that the Group's current cash on hand, expected cash flows from operations and available standby credit facilities from financial institutions will be sufficient to meet the Group's working capital requirements and repay its short term debts and obligations when they become due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

40 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

Currency risk

Currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Group's currency risk exposure primarily relates to short term and long term debts and loans from Sinopec Group Company and fellow subsidiaries denominated in US Dollars, Japanese Yen and Hong Kong Dollars. The Group enters into foreign exchange contracts to manage its currency risk exposure.

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

	The Group 2010 millions	2009 millions	The Company 2010 millions	2009 millions
Gross exposure arising from loans and borrowings				
US Dollars	USD501	USD1,341	USD48	USD60
Japanese Yen	JPY18,313	JPY22,500	JPY18,313	JPY22,500
Hong Kong Dollars	HKD12,114	HKD11,779	HKD12,114	HKD11,779

A 5 percent strengthening of Renminbi against the following currencies at 31 December would have increased profit for the year and retained earnings of the Group by the amounts shown below. This analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the foreign currency balances to which the Group has significant exposure as stated above, and that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

	The Group 2010 RMB millions	2009 RMB millions
US Dollars	124	343
Japanese Yen	56	62
Hong Kong Dollars	400	389

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

Interest rate risk

The Group's interest rate risk exposure arises primarily from its short term and long term debts. Debts bearing interest at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates of short term and long term debts, and loans from Sinopec Group Company and fellow subsidiaries of the Group are disclosed in Note 29.

As at 31 December 2010, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would decrease/increase the Group's profit for the year and retained earnings by approximately RMB 259 million (2009: RMB 266 million). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and the change was applied to the Group's debts outstanding at that date with exposure to cash flow interest rate risk. The analysis is performed on the same basis for 2009.

Commodity price risk

The Group engages in oil and gas operations and is exposed to commodity price risk related to price volatility of crude oil and refined oil products. The fluctuations in prices of crude oil and refined oil products could have significant impact on the Group. The Group uses derivative financial instruments, including commodity futures and swaps, to manage a portion of this risk. As at 31 December 2010, the Group had certain commodity contracts of crude oil and refined oil products designated as qualified cash flow hedges and economic hedges. The fair values of these derivative financial instruments as at 31 December 2010 are set out in Notes 27 and 31.

As at 31 December 2010, it is estimated that a general increase/decrease of USD 10 per barrel in crude oil and refined oil products, with all other variables held constant, would decrease/increase the Group's profit for the year and retained earnings by approximately RMB 229 million (2009: decrease/increase RMB 215 million), and decrease/increase the Group's other reserves by approximately RMB 1,066 million (2009: increase/decrease RMB 1,991 million). This sensitivity analysis has been determined assuming that the change in prices had occurred at the balance sheet date and the change was applied to the Group's derivative financial instruments at that date with exposure to commodity price risk. The analysis was performed on the same basis for 2009.

Equity price risk

The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of derivatives of the Group. At 31 December 2010, the Group's exposure to equity price risk is the derivative embedded in the Convertible Bonds issued by the Company as disclosed in Note 29(c).

At 31 December 2010, it is estimated that an increase of 20% in the Company's own share price would decrease the Group's profit for the year and retained earnings by approximately RMB 218 million (2009: RMB 306 million), a decrease of 20% in the Company's own share price would increase the Group's profit for the year and retained earnings by approximately RMB 108 million (2009: RMB 156 million). The sensitivity analysis has been determined assuming that the changes in the Company's own share price had occurred at the balance sheet date and that all other variables remain constant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

40 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in IFRS 7, Financial Instruments. Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level) fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2 fair values measured using quoted prices in active markets for similar financial instruments or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level) fair values measured using valuation techniques in which any significant input is not based on observable market data

2010

	Level 1 RMB millions	The Group Level 2 RMB millions	Level 3 RMB millions	Total RMB millions	Level 1 RMB millions	The Company Level 2 RMB millions	Level 3 RMB millions	Total RMB millions
Assets								
Financial assets held for trading	700	1,750	—	2,450	—	—	—	—
Available for sale financial assets								
– Listed	52	—	—	52	18	—	—	18
Derivative financial instruments								
– Derivative financial assets	113	223	—	336	—	1	—	1
	865	1,973	—	2,838	18	1	—	19
Liabilities								
Derivative financial instruments								
– Derivative components of the Convertible Bonds	—	340	—	340	—	340	—	340
– Other derivative financial liabilities	164	1,299	—	1,463	—	259	—	259
	164	1,639	—	1,803	—	599	—	599

2009

	Level 1 RMB millions	The Group Level 2 RMB millions	Level 3 RMB millions	Total RMB millions	Level 1 RMB millions	The Company Level 2 RMB millions	Level 3 RMB millions	Total RMB millions
Assets								
Available for sale financial assets								
– Listed	61	—	—	61	25	—	—	25
– Unlisted	—	1,400	—	1,400	—	—	—	—
Derivative financial instruments								
– Derivative financial assets	17	307	—	324	—	3	—	3
	78	1,707	—	1,785	25	3	—	28
Liabilities								
Derivative financial instruments								
– Derivative components of the Convertible Bonds	—	218	—	218	—	218	—	218
– Other derivative financial liabilities	4	754	—	758	—	171	—	171
	4	972	—	976	—	389	—	389

During the year there were no transfers between instruments in Level 1 and Level 2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

40 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

Fair values (Continued)

(ii) Fair values of financial instruments carried at other than fair value

The disclosures of the fair value estimates, and their methods and assumptions of the Group's financial instruments, are made to comply with the requirements of IFRS 7 and IAS 39 and should be read in conjunction with the Group's consolidated financial statements and related notes. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgement is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The fair values of the Group's financial instruments (other than long term indebtedness and investments in unquoted equity securities) approximate their carrying amounts due to the short term maturity of these instruments. The fair values of long term indebtedness are estimated by discounting future cash flows using current market interest rates offered to the Group that range between 3.87% to 6.14% (2009: 4.18% to 5.94%). The following table presents the carrying amount and fair value of the Group's long term indebtedness other than loans from Sinopec Group Company and fellow subsidiaries at 31 December 2010 and 2009.

	2010 RMB millions	2009 RMB millions
Carrying amount	141,004	115,139
Fair value	139,999	114,471

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

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

41 ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. Management 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 significant accounting policies are set forth in Note 2. Management believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

Oil and gas properties and reserves

The accounting for the exploration and production's oil and gas activities is subject to accounting rules that are unique to the oil and gas 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 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 provision 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 units of oil or gas produced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

41 ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Impairment for long-lived assets

If circumstances indicate that the net book value of a long lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36 "Impairment of Assets". The carrying amounts of long lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. 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. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

Depreciation

Property, plant and equipment, other than oil and gas properties, are depreciated on a straight line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. 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 take into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Impairment for bad and doubtful debts

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.

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.

42 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the annual accounting period ended 31 December 2010 and which have not been adopted in these financial statements.

Management is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application and has so far concluded that the adoption of these amendments, new standards and new interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

43 POST BALANCE SHEET EVENT

In March 2011, the Company issued convertible bonds due 2017 with an aggregate principal amount of RMB 23 billion in the PRC (the "2011 Convertible Bonds"). The 2011 Convertible Bonds are issued at par value of RMB 100 with an initial exercise price of RMB 9.73 per share. The coupon interest rate of the 2011 Convertible Bonds per annum payable annually is 0.5% for the first year, 0.7% for the second year, 1.0% for the third year, 1.3% for the fourth year, 1.8% for the fifth year and 2.0% for the sixth year.

44 PARENT AND ULTIMATE HOLDING COMPANY

The directors consider the parent and ultimate holding company of the Group as at 31 December 2010 is Sinopec Group Company, a state owned enterprise established in the PRC. This entity does not produce financial statements available for public use.