CHINA PETROLEUM & CHEMICAL CORP
Form 6-K
April 09, 2008

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 6-K

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

For the month of April, 2008

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

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

Form 20-F T Form 40-F _____

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

Yes ____ No T

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

N/A

This Form 6-K consists of:

the complete annual report for the year 2007 of China Petroleum & Chemical Corporation (the “Registrant”), made by the Registrant on April 3, 2008.

Document 1

CONTENTS

This annual report includes forward-looking statements. All statements, other than statements of historical facts, that address activities, events or developments that the Company expects or anticipates will or may occur in the future (including but not limited to projections, targets, estimates and business plans) are forward-looking statements. The Company's actual results or developments may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties. The Company makes the forward-looking statements referred to herein as at 3 April 2008 and undertakes no obligation to update these statements.

IMPORTANT: THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD OF CHINA PETROLEUM & CHEMICAL CORPORATION (ÒSINOPEC CORP.Ó) AND ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT WARRANT THAT THERE ARE NO MATERIAL OMISSIONS FROM, OR MISREPRESENTATIONS OR MISLEADING STATEMENTS CONTAINED IN THIS ANNUAL REPORT, AND JOINTLY AND SEVERALLY ACCEPT FULL RESPONSIBILITY FOR THE AUTHENTICITY, ACCURACY AND COMPLETENESS OF THE INFORMATION CONTAINED IN THIS ANNUAL REPORT. MR. YAO ZHONGMIN , DIRECTOR OF SINOPEC CORP., COULD NOT ATTEND THE NINETEENTH MEETING OF THE THIRD SESSION OF THE BOARD FOR REASON OF OFFICIAL DUTIES. MR. YAO, AUTHORISED MR. WANG TIANPU TO VOTE ON HIS BEHALF IN RESPECT OF THE RESOLUTIONS PUT FORWARD IN THE MEETING OF THE BOARD. MR. SU SHULIN, CHAIRMAN OF THE BOARD, MR. WANG TIANPU, DIRECTORS, PRESIDENT OF SINOPEC CORP., MR. DAI HOULIANG, DIRECTOR, SENIOR VICE PRESIDENT & CHIEF FINANCIAL OFFICER OF SINOPEC CORP. AND MR. LIU YUN, HEAD OF THE CORPORATE FINANCE DEPARTMENT OF SINOPEC CORP., HEREBY WARRANT THE AUTHENTICITY AND COMPLETENESS OF THE FINANCIAL STATEMENTS CONTAINED IN THIS ANNUAL REPORT.

Exploration and Production	Refining	Marketing and Distribution	Chemicals

COMPANY PROFILE

Sinopec Corp. is a Chinese company listed in Hong Kong, New York, London and Shanghai with integrated energy and chemical operations. The principal operations of Sinopec Corp. and its subsidiaries (the “Company”) include:

¦ exploring for and developing, producing and trading crude oil and natural gas

¦ processing crude oil into refined oil products, producing refined oil products and trading, transporting, distributing and marketing refined oil products

¦ producing, distributing and trading petrochemical products

The Company’s competitive strengths are mainly reflected in:

¦ its leading market position in the production and sales of refined oil products in China

¦ its status as the largest petrochemical producer in China

¦ its strategic market position in China’s highest economic growth areas

¦ its well-established, highly efficient and cost effective sales and distribution network

¦ its integrated operation structure with strong resistance against industry cyclical risks

¦ its well-recognised brand and excellent reputation

The Company intends to fully implement its development strategies that are well balanced between continuous improvement in the Company’s profitability and market competitiveness and various societal factors as a good corporate citizen, energy conservation and environment protection, so that the Company would achieve sustained, effective and harmonious growth, and realise the goal of becoming a multinational energy and chemical corporation with strong competitiveness.

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Principal Financial Data and Indicators

1 FINANCIAL DATA AND InDicators PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES ("ASBE")

(1) Principal financial data of the Company for the year 2007

	For the years ended 31 December				
	2007	2006			2005
Items	RMB millions	as restated* RMB millions	as previously reported* RMB millions	Change (%)	RMB millions
Operating income	1,204,843	1,061,669	1,071,402	13.5	793,773
Profit before taxation	82,911	75,383	73,252	10.0	61,854
Net profit attributable to equity shareholders of the Company	54,947	52,086	50,664	5.5	40,022
Net profit attributable to equity shareholders of the Company before extraordinary gain and loss	49,622	50,135	48,573	(1.0)	35,640
Net cash flow from operating activities	124,250	98,870	102,587	25.7	84,738

	At 31 December				
	2007	2006			2005
Items	RMB millions	as restated* RMB millions	as previously reported* RMB millions	Change (%)	RMB millions
Total assets	718,572	602,720	594,550	19.2	526,495
Shareholders' equity attributable to equity shareholders of the Company	300,949	259,382	254,875	16.0	218,533

(2) Principal financial indicators of the Company for the year 2007

	For the years ended 31 December				
	2007	2006			2005
Items	RMB	as restated* RMB	as previously reported* RMB	Change (%)	RMB
Basic earnings per share	0.634	0.601	0.584	5.5	0.462
Diluted earnings per share	0.634	0.601	0.584	5.5	0.462
	0.572	0.578	0.560	(1.0)	0.411

Basic earnings per share (before extraordinary gain and loss)					
Fully diluted return on net assets (%)	18.26	20.08	19.88	(1.82) percentage points	18.31
Weighted average return on net assets (%)	19.52	21.72	21.46	(2.20) percentage points	19.56
Fully diluted return (before extraordinary gain and loss) on net assets (%)	16.49	19.33	19.06	(2.84) percentage points	16.31
Weighted average return (before extraordinary gain and loss) on net assets (%)	17.63	20.90	20.57	(3.27) percentage points	17.42
Net cash flow from operating activities per share	1.433	1.140	1.183	25.7	0.977

	At 31 December				
	2007	2006			2005
		as restated*	as previously reported*	Change	
Items	RMB	RMB	RMB	(%)	RMB
Net assets attributable to equity shareholders of the Company per share	3.471	2.992	2.940	16.0	2.521
Adjusted net assets attributable to equity shareholders of the Company per share	3.391	2.918	2.865	16.2	2.461

*Figures as previously reported are prepared in accordance with the PRC Accounting Rules and Regulations, where those as restated are prepared in accordance with ASBE.

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(3) Extraordinary items and corresponding amounts

Items	For the year ended 31 December 2007 (Income)/Expenses RMB millions
Loss on disposal of fixed assets	805
Employee reduction expenses	399
Donations	158
Gain on disposal of long-term equity investments	(1,475)
Other non-operating income and expenses	(5,732)
Written back of provisions for impairment losses in previous years	(586)
Profit or loss of subsidiaries generated from a business combination involving entities under common control before acquisition date	205
Subtotal	(6,226)
Tax effect	450
Total	(5,776)
Attributable to:	
Equity shareholders of the Company	(5,325)
Minority interests	(451)

(4) Accounting captions measured by fair value

Unit: RMB millions

Items	Beginning of the year	End of the year	Change within the year	Effects on the profit before taxation of the year
Available-for-sale financial assets	157	653	496	—
Embedded derivative component of convertible bonds	—	3,211	3,211	(3,211)

(5) Significant changes of items in the financial statements

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

Items	At 31 December		Increase/(decrease)		Reasons for change
	2007 RMB millions	2006 RMB millions	Amount RMB millions	Percentage (%)	

Bills receivable	12,851	8,462	4,389	51.9	Mainly due to the increase in operating income
Trade accounts receivable	22,947	15,144	7,803	51.5	Mainly due to the increase in operating income
Advance payments	9,402	5,331	4,071	76.4	Mainly due to the increase in prepaid accounts for purchasing materials
Long-term equity investments	31,335	23,544	7,791	33.1	Please refer to Note 12 to the financial statements prepared in accordance with ASBE
Construction in progress	95,408	53,000	42,408	80.0	Please refer to Note 14 to the financial statements prepared in accordance with ASBE
Intangible assets	15,232	9,265	5,967	64.4	Please refer to Note 15 to the financial statements prepared in accordance with ASBE
Deferred tax assets	10,192	6,760	3,432	50.8	Please refer to Note 18 to the financial statements prepared in accordance with ASBE
Bills payable	12,162	21,714	(9,552)	(44.0)	Mainly due to the change in settlement in order to cut the finance costs of bills payable
Trade accounts payable	93,049	52,767	40,282	76.3	Mainly due to the increase in crude oil production and prices, which resulted in increase in accounts payable for purchasing crude oil
Other creditors	47,503	35,710	11,793	33.0	Please refer to Note 26 to the financial statements prepared in accordance with ASBE
Debentures payable	42,606	3,500	39,106	1,117.3	Please refer to Note 29 to the financial statements prepared in accordance with ASBE
Provision	7,613	5,310	2,303	43.4	Please refer to Note 30 to the financial statements prepared in accordance with ASBE
Deferred tax liabilities	1,492	1,020	472	46.3	Please refer to Note 18 to the financial statements prepared in accordance with ASBE
Exploration expenses, including dry hole costs	11,105	7,983	3,122	39.1	Please refer to the Management's Discussion and Analysis
Impairment losses	7,458	1,004	6,454	642.8	Please refer to Note 38 to the financial statements prepared in accordance with ASBE
Investment income	5,756	3,769	1,987	52.7	Please refer to Note 40 to the financial statements prepared in accordance with ASBE
Minority interests	2,206	897	1,309	145.9	Mainly due to the increase in net profit of non wholly-owned subsidiaries

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

Unit: RMB millions

	For the years ended 31 December				
Items	2007	2006	2005	2004	2003
Turnover, other operating revenues and other income	1,209,706	1,066,902	826,825	617,951	447,292
Operating profit	85,864	80,632	67,977	62,948	39,513
Profit before taxation	83,464	78,542	64,525	59,386	35,640
Profit attributable to equity shareholders of the Company	56,533	53,603	41,354	35,289	22,648
Basic and diluted earnings per share (RMB)	0.652	0.618	0.477	0.407	0.261
Return on capital employed (%)	12.0	12.8	12.0	12.6	9.1
Return on net assets (%)	18.4	20.3	18.3	18.1	13.0
Net cash generated from operating activities per share (RMB)	1.379	1.067	0.902	0.795	0.731

Unit: RMB millions

	At 31 December				
Items	2007	2006	2005	2004	2003
Non-current assets	547,609	464,342	396,169	355,729	320,600
Net current liabilities	80,239	69,882	28,722	25,499	26,367
Non-current liabilities	134,612	107,803	110,174	102,519	92,541
Minority interests	25,325	22,323	31,174	32,472	27,248
Total equity attributable to equity shareholders of the Company	307,433	264,334	226,099	195,239	174,444
Net assets per share (RMB)	3.546	3.049	2.608	2.252	2.012
Adjusted net assets per share (RMB)	3.466	2.976	2.548	2.241	1.984
Debt/equity ratio*(%)	28.13	27.57	31.38	32.91	33.06

* Debt/equity ratio = long-term loans/(total equity attributable to equity shareholders of the Company+ long-term loans) x 100%

3 MAJOR DIFFERENCES BETWEEN THE AUDITED FINANCIAL STATEMENTS PREPARED UNDER ASBE AND IFRS

(1) Analysis of the effects of major differences between the net profit under ASBE and profit for the year under IFRS

Items		For the years ended 31 December 2007 RMB millions	2006 RMB millions
Net profit under ASBE		57,153	52,983
Adjustments:			
	Oil and gas properties	523	2,478
	Reduced amortisation on revaluation of land use rights	30	30
	Effects of the above adjustments on taxation and change in tax rate on deferred tax	1,037	(453)
Profit for the year under IFRS		58,743	55,038

(2) Analysis of the effects of major differences between the shareholders' equity under ASBE and total equity under IFRS.

Items		At 31 December 2007 RMB millions	2006 RMB millions
Shareholders' equity under ASBE		326,347	281,799
Adjustments:			
	Oil and gas properties	11,339	10,816
	Redu ced amortisation on revaluation of land use rights	(1,042)	(1,072)
	Effects of the above adjustments on taxation and change in tax rate on deferred tax	(3,886)	(4,886)
Total equity under IFRS		332,758	286,657

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS

1 CHANGES IN THE SHARE CAPITAL OF SINOPEC CORP.

Unit: 1,000 Shares

	Pre-movement		Increase/(decrease)					Post-movement	
	Numbers	Percentage %	New shares issued	Bonus issued	Conversion from reserves	Others	Sub-total	Number	Percentage %
Shares with selling restrictions	66,337,951	76.51	—	—	—	(4,915,029)	(4,915,029)	61,422,922	70.84
1State-owned shares	65,758,044	75.84	—	—	—	(4,335,122)	(4,335,122)	61,422,922	70.84
2State-owned legal person shares	579,907	0.67	—	—	—	(579,907)	(579,907)	—	—
3Shares held by other domestic investors	—	—	—	—	—	—	—	—	—
4Shares held by foreign investors	—	—	—	—	—	—	—	—	—
Shares without selling restrictions	20,364,488	23.49	—	—	—	4,915,029	4,915,029	25,279,517	29.15
1RMB ordinary shares	3,584,000	4.13	—	—	—	4,915,029	4,915,029	8,499,029	9.80
2Shares traded in non-RMB currencies and listed domestically	—	—	—	—	—	—	—	—	—
3Shares listed overseas	16,780,488	19.35	—	—	—	—	—	16,780,488	19.35
4Others	—	—	—	—	—	—	—	—	—
Total Shares	86,702,439	100.00	—	—	—	—	—	86,702,439	100.00

Note:Percentage of individual items may not add up to total figure due to rounding.

2 CHANGES IN SHARES WITH SELLING RESTRICTIONS

Unit: 1,000 Shares

Name of shareholders	Number of shares with selling restriction at beginning of the year	Number of shares with selling restriction expired during the year	Number of shares with selling restriction added during the year	Number of shares with selling restriction at end of the year	Reasons of selling restriction	Date when selling restriction expired
China Petrochemical Corporation	65,758,044	4,335,122	0	61,422,922	A-Share reform	16 October 2007

Guotai Junan Securities Co. Ltd.	579,907	579,907	0	0	A-Share reform	16 October 2007
Total	66,337,951	4,915,029	0	61,422,922		

3 NUMBER OF SHAREHOLDERS AND SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS

Number of shareholders of Sinopec Corp. as at 31 December 2007 was 950,877, including 944,043 holders of A Shares and 6,834 holders of H Shares. The public float of Sinopec Corp. satisfied the requirement of the Listing Rules of Hong Kong Exchange.

(1) Top ten shareholders

Unit: 1,000 Shares

Name of Shareholders	Nature of shareholders	As a percentage of total shares in issue at the end of reporting period %	Number of shares held at the end of reporting period	Number of shares with selling restrictions	pledges or lock-ups
China Petrochemical Corporation	State-owned shares	75.84	65,758,044	61,422,922	0
HKSCC (Nominees) Limited	H Shares	19.26	16,699,595	0	N/A
Guotai Junan Securities Co. Ltd.	State-owned legal person shares	0.67	579,906	0	533,530 (Pledge) 38,230 (Lock-up)
E Fund 50 Index Equity Investment Fund	A Shares	0.15	130,790	0	0
Shanghai Stock Exchange Tradable Open-end Index Securities Investment Fund	A Shares	0.10	84,725	0	0
Harvest Shanghai & Shenzhen 300 Index Securities Investment Fund	A Shares	0.09	75,918	0	0
Bosera Thematic Sector Equity Securities Investment Fund	A Shares	0.08	70,229	0	0
Bank of Communication Schroders Blue Chip Securities Investment Fund	A Shares	0.06	50,257	0	0
China Post Core Growth Securities Investment Fund	A Shares	0.05	44,000	0	0
China Life Insurance Company Limited – Dividend – Individual Dividend – 005L – FH002 Shanghai	A Shares	0.04	37,000	0	0

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(2) Top ten shareholders of shares without selling restrictions

Unit: 1,000 shares

Name of shareholders	Number of shares without selling restrictions	Type of shares held
HKSCC (Nominees) Limited	16,699,595	H Shares
China Petrochemical Corporation	4,335,122	A Shares
Guotai Junan Securities Co. Ltd.	579,906	A Shares
E Fund 50 Index Equity Investment Fund	130,790	A Shares
Shanghai Stock Exchange tradable Open-end Index Securities Investment Fund	84,725	A Shares
Harvest Shanghai & Shenzhen 300 Index Securities Investment Fund	75,918	A Shares
Bosera Thematic Sector Equity Securities Investment Fund	70,229	A Shares
Bank of Communication Shrodes Blue Chip Securities Investment Fund	50,257	A Shares
China Post Core Growth Securities Investment Fund	44,000	A Shares
China Life Insurance Company Limited – Dividend – Individual Dividend – 005L – FH002 Shanghai	37,000	A Shares

Statement on the connection or activities in concert among the above mentioned shareholders:

We are not aware of any connection or activities in concert among or between the top ten shareholders and top ten shareholders of shares without selling restrictions.

(3) Number of shares held by the top ten holders of shares with selling restrictions and conditions for sale

Unit: 1,000 Shares

No.	Number of Name of Shareholder with selling restrictions	Date when shares with selling restrictions	Number of the shares could be traded through listing	additional shares could be traded through listing	Selling restrictions
1	China Petrochemical Corporation	61,422,922	10 October 2008	4,335,122	2 years
		57,087,800	12 October 2009	57,087,800	3 years

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

Approximate percentage of

Name of shareholders	Number of share Capacity of interests held	Sinopec Corp.'s interests held or regarded as held(H Share)	interests (%)
JPMorgan Chase & Co.	Beneficial owner	179,135,826(L)	1.07%
		360,269,740(S)	2.15%
	Investment manager	745,040,630(L)	4.44%
	Custodian corporation/approved lending agent	570,108,525(L)	3.40%
		570,108,525(P)	3.40%
Templeton Asset Management Ltd.	Investment manager	1,235,834,105(L)	7.36%
AllianceBernstein L.P.	Interest of corporation controlled by the substantial shareholder	1,166,938,044(L)	6.95%
UBS AG	Beneficial owner	679,769,638(L)	4.05%
		323,842,839(S)	1.93%
	Person having a security in shares	71,721,776(S)	0.43%
	Interest of corporation controlled by the substantial shareholder	308,107,673(L)	1.84%
	77,964,952(S)	0.46%	

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

4 CHANGES IN THE CONTROLLING SHAREHOLDERS AND THE EFFECTIVE CONTROLLER

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

(1) Controlling shareholder

The controlling shareholder of Sinopec Corp. is China Petrochemical Corporation ("Sinopec Group Company"). Established in July 1998, Sinopec Group Company is a state authorised investment organisation and a state-owned company. Its registered capital is RMB 104.9 billion, and the legal representative is Mr. Su Shulin. Through reorganisation in 2000, Sinopec Group Company injected its principal petroleum and petrochemical operations into Sinopec Corp. and retained certain petrochemical facilities and small-scale refineries. It provides well-drilling services, well logging services, downhole operation services, services in connection with manufacturing and maintenance of production equipment, engineering construction, utility services and social services.

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

(3) Basic information of the effective controller

China Petrochemical Corporation is the effective controller of Sinopec Corp.

(4) Diagram of the equity and controlling relationship between Sinopec Corp. and its effective controller

China Petrochemical Corporation
75.84%
China Petroleum & Chemical Corporation

5 Issuance and listing of securitIes

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

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CHAIRMAN'S STATEMENT

Su Shulin, Chairman

Dear Shareholders,

On behalf of the Board of Directors of Sinopec Corp., I would like to extend my sincere gratitude for your support.

In 2007, China's economy continued to grow rapidly, leading to an growth in domestic demand for oil and petrochemical products. Under severe market conditions featured by the sharp rise in international crude oil prices and increasing pressure due to domestic price control for refined oil products, we were still able to achieve sound operating results by taking full advantage of our strengths, improving our management skills, accelerating technological development, and implementing safety, energy conservation and effluent control measures. We have consolidated our upstream platform leading to steady increases in oil and gas output. Our natural gas development took shape through our Sichuan-East China Gas project. Our refineries operated at full capacity in 2007, and we witnessed steady growth in sales of refined oil and chemical products. Since the fourth quarter of 2007, the Company took various steps to ensure supply when refined oil products were in short supply in some parts of China. These actions reflected our corporate commitment to social responsibility and supporting stable economic growth in China.

During last year, based on PRC Accounting Standards for Business Enterprises operating income was RMB 1,204.843 billion, representing an increase of 13.5% compared with 2006. Net profit attributable to equity shareholders of the Company was RMB 54.947 billion, up by 5.5% over last year. According to International Financial Reporting Standards, turnover, other operating revenues and other income was RMB 1,209.706 billion, representing an increase of 13.4% compared with 2006. Profit attributable to equity shareholders of the Company was RMB 56.533 billion, an increase of 5.5% over 2006. In consideration of the Company's earnings in 2007 and its prospects for long-term growth, the Board of Directors proposed to declare a dividend of RMB 0.165 per share of 2007 on a full year basis. After deducting an interim dividend of RMB 0.05 that has already been paid, the final dividend for 2007 is RMB 0.115 per share.

In 2007, the directors have duly performed their fiduciary and ethical responsibilities. They made timely informed decisions on operational strategy and reforms as well as debt financing. In addition, we conducted a program to improve our corporate governance by implementing and enhancing corporate governance scheme documentation, to meet regulatory requirements as well as our need. We also worked to improve our internal control system with the objective of improving risk management and prevention.

During last year, we successfully issued zero-coupon convertible bonds, corporate bonds, and short-term financing debentures in both domestic and foreign capital markets. The intention of such financing was to fulfill capital expenditure requirements for important projects, improve our debt structure, and reduce financial costs. The success of our fund raising during the year of 2007 has increased the proportion of direct financing and strengthened our ability to execute our strategic plans for development.

We committed RMB 109.3 billion in capital expenditure during last year, based on our assessment of market trends and our strategic needs. We carried out a number of major projects, including construction of Sichuan-East China Gas Project, and a number of large-scale refinery and chemical projects. These projects started on schedule and have expanded our oil production and refining capacity. We also continued the construction of oil terminals and pipelines for crude and refined oil, and improved our marketing network for refined oil and chemical products. Furthermore, our business was expanded through acquisition of five refineries plants and 63 service stations from Sinopec Group Company in 2007. In addition to our acquisitions in Mainland China, we have expanded our marketing network for refined oil products in Hong Kong by acquiring all of the China Resources oil product business in Hong Kong.

In 2007, the Company successfully promoted technological innovation throughout its businesses. In the upstream business, the new technologies were applied such as the technology to enhance the recovery rate for oilfields. In oil refining, our technology for processing low-quality crude oil has made important breakthroughs. We also commercialised technology that ensure the production of gasoline and diesel to meet national standards which are equivalent to the Euro IV standard for emission. We developed proprietary technology for 300 thousand tonnes per annum polypropylene process. In response to the high oil prices, we conducted research on new and alternative fuels and conducted pilot tests of syngas-to-oil and biofuels. Our R&D team featured by research scientist Mr. Min Enze is driving the Company's technological innovation, and they provide the requisite technology and knowledge for the Company's sustainable development in production and operation. In 2007, the Company applied for 905 domestic patents and 122 foreign patents and were granted 616 domestic patents and 61 foreign patents.

We made remarkable improvements in human resources, focusing on teamwork and corporate identity. We paid special attention to the implementation of code of conduct for employees, in order to guide employee's conduct and create better working conditions for all members of the corporate family. We have also launched training programs for employees at all levels, as a platform for career and personal development, as well as taken steps to improve the quality of our human resources. We committed our employees to share the corporate growth. We also hold the view that improvements in working conditions will lead to employee's better performance and a higher degree of loyalty and enthusiasm.

Sinopec Corp. takes its commitment to corporate social responsibility and corporate philanthropy very seriously. Over the past year, we continued pushing ahead with our health, safety and environment (HSE) management system, which is an important part of our strategy of sustainable development. During last year, Sinopec Corp. published its first sustainable development report, as a participant of the United Nations Global Compact. The report detailed the measures the Company has taken to meet the UN's 10 basic principles of sustainable development. In order to provide greater protection to our workforce, we introduced strict safety procedures in production and conducted programs to raise employee awareness of the new procedures to ensure safety in full load operations. we have also improved our standards of energy conservation and effluent reduction to provide greater protection to the environment. We have been able to meet these higher standards through technical advances, organizational restructuring, and effective management. Specifically, our energy intensity has dropped by 6.1%, industrial water consumption fell by 4.3%, and Chemical Oxygen Demand (COD) in discharged waste water decreased by 5.4%. In terms of corporate philanthropy, during the severe weather disaster in South China at the beginning of 2008, the Company made donation to the disaster areas to support rescue and rebuilding. Our "Health Express" programme helped more than 9,000 cataract patients in remote and poverty-stricken areas regain their eyesight. In addition, the Company has been actively supporting the Olympic games to be held in Beijing in 2008, with the aim to facilitate the balanced development between the Corporation and the society.

None of these achievements would have been possible without the support and trust of our shareholders and the public. We owe a great debt of gratitude to our Board of Directors as well as to management. They have worked hard to implement management and structural improvements and foster innovation. We deeply appreciate the hard work and motivation of our employees. On behalf of the Board, I would like to express my sincere gratitude to people mentioned above.

For the 2008 outlook, we are faced with opportunities provided by the rapid economic growth of China and challenges brought by the slowdown of the global economy, fluctuation of crude oil price at high level, and China's tight monetary policy and the government's firm control over the prices of refined oil products. However, we are confident of our ability to cope with these challenges, based on our strengths in upstream oil and gas exploration and development, oil refining and marketing, and international trade. We will take advantage of the strengths of our controlling shareholder, Sinopec Group Company, in its engineering services of oil and petrochemical business and in its overseas assets, which may bring synergy effects for Sinopec Corp.. Our strategy for 2008 is to expensed oil and gas resources, product marketing, integration and globalization, as well as optimise our operations and promote management efficiency. In the meantime, Sinopec Corp. will remain committed to technological innovation, environment protection, energy conservation, and effluent reduction. We believe that this will lead to improvements in our risk management and profitability, in response to market developments. Our reforms will focus on innovation to create a management model tailored to our own features to provide a sustainable platform and for future development.

We plan a total capital expenditure of RMB 121.8 billion for 2008, which is based on the market condition and the Company's overall development goals. Out of the planned capital expenditure we intend to use RMB 60.1 billion for the upstream sector to enhance exploration and development efforts, particularly to facilitate the construction of Sichuan-East China Gas project. We expect these to generate new sources of profit growth. We also plan to promote the geographic positioning of our refineries, improve product structure and increase production volume of high value-added products. We are also working towards a modern logistics system for marketing our refined oil and chemical products.

I, together with the other members of the Board, believe that our Company will make greater progress in the coming year. This depends very much, however, on the support of all shareholders as well as the joint efforts of the Board of Directors, the Supervisory Board, management and employees. Our goal is to become a multinational energy and chemical corporation with high competitiveness. We are confident that we will provide employee and society rewards to all our stakeholders customers through our growth and performance.

Su Shulin
Chairman

Beijing, China
3 April 2008

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BUSINESS REVIEW AND PROSPECTS

Mr. Wang Tianpu, President

BUSINESS REVIEW

In 2007, the Chinese economy continued to grow rapidly with a GDP growth rate of 11.4%. The demand for petroleum and petrochemical products has been increasing steadily. Facing the situation of the continuous increase in crude oil prices in international markets and the domestic tight control on the prices of refined oil products, the Company sticks to the strategy of taking the market as the basis and the profit as the focus of operation. By leveraging the overall advantages, optimising the production and the operation, strengthening the intensive management, promoting the technological advancement, and stressing the importance of energy saving and effluent reduction, great achievements have been made in the performance of the Company with concerted efforts from all the employees.

1. Review of Market Environment

(1) Crude oil market

In 2007, the continuous increase in the price of crude oil in international markets has been witnessed, especially in the fourth quarter. The Platt's Brent Spot Price has risen by 11.3% on a year-on-year basis. Price trends of domestic crude oil are in line with international markets.

(2) Refined oil products market

In 2007, domestic demand for refined oil products maintained a steady growth. According to the Company's statistics, the apparent domestic consumption of refined oil products (inclusive of gasoline, diesel and kerosene) in 2007 was 186.20 million tonnes, up by 6.8% compared with 2006. Due to tight control over the domestic prices, there was a significant spread between domestic and international prices of refined oil products.

(3) Chemicals market

In 2007, domestic demand for chemical products continued to maintain a stable growth. According to the statistics of the Company, the domestic consumption of three major synthetic materials, namely synthetic resin, synthetic fiber and synthetic rubber increased by 9.7%, 14.1%, and 16.0% respectively over last year. The domestic ethylene equivalent consumption increased by 7.8% over last year. The overall prices of the chemical products in the domestic market continue to fluctuate at a high level.

Price Trend of International Crude Oil

Note: Exchange rate between USD and RMB was 7.961 and 7.604 for 2006 and 2007 respectively.

2 Production and Operation

(1) Exploration and production

In 2007, by taking the advantage of high crude oil prices, the Company further carried out its strategy of expanding oil and gas resources. In terms of exploration, the deployment of the exploration activities has been optimised. Through progressive exploration in mature fields, and enhanced efforts in marine facies blocks, reserve of oil and natural gas has increased continuously. Significant breakthroughs of exploration have been made in such regions as Aiding block in Tahe Oil Field in the West and hidden hill of Mesozoic Era of Dongpu in the East. The Company completed 12,466 kilometers of 2D seismic and 9,317 square kilometers of 3D seismic and drilled 557 exploration wells with a total footage of 1,708 kilometers. The newly added proved reserve of oil and gas was 647 million barrels of oil equivalent. In terms of development, the commence of construction of the Sichuan-East China Gas project broke a new ground for the Company's fast development in the natural gas business. Meanwhile, the construction of production capacity in key production areas has been enhanced and the development scheme of reserve through enhanced efforts in developing low-yield reserves has been optimised, resulting in steady increase in oil and gas production. In 2007, the Company drilled 2,976 development wells,with total footage of 7,247 kilometers. The newly added crude oil capacity was 6.05 million tonnes per year and the newly added capacity of natural gas was 1.66 billion cubic meters per year. On the basis of maintaining stable production in the eastern mature fields for several years, the Company took a faster pace in increasing production capacities in new blocks in the western area. The production in Tahe oil field has reached 5 million tonnes per year for the first time.

Summary of Operations of the Exploration and Production Segment

	2007	2006	2005	Change from 2006 to 2007 (%)
Crude oil production (mmbbls)	291.67	285.19	278.82	2.3
Natural gas production (bcf)	282.6	256.5	221.9	10.2
Newly added proved reserves of crude oil (mmbbls)	21	286	306	(92.7)
Newly added proved reserves of natural gas (bcf)	3,756.7	161.5	140.6	2,226.1
Year-end proved reserves of crude oil (mmbbls)	3,024	3,295	3,294	(8.2)
Year-end proved reserves of natural gas (bcf)	6,330.8	2,856.7	2,951.7	121.6
Year-end proved reserves of crude oil and natural gas (mmboe)	4,079	3,771	3,786	8.2

Summary of Production and Operations of Shengli Oil Field

	2007	2006	2005	Change from 2006 to 2007 (%)
Crude oil production (mmbbls)	196.68	194.65	191.31	1.0
Natural gas production (bcf)	27.7	28.3	31.1	(2.1)
Newly added proved reserves of crude oil (mmbbls)	76	185	247	(58.9)
Newly added proved reserves of natural gas (bcf)	42.0	19.2	(3.6)	118.8
Year-end proved reserves of crude oil (mmbbls)	2,231	2,352	2,362	(5.1)
Year-end proved reserves of natural gas (bcf)	327.6	313.3	322.4	4.6
Year-end proved reserves of crude oil and natural gas (mmboe)	2,286	2,404	2,415	(4.9)

Note: Crude oil volume is converted at 1 tonne to 7.1 barrels, and gas volume is converted at 1 cubic meter to 35.51 cubic feet

(2) Refining

In 2007, the Company strengthened the operational management of the refining facilities, optimised the maintenance arrangement, actively organised the high-load production and adjusted the product structure so as to increase the production of gasoline and diesel and high value-added products, which has contributed to ensure refined oil products supply in the domestic market. The Company adhered to the strategy of diversifying crude oil sources, increasing the throughput of lower quality crude oil and reducing the purchasing cost of crude oil. The Company processed 156 million tonnes of crude oil in 2007, up by 6.3% over 2006. The total production of the refined oil products reached 93.09 million tonnes, representing an increase of 6.7% over 2006.

Sources of Crude oil

Unit: million tonnes

	2007	2006	2005	Change from 2006 to 2007 (%)
Internal supplies	29.72	29.62	28.62	0.3
PetroChina Company Ltd.	6.89	8.81	8.75	(21.8)
CNOOC Ltd.	6.43	4.93	5.05	30.4
Imported	113.08	101.47	99.13	11.4
Total	156.12	144.83	141.55	7.8

Summary of Production of the Refining Segment

	2007	2006	2005	Change from 2006 to 2007 (%)
Crude oil throughput (thousand bbls/day)	3,132.9	2,946.5	2,817.9	6.3
Gasoline, diesel and kerosene production (million tonnes)	93.09	87.21	84.53	6.7
of which: Gasoline (million tonnes)	24.69	23.00	22.98	7.3
Diesel (million tonnes)	60.08	57.86	54.92	3.8
Kerosene (million tonnes)	8.32	6.35	6.63	31.0
Light chemical feedstock production (million tonnes)	23.47	22.74	21.10	3.2
Light products yield (%)	74.48	74.75	74.16	(0.27) percentage points
Refining yield (%)	93.95	93.47	93.24	0.48 percentage points

Note: 1.Refinery throughput is converted at 1 tonne to 7.35 barrels.

2.The above date do not include the production of Zhanjiang Dongxing Petrochemical Company Limited and other four refineries that were acquired by the Company

(3) Marketing and distribution

In 2007, the Company actively adapted itself to the changes in the market, gathered resources through various channels and made full use of the newly-built storage and transportation facilities so as to ensure sufficient supply to the market. Particularly, in the fourth quarter of 2007 when domestic shortage of refined oil products arised, the Company strengthened management of production and sales. Through purchasing from other parties and imports, the Company increased its supply of refined oil products, thereby guaranteeing ensuring supply to the market, which is a significant contribution to the development of the economy and the society. By expanding retail and direct sales, the volume of retail and direct sales has increased remarkably. The amount of refined oil products sold through retail and direct sales accounted for more than 81% of its total sales volume. Efforts have also been made in improving the service function of the service stations, improving the service quality, facilitating the renovation of the service stations, encouraging the use of IC cards and expanding non-fuel businesses. Throughput per station has increased steadily. In 2007, the Company's sales volume of refined oil products reached 119 million tonnes, representing a year-on-year increase of 6.9%, of which retail volume was 76.62 million tonnes, representing a year-on-year increase of 6.2%.

Summary of Operations of Marketing and Distribution Segment

	2007	2006	2005	Change from 2006 to 2007 (%)
Total domestic sales of refined oil products (million tonnes)	119.39	111.68	104.56	6.9
Of which: Retail volume (million tonnes)	76.62	72.16	63.52	6.2
Direct sales volume (million tonnes)	20.17	18.95	20.38	6.4

Wholesale volume (million tonnes)	22.60	20.57	20.66	9.9
Average annual throughput per service station (tonne/station)	2,697	2,577	2,321	4.7
Total number of service stations under SINOPEC brand	29,062	28,801	29,647	0.9
Of which: Number of company-operated service stations	28,405	28,001	27,367	1.4
Number of franchised service stations	657	800	2,280	(17.9)

(4) Chemicals

In 2007, in view of the increasing domestic demand for chemical products, the Company made continuous efforts to increased efficiency of facilities. By increasing the production volume, strengthening the connection among production, sales and research, and the management of marketing, the goal of selling all products produced was reached and an increase has been witnessed in both production and efficiency. The Company adjusted its production volume according to the market demand. As a result, significant increase has been realised in the production of major chemical products. Moreover, operation of the facilities has also been steadily improved. In 2007, the total ethylene production was 6.53 million tonnes, representing an increase of 6.0% over 2006, and 29.85 million tonnes of chemical products were sold, representing a year-on-year increase of 1.0%.

Production of Major Chemicals

Unit: 1,000 tonnes

	2007	2006	2005	Change from 2006 to 2007 (%)
Ethylene	6,534	6,163	5,319	6.0
Synthetic resins	9,660	8,619	7,605	12.1
Synthetic rubbers	800	668	626	19.8
Monomers and polymers for synthetic fibers	8,018	7,242	6,725	10.7
Synthetic fibers	1,417	1,502	1,570	(5.7)
Urea	1,565	1,609	1,780	(2.7)

Note:The operational data include 100% of the production of the two joint venture ethylene facilities, Shanghai Secco and BASF-YPC

(5) Research and Development

In 2007, in order to meet the requirements of production and operation, the Company successfully developed a number of new technologies. In the upstream, new technologies used to increase recovery rate has been developed. In the pilot experiment zone, the recovery rate can be increased by 12 percentage points. The technology to produce diesel that meets Euro IV standards enables the Company to produce diesel with low and super low sulfur contents . The Company successfully developed its own technology with intellectual property rights for polypropylene unit with round pipe process, with an annual output of 300,000 tonnes. The exploration technology for discovering subtle reservoirs , enhanced heat transfer technology for ethylene cracker furnace and application of technologies such as catalytic cracking to increase the production of propylene have succeeded with remarkable effects. Moreover, the Company conducted research on new and alternative fuels and conducted pilot tests of syngas-to-oil and bio-diesel. The S-Zorb technology for suffur removal of catalytic gasoline was commercialised. In 2007, the Company applied for 905 domestic patents, meanwhile 616 patents rights –have been granted; and the Company also applied for122 international patents, meanwhile 61 patents have been granted.

(6) Energy conservation and effluent reduction

In 2007, the Company made progress in energy conservation and effluent reduction. The newly compiled energy conservation administration system and the examination system for checking objectives and responsibilities were put into effect, the awareness for energy conservation and environment protection was further enhanced. Upgrading projects and technologies application programmes such as quality upgrading of refined oil products, coal-gasfication, substitution of oil with natural gas, utilisation of light hydrocarbon, upgrading of power grid, adjustment of water injection, heat integration, waste-heat recovery, sulfur removal of flue gas, recycling of waste water were further carried on. Compared with 2006, overall energy intensity dropped by 6.1%, industrial water consumption fell by 4.3%, and Chemical Oxygen Demand in waste water fell by 5.4%.

(7) Cost reduction

In 2007, the Company took various measures to reduce costs, such as leveraging the existing logistics system, optimising resource allocation, reducing transportation costs, furthur increasing the throughput of lower quality crude oil, reducing the procurement cost of crude oil and consumption of energy and materials in the production process by optimising operation of the facilities. In 2007, the Company effectively reduced RMB 3.06 billion in cost, among which the exploration and production segment, the refining segment, the marketing and distribution segment and the chemicals segment achieved total cost reduction of RMB 748 million, RMB 669 million, RMB 822 million, and RMB 821 million, respectively.

(8) Capital expenditure

In 2007, total capital expenditure of the Company was RMB 109.282 billion, among which the expenditure for the exploration and production segment was RMB 54.498 billion. Fairly rich oil and gas reserve was found in the northeast of Sichuan Province, Aiding block in Tahe field, Dongpu trough, the subtle reservoir in the east of China, the deep layers in the west of Sichuan province and in Songnan block. The construction of Sichuan-East China Gas project has commenced. The capacity of newly built crude oil and natural gas production was 6.05 million tonnes and 1.66 billion cubic meters per annum respectively. The expenditure for the refining segment was RMB 22.763 billion. Smooth progress in the Qingdao Refinery Project has been achieved. The projects for upgrading the quality of the refined oil products, including Yanshan Petrochemical Company was put into operation. The expenditure for the marketing and distribution segment was RMB 12.548 billion. With this investment, the Company has further improved its refined oil products network through construction, acquisition and renovation of service stations and oil storage. Thereby, the Company’s leading role in the strategic market was consolidated, and 753 self-operated service stations were added. The expenditure for the chemicals segment was RMB 16.184 billion. Progress has also been seen in the integrated refinery and chemical projects in Fujian and Tianjin, and Zhenhai ethylene project. The total of expenditure for corporate and others amounted to RMB 3.289 billion. Progress has also been made in the information system construction.

BUSINESS PROSPECT

Looking forward to 2008, China’s economy is expected to maintain a stable and rapid growth, which will result in the steady and continuous growth of the demand for basic energy products such as oil and natural gas, and basic raw materials such as chemical products. This will provide market opportunities for the development of the Company. In 2008, the crude oil prices are expected to continue to maintain at a high level, the domestic tight control on prices of refined oil products to continue and the prices of most petrochemical products to fluctuate at relatively high level. With further implementation of China’s strategy for sustainable development, there will be a more strict requirement for safe production, environmental protection, energy and resources conservation by the country.

Against such a market background, the Company will continue to take flexible operation strategies, further strengthen its intensive management, endeavor to carefully organise production, attach importance to technological progress and energy conservation and focus on the following areas:

Exploration and production segment: Further optimise exploration, development and production plan. Enhance efforts to develop low-grade reserve to increase the recovery rate. The Sichuan-East China Gas Project will be substantially completed by the end of 2008, which will lead to a considerable expansion of the natural gas business. The Company plans to produce 42 million tonnes of crude oil and 9 billion cubic meters of natural gas in 2008.

Refining segment: The Company will stick to the policy of full-load and safe operation in order to increase the production of oil products and thereby meet the domestic demand for refined oil products. Efforts will be made to guarantee the operations of newly added facilities or expanded facilities, optimise the allocation and transportation of the crude oil, increase the throughput of lower quality crude oil, reduce the production cost while increase efficiency. More efforts will be made to optimise and adjust the product structure so as to increase the production of high value-added products. Stress will also be attached in marketing and selling other refined petroleum products such as lubricant and asphalt. The Company plans to process 174 million tonnes of crude oil for 2008 and the production of the refined oil products will reach 104 million tonnes.

Marketing segment: The Company will continue to collect resources through various channels, optimise the distribution, transportation and storage of the refined oil products. The Company will strive to ensure the supply of refined oil products in the domestic market, actively promote the high grade refined oil products. The retail of refined oil products will be expanded and the management of the retail business will be strengthened. Efforts will be made to increase the sales volume per station. Other non-fuel business will be actively promoted so as to increase the sales volume and economic returns of the service stations. The Company plans to achieve a total domestic sales volume of refined oil products of 124 million tonnes in 2008.

Chemicals segment: By taking the advantage of integrated sales channels, the Company strives to expand the market of chemical products; respond to market changes flexibly, produce products that are well received by the market. The intensive management will be strengthened, the optimisation of the structure of the raw material and the products will be emphasised to increase production and profits. The Company will actively promote the application of new technologies and develop, produce and sell new high value-added products. In year 2008, the total ethylene production is planned at 6.72 million tonnes.

Technology and development: The Company will further accelerate its pace of technological innovation, which will give technical support to the development of its core businesses. In developing the exploration technology of oil and natural gas, main efforts will be made at conducting fundamental research on the stable production in the eastern areas, where reserves of oil are abundant. Research will also be deepened in respect of the geological condition and oil and natural gas distribution pattern in the key strategic regions such as south China, Erdos and Tarim. The Company will also be engaged in the research and development of technologies to improve the recovery rate in the eastern matured oil fields and efficiency of development in major blocks in the West of China. In terms of the refining and chemical technology, emphasis will be put on the improvement of technologies to process lower quality crude oil and heavy oil. The development of technology for producing ethylene, polyolefin and bromine butyl-rubber will be accelerated. Efforts will be intensified to improve the technology of the clean fuel production and to develop high-performance chemical products with high value added.

Cost reduction: In 2008, the Company intends to rely on scientific and technological advancement, reinforced management and deepened reforms to continuously improve its operation efficiency. It plans to achieve a cost reduction of RMB 2.6 billion, among which RMB 700 million is to be achieved by the exploration and production segment, RMB 600 million by the refining segment, RMB 600 million by the chemicals segment and RMB 700 million by the marketing and distribution segment.

Capital expenditure: In 2008, the Company will continue to follow the principle of taking profitability and core projects as the priority of investment. The investment management procedures will be strictly controlled and the project construction will be meticulously managed. The total capital expenditure planned for the whole year is RMB 121.8 billion, among which, the expenditure for explorati−on and development is RMB 60.1 billion. The Sichuan-East China Gas Project will be the focus of efforts. The projects of building capacities in Tahe, and Shengli Oilfields, and natural gas projects in Puguang and Erdos will also be progressed. The total capital expenditure for the refining segment will be RMB 19.9 billion. Qingdao Refinery Project will be in production within the year of 2008. The expenditure for marketing and distributing segment will reach RMB 13.0 billion. Further efforts will be made to construct and purchase the service stations in the key regions. The sales network of refined oil products will be furthur improved. The total expenditure for chemicals segment is RMB 25.7 billion, which is used for the steady progress of integrated refinery and chemical projects in Fujian and Tianjin, and Zhenhai ethylene projects. The total of expenditure for corporate and other is planned at RMB 3.1 billion.

In 2008, in line with the management guiding principles made by the Board of Directors and with our concerted efforts, we will endeavour to accomplish various production and operation targets and strive to achieve better performances in production and operation, which will promote the effective and sustainable development of Sinopec

Corp.

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HEALTH, SAFETY AND ENVIRONMENT

Guided by the scientific development approach, the Company has long been dedicated to performing its social responsibilities and achieving a coordinated development between health, safety and environment (HSE) and economic growth and has instituted a mechanism for effective long-term operations. While maintaining full load and longer cycle production, the Company in 2007 continued to focus on operational safety and improved environmental protection and made continuous efforts to care for the health of its employees and its relations with the communities to achieve harmonious growth.

1 Overall steady and safe production and improving HSE management

In 2007, the Company adhered to the principle of promoting the HSE management mechanism and adhered to the principles of "Safety as priority, prevention as main method, all staff involved and comprehensive management". The responsibility system of the safe production was established and the basic work was emphasised. Every regulation was implemented to the detail. The quality, with the safety and environmental protection status of major products is continuously improving and energy and material consumption per production unit kept decreasing. While maintaining full-load and longer cycle production, the safety of production achieved an overall steadiness and HSE management on environment protection made continuous progress.

2 Continued improvement to deepen HSE management system

Since the Company and its subsidiaries established HSE management system, the Company focused on the smooth operation of the system. In 2007, the Company organised HSE supervision, examination and assessment at different levels in order to continuously promote and improve the management system.

3 Adherence to the principle of people-orient to create harmonious and healthy work environment

In 2007, the Company continued to strengthen firm-wide HSE education and training to continually improve employees' operational skills, to enhance and strictly follow Rules of Safe Production, which raised the awareness of the employees for safe production and standard operations, ensuring safe production of major facilities under high load of operation. The Company strengthened occupational health management. Warning signs were posted in the workplace and monitoring and measurement results were publicly displayed. Regular occupational health checkups were arranged for relevant employees and working conditions were continually improved to ensure employee safety and health.

4 Implementation of a prevention-based policy; assessment of safety and environmental risks of newly built facilities and operating units

In 2007, the Company performed safety and environmental protection assessments over a number of newly built, revamping and expansion projects, and continued to perform risk assessments over operating facilities as well as public facilities. Rectification of potentially risky areas was subject to continuous monitoring throughout the process, while dynamic monitoring was instituted for major facilities and key areas under the oversight of a specially designated person. The Company formulated and improved its emergency response plans for corresponding to accidents, strengthened emergency response drills, and its capability for confronting emergencies was continually improved.

5 Active promotion of clean production to realise clean and economical development

In 2007, the Company standardised its environmental management in line with HSE management system, strengthened its control of effluent sources to achieve the goals of saving water and reducing effluents continuously, especially the major pollutants. Notwithstanding significant increase in the Company's production, as compared to 2006, the industrial water consumption was reduced by 4.3 % and COD content in its discharged waste water was reduced by 5.4%.

In 2007, the Company entrusted a qualified environment appraisal organisation to conduct examination on all the oil and gas fields, refineries for their environment protection status over the past 3 years, and the results was published and recognised by the State Environmental Protection Administration.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

1 CONSOLIDATED RESULTS OF OPERATIONS

In 2007, the Company's turnover, other operating revenues and other income were RMB 1,209.7 billion, and the operating profit was RMB 85.9 billion, representing an increase of 13.4% and 6.5% over 2006, respectively. By seizing the favorable conditions provided by the steady growth of China's domestic economy, the Company proactively expanded the market, extended oil and gas resources, optimised crude oil mix for processing, and increased the production of chemical products and sales volume of refined oil products. In addition, the Company reinforced safe production, energy saving and cost efficiency. As a result of the forgoing factors, the Company achieved good operating results in 2007.

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

	Years ended 31 December 2007	2006	Change
	RMB millions		(%)
Turnover, other operating revenues and other income	1,209,706	1,066,902	13.4
Of which: Turnover	1,173,869	1,034,888	13.4
Other operating revenues	30,974	26,853	15.3
Other income	4,863	5,161	(5.8)
Operating expenses	(1,123,842)	(986,270)	13.9
Of which: Purchased crude oil, products, and operating supplies and expenses	(970,929)	(854,236)	13.7
Selling, general and administrative expenses	(37,843)	(37,514)	0.9
Depreciation, depletion and amortisation	(43,315)	(33,554)	29.1
Exploration expenses (including dry holes)	(11,105)	(7,983)	39.1
Personnel expenses	(22,745)	(20,956)	8.5
Employee reduction expenses	(399)	(236)	69.1
Taxes other than income tax	(34,304)	(29,330)	17.0
Other operating expenses, net	(3,202)	(2,461)	30.1
Operating profit	85,864	80,632	6.5
Net finance costs	(8,101)	(5,813)	39.4
Investment income and share of profits less losses from associates and jointly controlled entities	5,701	3,723	53.1
Profit before taxation	83,464	78,542	6.3
Taxation	(24,721)	(23,504)	5.2
Profit for the year	58,743	55,038	6.7
Attributable to:			

Equity shareholders of the Company	56,533	53,603	5.5
Minority interests	2,210	1,435	54.0

(1) Turnover, other operating revenues and other income

In 2007, the Company's turnover, other operating revenues and other income were RMB 1,209.7 billion, of which turnover was RMB 1,173.9 billion, representing an increase of 13.4% over 2006. These results were largely attributable to the increase in prices of domestic petroleum and petrochemical products and the Company's efforts in expanding the sales volume of its petroleum and petrochemical products. In 2007, the Company's other operating revenues were RMB 31.0 billion, representing an increase of 15.3% over 2006. At the end of 2007, the Company recognised a subsidy of RMB 4.9 billion.

The following table sets forth the Company's external sales volume, average realised prices and the respective rates of change from 2006 to 2007 for the Company's major products:

	Sales volume (thousand tonnes) Years ended 31 December		change	Average realised price (RMB/tonne, RMB/thousand cubic meters) Years ended 31 December		change
	2007	2006	(%)	2007	2006	(%)
Crude oil	4,431	4,027	10.0	3,110	3,210	(3.1)
Natural gas (million cubic meters)	5,817	5,366	8.4	811	789	2.8
Gasoline	35,177	32,661	7.7	5,408	5,224	3.5
Diesel	76,916	72,963	5.4	4,724	4,469	5.7
Kerosene	7,047	5,463	29.0	4,728	4,525	4.5
Basic chemical feedstock	10,230	9,693	5.5	6,200	5,831	6.3
Monomers and polymer for synthetic fiber	4,053	3,683	10.0	9,109	8,821	3.3