CHINA PETROLEUM & CHEMICAL CORP
Form 20-F
June 05, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

£	REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
	OR
S	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007
	OR
£	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _______ TO_______
	OR
£	SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE DATE OF EVENT REQUIRING THIS SHELL COMPANY REPORT ……… FOR THE TRANSACTION PERIOD FORM ____________ TO __________

COMMISSION FILE NUMBER 1-15138

CHINA PETROLEUM & CHEMICAL CORPORATION
(Exact name of Registrant as specified in its charter)

The People's Republic of China
(Jurisdiction of incorporation or organization)

6A, Huixingdong Street
Chaoyang District, Beijing, 100029
The People's Republic of China
(Address of principal executive offices)

Mr. Chen Ge
6A, Huixingdong Street
Chaoyang District, Beijing, 100029
The People's Republic of China
Tel: +86 (10) 6499 0060
Fax: +86 (10) 6499 0022
(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12 (b) of the Act.

Title of Each Class	Name of Each Exchange On Which Registered
American Depositary Shares, each representing 100 H Shares of par value RMB 1.00 per share	New York Stock Exchange, Inc.
H Shares of par value RMB 1.00 per share	New York Stock Exchange, Inc.*

* Not for trading, but only in connection with the registration of American Depository Shares.

Securities registered or to be registered pursuant to Section 12 (g) of the Act.

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15 (d) of the Act.

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Shares with selling restriction, par value RMB 1.00 per share	61,422,922,493
H Shares, par value RMB 1.00 per share	16,780,488,000
A Shares, par value RMB 1.00 per share	8,499,028,507

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes X No__

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes __ No X

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No__

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer X Accelerated filer __ Non-accelerated filer __

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ___	International Financial Reporting Standards as issued by the International Accounting Standards Board	X	Other ___

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17__ Item 18__

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes __ No X

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CERTAIN TERMS AND CONVENTIONS

Definitions

Unless the context otherwise requires, references in this annual report to:

- "Sinopec Corp.", "we", "our" and "us" are to China Petroleum & Chemical Corporation, a PRC joint stock limited company, and its subsidiaries;
- "Sinopec Group Company" are to our controlling shareholder, China Petrochemical Corporation, a PRC limited liability company;
- "Sinopec Group" are to the Sinopec Group Company and its subsidiaries other than Sinopec Corp. and its subsidiaries;
- "China" or the "PRC" are to the People's Republic of China, excluding for purposes of this annual report Hong Kong, Macau and Taiwan;
- "provinces" are to provinces and to provincial-level autonomous regions and municipalities in China which are directly under the supervision of the central PRC government;
- "RMB" are to Renminbi, the currency of the PRC;
- "HK$" are to Hong Kong dollar, the currency of the Hong Kong Special Administrative Region of the PRC; and
- "US$" are to US dollars, the currency of the United States of America.

Conversion Conventions

Conversions of crude oil from tonnes to barrels are made at a rate of one tonne to 7.35 barrels for crude oil we purchase from external sources and one tonne to 7.1 barrels for crude oil we produce, representing the American Petroleum Institute (“API”) gravity of the respective source of crude oil. Conversions of natural gas from cubic meters to cubic feet are made at a rate of one cubic meter to 35.31 cubic feet.

Glossary of Technical Terms

Unless otherwise indicated in the context, references to:

- "billion" are to a thousand million.
- "BOE" are to barrels-of-oil equivalent; natural gas is converted at a ratio of 6,000 cubic feet of natural gas to one BOE.
- "primary distillation capacity" are to the crude oil throughput capacity of a refinery's crude oil distillation units, calculated by estimating the number of days in a year that such crude oil distillation units are expected to operate, excluding downtime for regular maintenance, and

multiplying that number by the amount equal to the units' optimal daily crude oil throughput.

- "rated capacity" are to the output capacity of a given production unit or, where appropriate, the throughput capacity, calculated by estimating the number of days in a year that such production unit is expected to operate, excluding downtime for regular maintenance, and multiplying that number by an amount equal to the unit's optimal daily output or throughput, as the case may be.

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CURRENCIES AND EXCHANGE RATES

We publish our financial statements in Renminbi. Unless otherwise indicated, all translations from Renminbi to US dollars have been made at a rate of RMB 7.2946 to US$1.00, the noon buying rate as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2007. We do not represent that Renminbi or US dollar amounts could be converted into US dollars or Renminbi, as the case may be, at any particular rate, the rates below or at all. On May 30, 2008, the noon buying rate was RMB 6.9400 to US$1.00.

The following table sets forth noon buying rate for US dollars in New York City for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

	Noon Buying Rate			
Period	End	Average(1)	High	Low
	(RMB per US$1.00)			
2003	8.2767	8.2772	8.2800	8.2769
2004	8.2765	8.2767	8.2774	8.2764
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9723	8.0702	7.9723
2007	7.2946	7.5806	7.8127	7.2946
December 2007	7.2946	-	7.4120	7.2946
January 2008	7.1818	-	7.2946	7.1818
February 2008	7.1115	-	7.1973	7.1100
March 2008	7.0120	-	7.1110	7.0105
April 2008	6.9870	-	7.0185	6.9840
May 2008	6.9400	-	7.0000	6.9377

(1) Determined by averaging the rates on the last business day of each month during the relevant period.

FORWARD-LOOKING STATEMENTS

This annual report includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this annual report that address activities, events or developments which we expect or anticipate will or may occur in the future are hereby identified as forward-looking statements for the purpose of the safe harbor provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words such as believe, intend, expect, anticipate, project, estimate, predict, plan and similar expressions are also intended to identify forward-looking statements. These forward-looking statements address, among others, such issues as:

- amount and nature of future exploration and development,
- future prices of and demand for our products,
- future earnings and cash flow,
- development projects and drilling prospects,
- future plans and capital expenditures,
- estimates of proved oil and gas reserves,
- exploration prospects and reserves potential,
- expansion and other development trends of the petroleum and petrochemical industry,
- production forecasts of oil and gas,
- expected production or processing capacities, including expected rated capacities and primary distillation capacities, of units or facilities not yet in operation,
- expansion and growth of our business and operations, and
- our prospective operational and financial information.

These statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in particular circumstances. However, whether actual results and developments will meet our expectations and predictions depends on a number of risks and uncertainties which could cause actual results to differ materially from our expectations, including the risks set forth in "Item 3. Key Information — Risk Factors" and the following:

- fluctuations in crude oil prices,
- fluctuations in prices of our products,
- failures or delays in achieving production from development projects,
- potential acquisitions and other business opportunities,
- general economic, market and business conditions, and
- other risks and factors beyond our control.

Consequently, all of the forward-looking statements made in this annual report are qualified by these cautionary statements and readers are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements should be considered in light of the various important factors set forth above and elsewhere in this Form 20-F. In addition, we cannot assure you that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected effect on us or our business or operations.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The selected consolidated income statement data and consolidated cash flow data for the years ended December 31, 2005, 2006 and 2007, and the selected consolidated balance sheet data as of December 31, 2006, and 2007 have been derived from, and should be read in conjunction with, the audited consolidated financial statements included elsewhere in this annual report. The selected consolidated income statement data and consolidated cash flow data for the years ended December 31, 2003 and 2004 and the selected consolidated balance sheet data as of December 31, 2003, 2004 and 2005 are derived from combining our audited consolidated financial statements which are not included elsewhere in this annual report and the financial statements of the acquired businesses described below.

We acquired from Sinopec Group Company the operations of Sinopec Group Maoming Petrochemical Company (Sinopec Maoming), Xi'an Petrochemical Main Factory (Xi'an Petrochemical) and Tahe Oilfield Petrochemical Factory (Tahe Petrochemical) in 2003, the operations of Sinopec Group Tianjin Petrochemical Company, Sinopec Group Luoyang Petrochemical General Plant, Zhongyuan Petrochemical Company Limited, Sinopec Group Guangzhou Petrochemical General Plant and certain catalyst plants (collectively, Petrochemical and Catalyst Assets) in 2004, the equity interests in Sinopec Hainan Refining and Chemical Company Limited (Sinopec Hainan) and certain oil and gas production companies (Oil Production Plants) in 2006, and the equity interests in Zhanjiang Dongxing Petroleum Company Limited, Sinopec Hangzhou Oil Refinery Plant, Yangzhou Petrochemical Plant, Jiangsu Taizhou Petrochemical Plant, and Sinopec Qingjiang Petrochemical Company Limited (collectively, Refinery Plants) in 2007. As we and these companies are under the common control of Sinopec Group Company, our acquisitions are reflected in our consolidated financial statements as combination of entities under common control in a manner similar to a pooling-of-interests. Accordingly, the acquired assets and related liabilities have been accounted for at historical cost and our consolidated financial statements for periods prior to the combinations have been restated to include the financial condition and the results of operation of these companies on a combined basis.

Moreover, the selected financial data should be read in conjunction with our consolidated financial statements and "Item 5. Operating and Financial Review and Prospects" included elsewhere in this annual report. Our consolidated financial statements are prepared and presented in accordance with International Financial Reporting Standards, or IFRS.

	Years Ended December 31,				
	2003	2004	2005	2006	2007
	RMB	RMB	RMB	RMB	RMB
	(in millions, except per share and per ADS data)				
Consolidated Income Statement Data(1):					
Operating revenues	447,292	617,951	817,048	1,061,741	1,204,843
Other income	-	-	9,777	5,161	4,863
Operating expenses	(407,779)	(555,003)	(758,848)	(986,270)	(1,123,842)
Operating income	39,513	62,948	67,977	80,632	85,864
Income before income tax	35,640	59,386	64,525	78,542	83,464
Income tax	(10,843)	(18,096)	(19,872)	(23,504)	(24,721)
Net income attributable to equity shareholders of the Company	22,648	35,289	41,354	53,603	56,533
Basic earnings per share(2)	0.26	0.41	0.48	0.62	0.65
Basic earnings per ADS(2)	26.12	40.70	47.70	61.82	65.20
Cash dividends declared per share	0.09	0.10	0.12	0.13	0.16
Segment results					
Exploration and production	19,565	26,397	48,334	63,182	48,766
Refining	6,201	4,917	(3,695)	(25,710)	(10,452)
Marketing and distribution	11,943	14,716	10,350	30,234	35,727
Chemicals	3,640	18,843	14,186	14,458	13,306
Corporate and others	(1,836)	(1,925)	(1,198)	(1,532)	(1,483)
Operating income	39,513	62,948	67,977	80,632	85,864

	As of December 31,				
	2003	2004	2005	2006	2007
	RMB	RMB	RMB	RMB	RMB
	(in millions)				
Consolidated Balance Sheet Data(1):					
Cash and cash equivalents	17,286	18,817	15,088	7,063	7,696
Total current assets	104,909	125,862	148,984	146,490	185,116
Total non-current assets(3)	320,600	355,729	396,169	464,342	547,609
Total assets(3)	425,509	481,591	545,153	610,832	732,725
Short-term debts and loans from Sinopec Group Company and its affiliates (including current portion of long-term debts)	34,707	45,231	46,674	63,480	60,494
Long-term debts and loans from Sinopec Group Company and its affiliates (excluding current portion of long-term debts)	86,156	95,784	103,408	100,637	120,314
Equity attributable to equity shareholders of the Company(3)	174,444	195,239	226,099	264,334	307,433
Capital employed(4)	305,269	349,909	392,267	443,711	505,870

	Years Ended December 31				
	2003 RMB	2004 RMB	2005 RMB (in millions)	2006 RMB	2007 RMB
Other Financial Data(1):					
Net cash from operating activities	63,756	68,076	78,663	92,507	119,594
Net cash (used in)/generated from financing activities	(16,008)	6,250	(4,257)	2,878	(5,310)

Net cash used in investing activities	(50,457)	(72,794)	(78,113)	(103,385)	(113,587)
Capital expenditure					
Exploration and production	22,238	23,199	25,479	35,198	54,498
Refining	10,144	15,789	20,270	22,587	22,763
Marketing and distribution	6,826	16,678	10,954	11,319	12,548
Chemicals	7,680	11,025	9,386	12,629	16,184
Corporate and others	518	1,550	1,164	2,170	3,289
Total	47,406	68,241	67,253	83,903	109,282

(1) The acquisitions of Sinopec Maoming, Xi'an Petrochemical and Tahe Petrochemical in 2003, the acquisitions of Petrochemical and Catalyst Assets in 2004, the acquisitions of equity interests in Sinopec Hainan and Oil Production Plants in 2006 and the acquisitions of equity interests in the Refining Plants in 2007 from Sinopec Group Company are treated as "combination of entities under common control" which are accounted in a manner similar to a pooling-of-interests. Accordingly, the acquired assets and liabilities have been accounted for at historical cost and the consolidated financial statements for periods prior to the combinations have been restated to include the financial condition and results of operation of these acquired companies on a combined basis. The considerations for these acquisitions were treated as equity transactions.

(2) Basic earnings per share have been computed by dividing net income attributable to equity shareholders of the Company by the weighted average number of shares in issue. Basic earnings per ADS have been computed as if all of our issued and outstanding shares, including domestic shares and H shares, are represented by ADSs during each of the years presented. Each ADS represents 100 shares.

(3) Properties, plant and equipment acquired in connection with the acquisitions of Sinopec Maoming, Xi'an Petrochemical and Tahe Petrochemical in 2003, the acquisitions of Petrochemical and Catalyst Assets in 2004, the acquisitions of equity interests in Sinopec Hainan and Oil Production Plants in 2006 and the acquisitions of equity interests in the Refining Plants were evaluated by independent appraisers under applicable PRC laws and regulations at the time of such acquisitions by Sinopec Corp.

(4) Capital employed is derived by the sum of short-term debts, long-term debts, loans from Sinopec Group Company and its affiliates and total equity less cash and cash equivalents.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Risks Relating to Our Business Operation

Our business may be adversely affected by the fluctuation of crude oil and refined petroleum product prices.

We currently consume large amount of crude oil and other raw materials to manufacture our refined products and petrochemical products. While we try to match price increases in products produced by us with corresponding crude oil price increases, our ability to pass on cost increases to our customers is dependent on international and domestic market conditions as well as the PRC government price control over refined petroleum products. For example, crude oil price fluctuated at a historically high level in the past three years, but we were not able to fully pass the increased material cost to our customers, in part due to the government's price control over certain refined petroleum products including gasoline, diesel and jet fuel. Although it was reported that new petroleum products price-setting mechanism would be formulated by the relevant government authority, we cannot predict when the revised price-setting mechanism will be implemented, and if implemented, to what extent the new price-setting mechanism will allow us to pass our increased crude oil costs to our refined petroleum product customers. As a result, our results of operations and financial condition may be materially and adversely affected by the fluctuation of crude oil and refined petroleum product prices.

Our continued business success depends in part on our ability to replace reserves and develop newly discovered reserves.

Our ability to achieve our growth objectives is dependent in part on our level of success in discovering or acquiring additional oil and natural gas reserves and further exploring our current reserve base. Our exploration and development activities for additional reserves also expose us to inherent risks associated with drilling, including the risk that no economically productive oil or natural gas reservoirs will be encountered. Exploring for, developing and acquiring reserves is highly risky and capital intensive. Without reserve additions through further exploration and development or acquisition activities, our reserves and production will decline over time, which may materially and adversely affect our results of operations and financial condition.

We rely heavily on outside suppliers for crude oil and other raw materials, and we may even experience disruption of our ability to obtain crude oil and other raw materials.

We purchase a significant portion of our crude oil and other feedstock requirements from outside suppliers located in different countries and areas in the world. In 2007, approximately 72% of the crude oil required for our refinery business was sourced from international suppliers, some of which are from countries that are on the sanction list published and administered by the Office of Foreign Assets Control of the US Department of Treasury. In addition, our development will leave us no choice but to source an increasing amount of crude oil from outside suppliers. We are subject to the political, geographical and economic risks associated with these countries and areas. If one or more of our supply contracts were terminated or disrupted due to any natural disasters or political events, it is possible that we would be unable to find sufficient alternative sources of supply in a timely manner or on commercially reasonable terms. As a result, our business and financial condition could be materially and adversely affected.

Our business faces operation risks and natural disasters that may cause significant property damages, personal injuries and interruption of operations, and we may not have sufficient insurance coverage for all the financial losses incurred by us.

Exploring for, producing and transporting crude oil and natural gas and producing and transporting refined and petrochemical products involve a number of operating hazards. Significant operating hazards and natural disasters may cause interruption to our operations, property or environmental damages as well as personal injuries, and each of these incidents could have a material adverse effect on our financial condition and results of operations.

We have been paying high attention to the safety of our operation and implemented Health, Safety and Environment Management System within our company with the view to preventing accidents and reducing personal injuries, property losses and environment pollution. We also maintain insurance coverage on our property, plant, equipment and inventory. However, our preventative measures may not be effective and our insurance coverage may not be sufficient to cover all the financial losses caused by the operation risks and natural disasters. Losses incurred or payments required to be made by us due to operating hazards or natural disasters, which are not fully insured, may have a material adverse effect on our financial condition and results of operations.

The oil and natural gas reserves data in this annual report are only estimates, and our actual production, revenues and expenditures with respect to our reserves may differ materially from these estimates.

There are numerous uncertainties inherent in estimating quantities of proved oil and natural gas reserves, and in the timing of development expenditures and the projection of future rates of production. The reserve data set forth in this annual report represent estimates only. Adverse changes in economic conditions may render it uneconomical to develop certain reserves. Our actual production, revenues, taxes and fees payable and development and operating expenditures with respect to our reserves may likely vary from these estimates.

The reliability of reserves estimates depends on:

- the quality and quantity of technical and economic data;
- the prevailing oil and gas prices applicable to our production;
- the production performance of the reservoirs;

- extensive engineering judgments; and
- consistency in the PRC government's oil policies.

In addition, new drilling, testing and production following the estimates may cause substantial upward or downward revisions in the estimates.

Our operations may be adversely affected by the cyclical nature of the market.

Most of our revenues are attributable to sales of refined petroleum products and petrochemical products, and certain of these businesses and related products have historically been cyclical and sensitive to a number of factors that are beyond our control. These factors include the availability and prices of feedstock and general economic conditions, such as changes in industry capacity and output levels, cyclical changes in regional and global economic conditions, prices and availability of substitute products and changes in consumer demand. With the further reduction of tariffs and other import restrictions in the PRC on refined petroleum products and petrochemical products, many of our products have become increasingly subject to the cyclicality of global markets, and hence, our operations may be adversely affected by the cyclical nature of the market.

We face strong competition from domestic and foreign competitors.

Among our competitors, some are major integrated petroleum and petrochemical companies within and outside the PRC, which have recently become more significant participants in the petroleum and petrochemical industry in China. On December 4, 2006, Ministry of Commerce of the PRC promulgated the “Administrative Rules for Crude Oil Market” and “Administrative Rules for Refined Petroleum Products Market” to open the wholesale market of crude oil and refined petroleum products to new market entrants. As a result, we expect to face more competition in both crude oil and refined petroleum product markets. We believe such trend will continue. Increased competition may have a material adverse effect on our financial condition and results of operations.

Our financing costs are subject to change in interest rates.

Changes in interest rates have affected and will continue to affect our financing costs and, ultimately, our results of operations. By December 21, 2007, the People’s Bank of China, or the PBOC, had raised the benchmark one-year lending rate six times from March to December in 2007 from 6.12% to 7.47%. The increased lending rate drove up our cost of bank borrowings. Our interest expenses (excluding capitalized interest) in 2005, 2006 and 2007 were RMB 5,725 million, RMB 7,101 million and RMB 7,314 million, respectively. The PBOC may further increase the lending rates according to China’s macro economic conditions, and any such event may materially and adversely affect our business, financial condition and results of operations.

Risks Relating to Our Controlling Shareholder

Related party transactions.

We have engaged from time to time and will continue to engage in a variety of transactions with Sinopec Group, which provides to us a number of services, including, but not limited to, ancillary supply, engineering, maintenance, transport, lease of land use right, lease of buildings, as well as educational and community services. The nature of our transactions with Sinopec Group is governed by a number of service and other contracts between Sinopec Group and us. We have established various schemes in those agreements so that these transactions would be entered into under terms at arm’s length. However, we cannot assure you that Sinopec Group Company or any of its members would not take actions that may favor its interests or its other subsidiaries' interests over ours.

Non-competition.

Sinopec Group Company has interests in certain businesses, such as oil refining, petrochemical producing and retail service stations, which compete or are likely to compete, either directly or indirectly, with our businesses. To avoid the adverse effects brought by the competition between us and Sinopec Group Company to the maximum extent possible, we and Sinopec Group Company have entered into a non-competition agreement whereby Sinopec Group Company has agreed to: refrain from operating new businesses which compete or could compete with us in any of our domestic or international markets; grant us an option to purchase Sinopec Group Company's operations that compete or could compete with our businesses; operate its sales enterprises and service stations in a manner uniform to our sales and service operations; and appoint us as sales agent for certain of its products which compete or could compete with our products. Notwithstanding the foregoing contractual arrangements, because Sinopec Group Company is our controlling shareholder, Sinopec Group Company may take actions that may conflict with our own interests.

Risks Relating to the PRC

Government regulations may limit our activities and affect our business operations.

The PRC government, though gradually liberalizing its regulation of petroleum and petrochemical industry, continues to exercise a certain degree of control over the petroleum and petrochemical industry in China by, among other measures:

- licensing the right to explore and produce crude oil and natural gas;
- publishing from time to time guidance prices for natural gas and refined petroleum products such as gasoline, diesel and jet fuel;
- assessing taxes and fees payable;
- setting import and export quotas and procedures for crude oil and refined petroleum products; and
- setting safety, environmental and quality standards.

As a result, we may face constraints on our flexibility and ability to expand our business operations or to maximize our profitability.

Our business operations may be adversely affected by present or future environmental regulations.

As an integrated petroleum and petrochemical company, we are subject to extensive environmental protection laws and regulations in China. These laws and regulations permit:

- the imposition of fees for the discharge of waste substances;
- the levy of fines and payments for damages for serious environmental offenses; and
- the government, at its discretion, to close any facility which fails to comply with orders and require it to correct or stop operations causing environmental damage.

Our production operations produce substantial amounts of waste water, gas and solid waste materials. In addition, our production facilities require operating permits that are subject to renewal, modification and revocation. We have established a system to treat waste materials to prevent and reduce pollution.

The PRC government has moved, and may move further, toward more rigorous enforcement of applicable laws, and toward the adoption of more stringent environmental standards, which, in turn, would require us to incur additional expenditures on environmental matters.

Some of our development plans require compliance with state policies and regulatory confirmation and registration.

We are currently engaged in a number of construction, renovation and expansion projects. Some of our large construction, renovation and expansion projects are subject to governmental confirmation and registration. The timing and cost of completion of these projects will depend on numerous factors, including when we can receive the required confirmation and registration from relevant PRC government authorities and the general economic condition in China. If any of our important projects required for our future growth are not confirmed or registered, or not confirmed or registered in a timely manner, our results of operations and financial condition could be adversely impacted.

Foreign enterprise holders of H shares may be subject to PRC taxation.

Historically, dividends paid by us to foreign enterprise holders of H shares outside the PRC were exempted from PRC income tax pursuant to a notice issued by the Chinese State Administration of Taxation in 1993. According to the same notice, gains realized by foreign enterprises upon sale of H shares were also exempted from PRC enterprise income tax. However, the effectiveness of these exemptions became unclear and uncertain after the new Enterprise Income Tax Law took effect on January 1, 2008. In accordance with the new Enterprise Income Tax Law and its implementation rules, any dividends derived from the revenues accumulated from January 1, 2008 and are paid to the shareholders who are non-resident enterprises in the PRC, as well as any capital gains realized by such shareholders upon the sale of overseas-listed shares will be subject to the PRC withholding tax levied at a rate of 10%, unless exempted or reduced pursuant to an applicable double-taxation treaty or other exemptions. The capital gains realized by resident enterprises, including enterprises established under the laws of non-PRC jurisdictions but whose "de facto management body" is located in the PRC, upon the sales of overseas-listed shares are subject to the PRC enterprise income tax. The implementation of the new Enterprise Income Tax Law in these respects remain uncertain, and we may be required to withhold taxes in the future when paying any dividends to our H shareholders who are non-resident enterprises. See "Item 10. Additional Information—Taxation—PRC Taxation".

Government control of currency conversion and exchange rate fluctuation may adversely affect our operations and financial results.

We receive substantially all of our revenues in Renminbi. A portion of such revenues will need to be converted into other currencies to meet our foreign currency needs, which include, among other things:

- import of crude oil and other materials;
- debt service on foreign currency-denominated debt;
- purchases of imported equipment;
- payment of the principals and interests of bonds issued overseas; and
- payment of any cash dividends declared in respect of the H shares (including ADS).

The existing foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade and service related foreign exchange transactions and payment of dividends. Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures. The PRC government has stated publicly that it intends to make the Renminbi freely convertible in the future. However, we cannot predict whether the PRC government will continue its existing foreign exchange policy and when the PRC government will allow free conversion of Renminbi.

The value of the Renminbi against the US dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. Under the current policy, the Renminbi is permitted to fluctuate within a band against a basket of certain foreign currencies. The value of Renminbi against the US dollar has fluctuated on a daily basis within narrow ranges, but overall has strengthened against the US dollar. As we purchase a significant portion of our crude oil requirement from international market which are benchmarked to US dollar-denominated international prices, fluctuations in the value of the Renminbi against the US dollars and certain other foreign currencies may affect our crude oil costs.

Risks relating to enforcement of shareholder rights; Mandatory arbitration.

Currently, the primary sources of shareholder rights are our articles of association, the PRC Company Law and the Listing Rules of the Hong Kong Stock Exchange, which, among other things, impose certain standards of conduct, fairness and disclosure on us, our directors and our controlling shareholder. In general, their provisions for protection of shareholder's rights and access to information are different from those applicable to companies incorporated in the United States, the United Kingdom and other Western countries. In addition, the mechanism for enforcement of rights under the corporate framework to which we are subject may also be relatively undeveloped and untested. To our knowledge, there has not been any published report of judicial enforcement in the PRC by H share shareholders of their rights under constituent documents of joint stock limited companies or the PRC Company Law or in the application or interpretation of the PRC or Hong Kong regulatory provisions applicable to PRC joint stock limited companies. We cannot assure you that our shareholders will enjoy protections that they may be entitled in other jurisdictions.

China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom or most other Western countries, and therefore recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may not be assured. Our articles of association as well as the Listing Rules of the Hong Kong Stock Exchange provide that most disputes between holders of H shares and us, our directors, supervisors, officers or holders of domestic shares, arising out of the articles of association or the PRC Company Law concerning the affairs of our company or with respect to the transfer of our shares, are to be resolved through arbitration by arbitration organizations in Hong Kong or China, rather than through a court of law. On June 18, 1999, an arrangement was made between Hong Kong and the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council, and became effective on February 1, 2000. So far as we are aware, no action has been brought in China by any shareholder to enforce an arbitral award, and we are uncertain as to the outcome of any action brought in China to enforce an arbitral award granted to shareholders.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Our legal and commercial name is China Petroleum & Chemical Corporation. Our head office is located at 6A, Huixindong Street, Chaoyang District, Beijing 100029, the People's Republic of China, our telephone number is (8610) 6499-0060, and our fax number is (8610) 6499-0022. We have appointed our subsidiary in the United States, SINOPEC-USA Co., Ltd., 410 Park Avenue, 22nd Fl., New York, NY 10022, USA (telephone number: (212) 759-5085; fax number: (212) 759-6882) as our agent for service of processes for actions brought under the U.S. securities laws.

We were established as a joint stock limited company on February 25, 2000 under the Company Law of the PRC with Sinopec Group Company as the sole shareholder. Our principal businesses consist of petroleum and petrochemical businesses transferred to us by Sinopec Group Company pursuant to a reorganization agreement. Such businesses include:

- exploration for, development, production and marketing of crude oil and natural gas;

- refining of crude oil and marketing and distribution of refined petroleum products, including transportation, storage, trading, import and export of petroleum products; and

- production and sales of petrochemical products.

Sinopec Group Company's continuing activities consist, among other things, of:

- exploring and developing oil and gas reserves overseas;

- operating certain petrochemical facilities, small capacity refineries and retail service stations that it retained;

- providing physical geography exploration, and well drilling, survey, logging and downhole operational services;
- manufacturing production equipment and providing equipment maintenance services;
- providing construction services;
- providing utilities, such as electricity and water; and
- providing other operational services including transportation services.

Sinopec Group Company transferred the businesses to us either by transferring its equity holdings in subsidiaries or by transferring their assets and liabilities. Sinopec Group Company also transferred to us its shareholdings in 13 then listed companies. Sinopec Group Company also agreed in the reorganization agreement to transfer to us its exploration and production licenses and all rights and obligations under the agreements in connection with its core businesses transferred to us. The employees relating to these assets were also transferred to us.

In order to expand our core businesses, prevent competition between us and members of Sinopec Group and reduce related party transactions, between 2001 and 2006 we have acquired from Sinopec Group Company Sinopec National Star, Sinopec Maoming, Tahe Petrochemical and Xi'an Petrochemical, Petrochemical and Catalyst Assets, certain refining facilities and service stations, the oil extraction assets of Shengli Oil Field Co., Ltd., and Sinopec Hainan (by way of capital injection). We have also sold and disposed of certain auxiliary assets to third parties. In addition, we completed the tender offers for the acquisition of publicly-held A-shares of four subsidiaries formerly listed on stock exchanges in China, namely Sinopec Qilu Petrochemical Co., Ltd., Sinopec Yangzi Petrochemical Co., Ltd., Sinopec Zhongyuan Petroleum Co., Ltd., and Shengli Oil Field Dynamic Co., Ltd.

On April 19, 2007, we acquired from China Resources Enterprise, Ltd. its 20 service stations and fuel business, including jet fuel, fuel oil and industrial diesel business, in Hong Kong for a consideration of HK$ 4.0 billion.

On April 24, 2007, we issued HK$ 11.7 billion zero coupon convertible bonds with a term of seven years. The bonds are convertible into our H shares at a price of HK$10.76 per share, representing a conversion premium of 50%. The net proceeds from the bond issuance were used to repay the foreign currency loans borrowed from domestic banks in connection with the privatization of the former Beijing Yanhua Petrochemical Co., Ltd. and Sinopec Zhenhai Refining & Chemical Co., Ltd., both of which were previously listed on the Hong Kong Stock Exchange before the privatization by us.

On December 28, 2007, the Board of Directors of Sinopec Corp. reviewed and approved the proposal for the acquisition of the equity interests of five refinery companies and the operation rights of 63 service stations from Sinopec Group Company. Accordingly, we acquired from Sinopec Group Company its (i) 100% equity interest in Sinopec Hangzhou Oil Refinery Plant; (ii) 59.47% equity interest in Yangzhou Petrochemical Plant and (iii) 75% equity interest in Zhanjiang Dongxing Petroleum Company Limited. At the same time, Sinopec Yangzi Petrochemical, a subsidiary wholly owned by us, acquired from Sinopec Group Company its (i) 100% equity interest in Jiangsu Taizhou Petrochemical Plant; (ii) 100% equity interest in Sinopec Qingjiang Petrochemical Company Limited. Furthermore, we acquired the operation rights from Sinopec Group Company for its 63 services stations. The total consideration for the acquisitions is RMB 3,304 million, which was based on the preliminary appraised net asset value of the target assets as at the valuation date of September 30, 2007.

On February 20, 2008, we issued bonds with detachable warrants in the amount of RMB 30 billion. The proceeds from the issuance will be used to fund our Sichuan-to-East China Gas Project, Tianjin one million tonnes per annum ethylene project, and Zhenhai one million tonnes per annum ethylene project. Some of the proceeds will also be used to repay our bank loans. The proceeds from the exercise of warrants will be used to finance our Tianjin one million tonnes per annum ethylene project, Zhenhai one million tonnes per annum ethylene project, Wuhan ethylene project, as well as to repay our bank loans and to supplement our working capital. The bonds have a 6-year term and 0.8% per annum fixed coupon rate, and the 3.03 billion warrants have an exercise ratio of two for one and a term of two years. The bonds and warrants were listed on Shanghai Stock Exchange on March 4, 2008.

B. BUSINESS OVERVIEW

Exploration and Production

Overview

We currently explore for, develop and produce crude oil and natural gas in a number of areas across China. As of December 31, 2007, we held 189 production licenses with an aggregate acreage of 17,009 square kilometers and with terms ranging from 7 to 80 years. Our production licenses are renewable upon our application 30 days prior to expiration, and each renewal will be valid for two years. During the term of our production license, we pay an annual production license fee of RMB 1,000 per square kilometers. Shengli oilfield is the second largest oilfield in China and accounted for more than 59% of our total crude oil and natural gas production in 2007.

As of December 31, 2007, we held 351 exploration licenses for various blocks in which we engaged in exploration activities. The maximum term of our exploration licenses is 7 years and the authorized total acreage under such licenses are 102,730 square kilometers. Our exploration licenses may be renewed upon our application 30 days prior to expiration of the original term with each renewal for a two-year term. We are obligated to make an annual minimum exploration investment in each of the exploration blocks which we obtained the exploration licenses. In addition, we are also obligated to pay an annual exploration license fee ranging from RMB 100 to RMB 500 per square kilometer. However, we are entitled under PRC laws and regulations for reduction and exemption of exploration license fee for exploration in China's western region, northeast region and offshore China.

Properties

We currently operate 16 oil and gas producing fields, each of which consists of many oil and gas producing blocks and all of which are located in China.

Shengli oilfield is our most important producing oil field and the second largest producing oil field in China. It consists of 70 producing blocks of various sizes extending over an area of 2,564 square kilometers in northern Shandong province. Most of Shengli's blocks are located in the Jiyang trough with various oil producing levels. In 2007, Shengli field produced 197 million barrels of crude oil and 27.68 billion cubic feet of natural gas, with an average daily production of 537 thousand barrels-of-oil equivalent, accounting for approximately 59% of our total crude oil and natural gas production for the year.

Oil and Natural Gas Reserves

Our estimated proved reserves of crude oil and natural gas as of December 31, 2007 were 4,079 million barrels-of-oil equivalent (including 3,024 million barrels of crude oil and 6,331 billion cubic feet of natural gas), representing an increase of 8.17% from 2006. Our estimated proved reserves do not include additional quantities recoverable beyond the term of the relevant production licenses, or that may result from extensions of currently proved areas, or from application of improved recovery processes not yet tested and determined to be economical.

The following tables set forth our proved oil and gas reserves and related data as of and for the years ended December 31, 2005, 2006 and 2007.

	As of and for the Years Ended December 31,		
	2005	2006	2007
Proved developed and undeveloped reserves (crude oil)		(in million barrels)	
Beginning of year	3,267	3,294	3,293
Revisions of previous estimates	26	(10)	(250)
Improved recovery	142	146	125
Extensions and discoveries	138	148	148
Production	(279)	(285)	(292)
End of year	3,294	3,293	3,024
Proved developed reserves (crude oil)		(in million barrels)	
Beginning of year	2,808	2,870	2,903
End of year	2,870	2,903	2,651
Proved developed and undeveloped reserves (natural gas)		(in billion cubic feet)	
Beginning of year	3,033	2,952	2,856
Revisions of previous estimates	(42)	(9)	222
Extensions and discoveries	183	170	3,536

Production	(222)	(257)	(283)
End of year	2,952	2,856	6,331
Proved developed reserves (natural gas)		(in billion cubic feet)	
Beginning of year	1,398	1,557	1,472
End of year	1,557	1,472	1,518

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The following tables set forth proved developed and undeveloped crude oil and natural gas reserves of our primary oil and gas producing fields as of December 31, 2005, 2006 and 2007.

	As of December 31,		
	2005	2006	2007
	(in million barrels)		
Proved developed and undeveloped crude oil reserves			
Shengli	2,362	2,352	2,231
Zhongyuan	314	302	235
Xibei	238	288	280
Henan	154	136	96
Jiangsu	112	91	87
Others	114	124	95
Total	3,294	3,293	3,024

	As of December 31,		
	2005	2006	2007
	(in billion cubic feet)		
Proved developed and undeveloped natural gas reserves			
Shengli	322	313	328
Zhongyuan	383	355	361
Xibei	95	147	198
Jiangsu	9	12	10
Xinan	781	807	757
Huabei	908	792	781
Puguang	-	-	3,509
Others	454	430	387
Total	2,952	2,856	6,331

Oil and Natural Gas Production

In 2007, we produced an average of 928 thousand barrels-of-oil equivalent per day, of which approximately 86.1% was crude oil and 13.9% was natural gas.

The following tables set forth the average daily production of crude oil and natural gas for the years ended December 31, 2005, 2006 and 2007. The production of crude oil includes condensed oil.

	For the Years Ended December 31,		
	2005	2006	2007
	(in thousand barrels)		
Average daily crude oil production			
Shengli	524	533	539
Zhongyuan	62	60	59
Xibei	82	92	104
Henan	36	35	35
Jiangsu	32	33	33
Others	28	28	29
Total Production	764	781	799

	For the Years Ended December 31,		
	2005	2006	2007
	(in million cubic feet)		
Average daily natural gas production			
Shengli	85	78	76
Zhongyuan	161	159	143
Xibei	50	84	92
Henan	10	8	7
Jiangsu	6	6	5

Xinan	203	213	260
Huabei	39	101	140
Others	55	54	51
Total Production	608	703	774

Lifting Cost & Realized Prices

The following table sets forth our average lifting costs per barrel-of-oil equivalent of crude oil and natural gas produced, average sales prices per barrel of crude oil and average sales prices per thousand cubic meters of natural gas for the years ended December 31, 2005, 2006 and 2007.

	Total (RMB)	Shengli (RMB)	Others (RMB)
For the year ended December 31, 2007			
Average petroleum lifting cost per BOE	84.62	87.23	80.78
Average realized sales price			
Per barrel of crude oil	435.94	421.66	466.17
Per thousand cubic meters of natural gas	822.83	939.92	817.72
For the year ended December 31, 2006			
Average petroleum lifting cost per BOE	73.31	77.16	67.34
Average realized sales price			
Per barrel of crude oil	449.93	443.66	463.70
Per thousand cubic meters of natural gas	794.28	899.76	788.02
For the year ended December 31, 2005			
Average petroleum lifting cost per BOE	68.78	70.11	66.58
Average realized sales price			
Per barrel of crude oil	375.30	379.01	366.98
Per thousand cubic meters of natural gas	673.01	880.91	656.56

Exploration and Development Activities

The following table sets forth the numbers of our exploration and development wells, including a breakdown of successful or productive wells and dry holes we drilled during the years ended December 31, 2005, 2006 and 2007.

	Total	Shengli	Xibei	Others
For the year ended December 31, 2007				
Exploration				
— Successful	251	118	16	117
— Dry holes	306	119	24	163
Development				
— Productive	2,956	1,136	112	1,708
— Dry holes	20	2	8	10

For the year ended December 31, 2006				
Exploration				
— Successful	226	118	20	88
— Dry holes	269	57	19	193
Development				
— Productive	2,620	1,125	94	1,401
— Dry holes	29	4	10	15
For the year ended December 31, 2005				
Exploration				
— Successful	256	109	14	133
— Dry holes	289	91	16	182
Development				
— Productive	2,327	970	82	1,275
— Dry holes	21	1	12	8

The following table sets forth the numbers of our development crude oil and natural gas wells as of December 31, 2007.

	As of December 31, 2007		
	Total	Shengli	Others
Crude oil development wells			
— Total	34,520	22,886	11,634
— Productive	27,561	17,814	9,747
Natural gas development wells			
— Total	2,639	371	2,268
— Productive	2,627	371	2,256

In 2007, we explored new oil and gas reserves and further improved the tertiary oil reserves structure of exploration. Our key exploration and development projects in the existing eastern blocks, new western blocks and the southern marine fields have all progressed during 2007. As a result, our newly-built crude oil and natural gas production capacity increased by 6.05 million tonnes per annum and 1.855 billion cubic meters per annum, respectively in 2007 compared to 2006.

Refining

Overview

We processed approximately 155.6 million tonnes of crude oil in 2007, representing approximately 50.8% of China's total crude oil throughput. We produce a full range of refined petroleum products. The following table sets forth our production of our principal refined petroleum products for the years ended December 31, 2005, 2006 and 2007.

	For the Years Ended December 31,		
	2005	2006	2007
	(in million tonnes)		
Gasoline	23.0	23.0	24.7
Diesel	54.9	57.9	60.1
Kerosene including jet fuel	6.6	6.4	8.3
Light chemical feedstock	21.1	22.7	23.5
Lubricant	1.3	1.1	1.3
Liquefied petroleum gas	7.4	6.9	7.4
Fuel oil	6.9	6.0	7.3

Gasoline and diesel are our largest revenue producing products, and are sold mostly through our marketing and distribution segment through both wholesale and retail channels. We use most of our production of chemical feedstock as feedstock for our own chemical operations. Most of our production of other refined petroleum products are sold domestically to a wide variety of industrial and agricultural customers, and a small amount are exported.

Refining Facilities

We operate 27 refineries in China, all of which are located in our principal market. As of December 31, 2007, our total primary distillation capacity was 181.6 million tonnes per annum.

The following table sets forth our total primary distillation capacity per annum and crude oil throughputs as of and for the years ended December 31, 2005, 2006 and 2007.

	As of and for the Years Ended December 31,		
	2005	2006	2007
Primary distillation capacity (million tonnes per annum)	160.1	176.1	181.6
Crude oil throughputs (million tonnes)	139.9	146.3	155.6

In 2007, measured by the total output from our refineries, our overall gasoline yield was 15.87%, overall diesel yield was 38.61%, overall kerosene yield was 5.35% and overall light chemical feedstock yield was 15.09%. Other products include lubricant, liquefied petroleum gas, solvent, asphalt, petroleum coke, paraffin and fuel oil. For the years ended December 31, 2005, 2006 and 2007, our overall yield for all refined petroleum products at our refineries was 93.24%, 93.47% and 93.95%, respectively.

The following table sets forth the primary distillation capacity per annum as of, and refinery throughput for the years ended, December 31, 2005, 2006 and 2007 of each of our refineries with the primary distillation capacity of 8 million tonnes or more per annum as of December 31, 2007.

	As of and for the Years Ended December 31,					
	2005		2006		2007	
Refinery	Primary Distillation Capacity	Refinery Throughput	Primary Distillation Capacity	Refinery Throughput	Primary Distillation Capacity	Refinery Throughput
	(in million tonnes)					
Zhenhai	20.0	17.1	20.0	17.7	20.0	18.6
Shanghai	14.0	9.5	14.0	9.1	14.0	8.9
Maoming	13.5	12.7	13.5	14.0	13.5	13.1
Guangzhou	7.7	6.7	13.2	7.4	13.2	10.4
Jinling	13.0	10.7	13.0	10.8	13.0	11.5
Gaoqiao	11.0	10.1	11.0	9.3	11.0	8.1
Qilu	10.5	10.0	10.5	10.5	10.5	10.6
Yanshan	8.0	8.0	8.0	8.0	13.0	8.6
Yangzi	8.0	7.8	8.0	7.9	8.0	8.2
Hainan	-	-	8.0	2.2	8.0	8.0

In 2007, we revamped or ramped up 557 sets of refining facilities, representing a net increase of 5.5 million tonnes per annum of distillation capacity of crude oil, including an increase of 4.5 million tones per annum in the distillation capacity of high-sulfur crude oil, from 2006. In addition, our hydro-refining capacity and coking capacity increased by 3.58 million tonnes per annum and 3.8 million tonnes per annum, respectively, in 2007 compared to 2006. The revamping projects for a number of refining facilities to improve refined petroleum product quality are also progressing as planned.

Sources of Crude Oil

Our most important raw material is crude oil. The following table sets forth the sources of our crude oil supply for the years ended December 31, 2005, 2006 and 2007.

	For the Years ended December 31,		
	2005	2006	2007
Source of Supply	(in million tonnes)		
Self-supply	28.62	29.62	29.72
PetroChina Company Ltd.	8.75	8.81	6.89
CNOOC Ltd.	5.05	4.93	6.43
Import	99.13	101.47	113.08
Total	141.55	144.83	156.12

Marketing and Sales of Refined Petroleum Products

Overview

We operate the largest sales and distribution network for refined petroleum products in China. In 2007, we distributed and sold in China approximately 119.39 million tonnes of gasoline, diesel and kerosene including jet fuel, representing a market share of approximately 64.1% in China. Most of the refined petroleum products sold by us are produced internally. In 2007, approximately 72% of our gasoline sales volume and approximately 82% of our diesel sales volumes were produced internally.

The table below sets forth a summary of key data in the marketing and sales of refined petroleum products for the year ended December 31, 2005, 2006 and 2007.

	For the Years Ended December 31,		
	2005	2006	2007
Sales volume of refined petroleum products (in million tonnes)	104.56	111.68	119.39