

## NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 December 2000

### 3. TURNOVER

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

### 4. OTHER OPERATING REVENUES

	The Group	
	2000	1999
	RMB millions	RMB millions
Sale of ancillary materials	4,731	1,055
Income from rendering of services	534	482
Rental income	213	258
Others	491	573
	<b>5,969</b>	<b>2,368</b>

### 5. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

	The Group	
	2000	1999
	RMB millions	RMB millions
Research and development costs	1,731	1,098
Operating lease charges	2,900	397
Auditors' remuneration	59	19

### 6. PERSONNEL EXPENSES

	The Group	
	2000	1999
	RMB millions	RMB millions
Wages and salaries	9,531	9,023
Staff welfare	1,294	1,269
Contribution to retirement schemes	1,359	1,312
Social security contributions	823	852
	<b>13,007</b>	<b>12,456</b>

### 7. TAXES OTHER THAN INCOME TAX

	The Group	
	2000	1999
	RMB millions	RMB millions
Consumption tax	9,260	7,324
City construction tax	1,664	1,212
Education surcharge	708	513
Resources tax	363	383
Business tax	106	60
Others	82	16
	<b>12,183</b>	<b>9,508</b>

Consumption tax is levied on producers of gasoline and diesel based on a tariff rate applied to the volume of sales. City construction tax is levied on an entity based on its total amount of value-added tax, consumption tax and business tax.

### 8. OTHER OPERATING EXPENSES, NET

	The Group	
	2000	1999
	RMB millions	RMB millions
Loss on allocation of staff quarters	—	1,363
Impairment losses on long-lived assets	187	1,206
Reversal of impairment losses on long-lived assets, net of depreciation effect	(936)	(593)
Loss on disposal of property, plant and equipment	778	502
Fines, penalties and compensations	27	79
Donations	120	65
Others	379	561
	<b>555</b>	<b>3,183</b>

#### Loss on allocation of staff quarters

Pursuant to the housing reform policy in the PRC, the Group allocated certain staff quarters to eligible employees for nominal consideration. The losses represent the difference between the net book value of the staff quarters allocated and the consideration received by the Group, and include losses in this respect incurred by Sinopec Group Company on the Group's behalf. In accordance with the relevant PRC regulations, the allocation of staff quarters under the housing reform policy ceased after 31 December 1999.

## 8. OTHER OPERATING EXPENSES, NET (Continued)

### Asset impairment

In accordance with IAS 36, the carrying amounts of impaired oil and gas properties and long-lived assets are written down to a recoverable value.

The factors resulting in the exploration and production ("E&P") segment impairment losses of RMB 92 million for the year ended 31 December 2000 (1999: RMB 824 million), were unsuccessful development drilling and high operating and development costs for certain oil fields. The carrying values of these E&P properties, including construction in progress assets, were written down to a recoverable value which was determined based on the present values of the expected future cash flows of the assets. The oil and gas pricing was a factor used in the determination of the present values of the expected future cash flows of the assets and had an impact on the recognition of the asset impairment.

Reversal of impairment losses on long-lived assets of the E&P segment of RMB 936 million for the year ended 31 December 2000 (1999: RMB 593 million), represent the reversal of impairment losses previously recognised primarily as a result of the increase in crude oil prices used in determining the recoverable value.

Impairment losses recognised on long-lived assets of the refining segment of RMB 95 million for the year ended 31 December 2000 (1999: RMB 296 million), primarily relate to write-downs of certain refining production facilities including construction in progress assets to their recoverable values which were determined based on the present value of estimated future cash flows.

There were no impairment losses recognised on long-lived assets of the chemicals segment for the year ended 31 December 2000 (1999: RMB 33 million). The impairment losses recognised for the year ended 31 December 1999 were related to write-downs of certain chemical production facilities including construction in progress assets to their recoverable values which were determined based on the present value of estimated future cash flows.

There were no impairment losses recognised on long-lived assets of the marketing and distribution segment for the year ended 31 December 2000 (1999: RMB 53 million). The impairment losses recognised for the year ended 31 December 1999 were related to write-downs of certain under utilised oil depots and service stations. In measuring the amounts of impairment charges, the carrying amounts of these assets were compared to the present value of the expected future cash flows of the assets, as well as information about sales and purchases of similar properties in the same geographic area.

## 9. INTEREST EXPENSE

	The Group	
	2000 RMB millions	1999 RMB millions
Interest expense incurred	7,104	10,865
Less: Interest expense capitalised*	(575)	(812)
<b>Interest expense</b>	<b>6,529</b>	<b>10,053</b>

\* Interest rates per annum at which borrowing costs were capitalised for construction in progress **4.5% to 9.7%** **5.9% to 11.7%**

## 10. GAINS FROM ISSUANCE OF SHARES BY SUBSIDIARIES

There was no issuance of shares by subsidiaries during the year ended 31 December 2000. The gains for the year ended 31 December 1999 represented the increase in the Company's share of net assets of the subsidiaries after the issuance of shares by the subsidiaries. The Group has not provided any deferred tax expense on the gains from the issuance of shares by subsidiaries because the current and existing tax laws and regulations of the PRC provide that the reported amounts in these subsidiaries can be recovered tax-free. The Group has not repurchased any shares of its subsidiaries during each of the years ended 31 December 1999 and 2000.

Details of shares issued during the year ended 31 December 1999 are as follows:

Name of company	Principal activities	Type of transaction	No. of shares issued	Price per share	Amount of gross proceeds RMB millions	Percentage of ownership		Gains RMB millions
						before issuance	after issuance	
Sinopec Kantons Holdings Limited	Trading of crude oil and petroleum products	Initial public offering	287,500,000	HK\$ 1.02	314	100.00%	72.29%	70
Zhongyuan Petroleum Company Limited	Exploration and production of crude oil and natural gas	Initial public offering of A shares	170,000,000	RMB 4.89	831	100.00%	75.00%	475
Shijiazhuang Refining - Chemical Company Limited	Manufacturing of intermediate petrochemical products and petroleum products	Placement of A shares	74,444,333	RMB 3.30	246	83.33%	79.73%	62

607

## NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 December 2000

### 11. TAXATION

Taxation in the consolidated profit and loss account represents:

	2000 RMB millions	The Group 1999 RMB millions
Provision for PRC income tax		
- the Group	8,823	1,975
- associates and jointly controlled entities	22	36
Deferred taxation (Note 25)	554	(620)
	<b>9,399</b>	<b>1,391</b>
Tax refund (Note)	—	(1,114)
	<b>9,399</b>	<b>277</b>

Note: The Group did not receive any tax refund for the year ended 31 December 2000. The Group received tax refund of RMB 1,114 million for the year ended 31 December 1999 pursuant to various notices and orders issued by the Ministry of Finance.

A reconciliation of the expected tax with the actual tax expense is as follows:

	2000 RMB millions	The Group 1999 RMB millions
Profit from ordinary activities before taxation	30,196	6,506
Expected PRC income tax expense at statutory tax rate of 33%	9,965	2,147
Non-deductible expenses	424	43
Non-taxable income	(206)	(147)
Special allowance relating to exploration and production activities (Note i)	—	(487)
Gains from issuance of shares by subsidiaries	—	(200)
Differential tax rate on subsidiaries' income (Note ii)	(922)	(579)
Tax losses not recognised for deferred tax	87	638
Others	51	(24)
Tax refund	—	(1,114)
	<b>9,399</b>	<b>277</b>

Notes:

- (i) The special allowance relating to exploration and production activities represents additional tax allowances on expenditure that have already been capitalised as tax deductible oil and gas properties. Accordingly, these deductions represent permanent differences between the tax and accounting bases. Such special allowance granted to the Predecessor Operations ceased upon the legal formation of the Company on 25 February 2000.
- (ii) The provision for PRC current income tax is based on a statutory rate of 33% of the assessable income of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC during the years ended 31 December 1999 and 2000, except for certain subsidiaries of the Company, which are taxed at a preferential rate of 15%.

### 12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Directors' and supervisors' emoluments are as follows:

	2000 RMB'000	1999 RMB'000
Fees	—	—
Salaries and other emoluments	1,223	749
Retirement scheme contributions	77	66
	<b>1,300</b>	<b>815</b>

An analysis of directors' and supervisors' emoluments by number of directors and supervisors and emolument range is as follows:

	2000 Number	1999 Number
Nil to HK\$ 1,000,000	14	14

### 13. SENIOR MANAGEMENT'S EMOLUMENTS

Details of emoluments paid to the five highest paid individuals (none of them is a director or a supervisor) of the Group during the year are as follows:

	2000 RMB'000	1999 RMB'000
Salaries and other emoluments	1,576	1,314
Retirement scheme contributions	35	26
	<b>1,611</b>	<b>1,340</b>

An analysis of emoluments paid to the five highest paid individuals by number of individuals and emolument range is as follows:

	2000 Number	1999 Number
Nil to HK\$ 1,000,000	5	5

#### 14. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of RMB 19,004 million which has been dealt with in the accounts of the Company.

#### 15. DIVIDENDS

Upon the legal establishment of the Company in February 2000, dividends amounting to RMB 579 million were paid.

Pursuant to a resolution passed at the Directors' meeting on 12 April 2001, a final dividend of RMB 0.08 per share totalling RMB 6,712 million was proposed for shareholders' approval at the Annual General Meeting to be held on 5 June 2001. The dividend has not been provided for in the accounts for the year ended 31 December 2000.

#### 16. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit attributable to shareholders of RMB 19,004 million (1999: RMB 4,672 million) and the weighted average number of shares in issue during the year of 71,936,025,585 (1999: 68,800,000,000) as if the 68,800,000,000 shares issued and outstanding upon the legal formation of the Company on 25 February 2000 had been outstanding for both years presented. The weighted average number of shares for the year ended 31 December 2000 also reflects the issuance of 15,102,439,000 shares in October 2000 in connection with the Company's initial public offering (Note 29).

#### 17. PROPERTY, PLANT AND EQUIPMENT

##### The Group - by segment:

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Corporate and others RMB millions	Total RMB millions
<b>Cost/valuation:</b>						
Balance at 1 January 2000	105,714	81,880	15,845	100,897	953	305,289
Additions	1,530	755	9,745	536	161	12,727
Transferred from construction in progress	11,236	5,326	3,184	4,204	317	24,267
Disposals	(1,685)	(689)	(697)	(1,048)	(83)	(4,202)
<b>Balance at 31 December 2000</b>	<b>116,795</b>	<b>87,272</b>	<b>28,077</b>	<b>104,589</b>	<b>1,348</b>	<b>338,081</b>
<b>Accumulated depreciation:</b>						
Balance at 1 January 2000	55,232	29,442	4,664	43,307	280	132,925
Depreciation charge for the year	5,906	5,826	1,132	6,838	76	19,778
Impairment losses for the year	92	—	—	—	—	92
Reversal of impairment losses	(936)	—	—	—	—	(936)
Written back on disposals	(1,400)	(414)	(510)	(923)	(26)	(3,273)
<b>Balance at 31 December 2000</b>	<b>58,894</b>	<b>34,854</b>	<b>5,286</b>	<b>49,222</b>	<b>330</b>	<b>148,586</b>
<b>Net book value:</b>						
<b>At 31 December 2000</b>	<b>57,901</b>	<b>52,418</b>	<b>22,791</b>	<b>55,367</b>	<b>1,018</b>	<b>189,495</b>
<b>At 31 December 1999</b>	<b>50,482</b>	<b>52,438</b>	<b>11,181</b>	<b>57,590</b>	<b>673</b>	<b>172,364</b>

##### The Company - by segment:

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Corporate and others RMB millions	Total RMB millions
<b>Cost/valuation:</b>						
Transferred from Sinopec Group Company in connection with the Reorganisation	29,029	56,607	15,406	28,867	346	130,255
Additions	362	464	9,441	156	58	10,481
Transferred from construction in progress	4,079	3,464	3,081	326	268	11,218
Disposals	(602)	(496)	(619)	(217)	(52)	(1,986)
<b>Balance at 31 December 2000</b>	<b>32,868</b>	<b>60,039</b>	<b>27,309</b>	<b>29,132</b>	<b>620</b>	<b>149,968</b>
<b>Accumulated depreciation:</b>						
Transferred from Sinopec Group Company in connection with the Reorganisation	17,541	22,339	4,547	11,748	182	56,357
Depreciation charge for the year	1,631	4,081	1,080	1,943	31	8,766
Impairment losses for the year	92	—	—	—	—	92
Reversal of impairment losses	(338)	—	—	—	—	(338)
Written back on disposals	(448)	(304)	(479)	(165)	(23)	(1,419)
<b>Balance at 31 December 2000</b>	<b>18,478</b>	<b>26,116</b>	<b>5,148</b>	<b>13,526</b>	<b>190</b>	<b>63,458</b>
<b>Net book value:</b>						
<b>At 31 December 2000</b>	<b>14,390</b>	<b>33,923</b>	<b>22,161</b>	<b>15,606</b>	<b>430</b>	<b>86,510</b>