

## NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 December 2000

### 25. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

A valuation allowance on deferred tax assets is recorded if it is more likely than not that some portion or all of the deferred tax assets will not be realised through the recovery of taxes previously paid and/or future taxable income. The allowance is subject to ongoing adjustments based on changes in circumstances that affect the Group's assessment of the realisability of the deferred tax assets. The Group has reviewed its deferred tax assets at the balance sheet date. Based on this review, valuation allowances of RMB 87 million was provided for the year ended 31 December 2000 (1999: RMB 638 million) in respect of the tax value of losses. The Group determined the valuation allowance relating to the tax value of losses based on management's assessment of the probability that taxable profit will be available against which the tax losses can be utilised. In assessing the probability, both positive and negative evidence was considered, including whether it is more likely than not that the operations will have taxable profits before the tax losses expire, whether the operations have sufficient taxable temporary differences relating to the same tax authority and whether the tax losses result from identifiable causes which are unlikely to recur. Based on this assessment, a valuation allowance was provided for the tax value of losses to reduce the deferred tax asset to the amount that is more likely than not to be realised. No valuation allowance was established for the other deferred tax assets as management believes that the amount of these deferred tax assets at 31 December 2000 (1999: Nil) is more likely than not to be realised.

The valuation allowance is analysed as follows:

	The Group		The Company
	2000 RMB millions	1999 RMB millions	2000 RMB millions
At 1 January	—	5,042	—
Allowance during the year	87	638	—
Less : Amount distributed to Sinopec Group Company in connection with the Reorganisation	—	(5,680)	—
<b>At 31 December</b>	<b>87</b>	<b>—</b>	<b>—</b>

Movements in the deferred tax assets and liabilities are as follows:

#### The Group

	Balance at 1 January 1999 RMB millions	Recognised in profit and loss account RMB millions	Recognised in reserve RMB millions	Balance at 31 December 1999 RMB millions
<i>Current</i>				
Provisions, primarily for receivables and inventories	2,687	531	(3,097)	121
<i>Non-current</i>				
Property, plant and equipment	8,746	1,026	(9,931)	(159)
Accelerated depreciation	(7,316)	(1,180)	8,496	—
Tax value of losses carried forward, net of valuation allowances	1,711	(155)	(1,556)	—
Other assets	745	(32)	(713)	—
Others	321	430	(779)	(28)
<b>Net deferred tax assets/(liabilities)</b>	<b>6,894</b>	<b>620</b>	<b>(7,580)</b>	<b>(66)</b>

#### The Group

	Balance at 1 January 2000 RMB millions	Recognised in profit and loss account RMB millions	Balance at 31 December 2000 RMB millions
<i>Current</i>			
Provisions, primarily for receivables and inventories	121	902	1,023
<i>Non-current</i>			
Property, plant and equipment	(159)	(187)	(346)
Accelerated depreciation	—	(1,329)	(1,329)
Tax value of losses carried forward, net of valuation allowances	—	18	18
Other assets	—	37	37
Others	(28)	5	(23)
<b>Net deferred tax liabilities</b>	<b>(66)</b>	<b>(554)</b>	<b>(620)</b>

As a result of the 30 September 1999 revaluation as part of the Reorganisation, certain property, plant and equipment were adjusted for both financial and tax purposes. Accordingly, certain temporary differences that gave rise to net deferred tax assets in the amount of RMB 2,072 million were eliminated in 1999. The reduction in net deferred tax assets at 30 September 1999 was reflected as a reduction in reserves. In addition, net deferred tax assets of RMB 5,508 million were included in the net assets distributed to Sinopec Group Company in connection with the Reorganisation.

#### The Company

	Recognised in profit and loss account RMB millions	Balance at 31 December 2000 RMB millions
<i>Current</i>		
Provisions, primarily for receivables and inventories	711	711
<i>Non-current</i>		
Property, plant and equipment	15	15
Accelerated depreciation	(416)	(416)
Others	8	8
<b>Net deferred tax assets</b>	<b>318</b>	<b>318</b>

## 26. SHORT-TERM AND LONG-TERM DEBTS AND LOANS FROM SINOPEC GROUP COMPANY AND FELLOW SUBSIDIARIES

Short-term debts represent:

	2000 RMB millions	The Group	1999 RMB millions	The Company 2000 RMB millions
<b>Third parties' debts</b>				
Short-term bank loans	42,355		54,785	27,817
Short-term other loans	282		7,061	282
	<b>42,637</b>		<b>61,846</b>	<b>28,099</b>
Current portion of long-term bank loans	7,416		9,279	4,388
Current portion of long-term other loans	400		2,597	363
Current portion of debentures	—		683	—
	<b>7,816</b>		<b>12,559</b>	<b>4,751</b>
	<b>50,453</b>		<b>74,405</b>	<b>32,850</b>
<b>Loans from Sinopec Group Company and fellow subsidiaries</b>				
Short-term loans	8,017		5,754	7,719
Current portion of long-term loans	194		2,439	194
	<b>8,211</b>		<b>8,193</b>	<b>7,913</b>
	<b>58,664</b>		<b>82,598</b>	<b>40,763</b>

The Group's and the Company's weighted average interest rate on short-term loans were 5.8% at 31 December 2000 (1999: 6%).

## NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 December 2000

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

Long-term debts comprise:

	Interest rate and final maturity	2000 RMB millions	The Group 1999 RMB millions	The Company 2000 RMB millions
<b>Third parties' debts</b>				
<b>Long-term bank loans</b>				
Renminbi denominated	Interest rates ranging from interest free to 12.1% per annum at 31 December 2000 with maturities through 2010	26,169	27,328	16,898
Japanese Yen denominated	Interest rates ranging from 2.6% to 7.3% per annum at 31 December 2000 with maturities through 2024	3,066	5,637	2,857
US Dollar denominated	Interest rates ranging from interest free to 9.2% per annum at 31 December 2000 with maturities through 2010	6,746	5,804	2,290
Deutsche Marks denominated	Fixed rates ranging from 6.6% to 6.8% per annum at 31 December 2000 with maturities through 2006	191	231	183
Dutch Guilders denominated	Fixed rate at 7.9% per annum at 31 December 2000 with maturity in 2004	41	57	41
Kuwaiti Dinar denominated	Fixed rate at 3.5% per annum at 31 December 1999 with maturity in 2001; repaid in 2000	—	51	—
Hong Kong Dollar denominated	Floating rate at Hong Kong Prime Rate per annum plus 0.25% with maturities through 2006	19	—	—
		<b>36,232</b>	<b>39,108</b>	<b>22,269</b>
<b>Long-term other loans</b>				
Renminbi denominated	Interest rates ranging from interest free to 12.0% per annum at 31 December 2000 with maturities through 2010	554	3,446	539
Japanese Yen denominated	Floating rate at Japanese Prime Rate plus 0.15% per annum with maturities through 2007; repaid in 2000	—	5,933	—
US Dollar denominated	Interest rates ranging from 7.7% to 9.9% per annum at 31 December 2000 with maturities through 2004	133	494	11
		<b>687</b>	<b>9,873</b>	<b>550</b>
<b>Convertible bonds</b>	Fixed rates ranging from 2.5% to 3.0% per annum and redeemable in December 2003 through July 2004 (a)	2,770	2,770	—
<b>Debentures</b>	Fixed rate at 11.0% per annum with maturities in April 2000 (b)	—	683	—
<b>Total third parties' long-term debts</b>		<b>39,689</b>	<b>52,434</b>	<b>22,819</b>
Less: Current portion		(7,816)	(12,559)	(4,751)
		<b>31,873</b>	<b>39,875</b>	<b>18,068</b>
<b>Long-term loans from Sinopec Group Company and fellow subsidiaries</b>				
Renminbi denominated	Interest free with maturity in 2020	35,561	—	35,561
Renminbi denominated	Interest rates ranging from 5.9% to 11.7% per annum at 31 December 2000 with maturities through 2012	1,068	2,547	1,062
Japanese Yen denominated	Interest rates ranging from 5.5% to 6.6% per annum at 31 December 1999 with maturities through 2005; repaid in 2000	—	578	—
US Dollar denominated	Interest rates ranging from interest free to 7.0% per annum at 31 December 2000 with maturities through 2005	366	1,477	39
		<b>36,995</b>	<b>4,602</b>	<b>36,662</b>
Less: Current portion		(194)	(2,439)	(194)
		<b>36,801</b>	<b>2,163</b>	<b>36,468</b>
		<b>68,674</b>	<b>42,038</b>	<b>54,536</b>

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

(a) Convertible bonds amounting to RMB 1,270 million were issued by a subsidiary on 19 December 1996. The bonds are convertible into ordinary shares of the subsidiary at a price of HK\$ 2.80 per share, at the option of the holders, during the period from 19 January 1997 to 19 December 2003. The HK\$ 2.80 per share conversion price was greater than the market value of the ordinary shares of the subsidiary on the date that the convertible bonds were issued.

RMB 1,500 million of convertible bonds were issued by another subsidiary on 28 July 1999. The bonds are convertible upon an initial public offering ("IPO") into ordinary shares of the subsidiary at the IPO price of the ordinary shares and at the option of the holders, during the period from 28 July 2000 to 27 July 2004.

(b) The debentures were issued jointly by certain subsidiaries and were guaranteed by Sinopec Group Company.

At 31 December 2000, the Group and the Company had secured third parties' loans amounted to RMB 2,457 million (1999: RMB 4,597 million) and RMB 1,637 million, respectively. The net book value of property, plant and equipment pledged as security amounted to RMB 3,348 million (1999: RMB 4,759 million) and RMB 1,674 million for the Group and the Company, respectively.

The aggregate maturities of long-term debts and loans from Sinopec Group Company and fellow subsidiaries are as follows :

	2000 RMB millions	The Group 1999 RMB millions	The Company 2000 RMB millions
Within one year	8,010	14,998	4,945
Between one to two years	9,597	7,012	6,016
Between two to five years	14,992	22,048	7,367
After five years	44,085	12,978	41,153
	<b>76,684</b>	<b>57,036</b>	<b>59,481</b>

**27. TRADE ACCOUNTS PAYABLE**

	2000 RMB millions	The Group 1999 RMB millions	The Company 2000 RMB millions
Third parties	13,311	7,939	7,462
Subsidiaries	—	—	10,565
Sinopec Group Company and fellow subsidiaries	6,074	2,274	1,224
Associates and jointly controlled entities	18	72	18
	<b>19,403</b>	<b>10,285</b>	<b>19,269</b>

Amounts due to Sinopec Group Company and fellow subsidiaries are repayable in accordance with normal commercial terms.

The ageing analysis of trade accounts payable is as follows:

	2000 RMB millions	The Group 1999 RMB millions	The Company 2000 RMB millions
Due within 1 month or on demand	18,879	9,976	19,034
Due after 1 month but within 6 months	524	309	235
	<b>19,403</b>	<b>10,285</b>	<b>19,269</b>

## NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 December 2000

### 28. ACCRUED EXPENSES AND OTHER PAYABLES

	2000 RMB millions	The Group 1999 RMB millions	The Company 2000 RMB millions
Amounts due to Sinopec Group Company and fellow subsidiaries	13,256	9,017	8,833
Amounts due to subsidiaries	—	—	3,435
Accrued expenditure	8,128	5,881	5,544
Taxes other than income tax	3,619	4,111	1,985
Receipts in advance	2,456	3,937	1,409
Advances from third parties	1,752	2,160	1,486
Others	2,486	3,397	1,359
	<b>31,697</b>	<b>28,503</b>	<b>24,051</b>

### 29. SHARE CAPITAL

	The Group and the Company 2000 RMB millions	1999 RMB millions
<b>Issued and fully paid</b>		
67,121,951,000 domestic state-owned ordinary shares of RMB 1.00 each	67,122	—
16,780,488,000 H shares of RMB 1.00 each	16,780	—
	<b>83,902</b>	—

The Company was established on 25 February 2000 with a registered capital of 68.8 billion domestic state-owned ordinary shares with a par value of RMB 1.00 each. Such shares were issued to Sinopec Group Company in consideration for the assets and liabilities related to the Predecessor Operations transferred by the Sinopec Group Company (Note 1).

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

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

All the domestic state-owned ordinary shares and H shares rank pari passu in all material respects.