

NOTES ON THE FINANCIAL STATEMENTS

for the year ended 31 December 2001

1. PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION

Principal activities

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

Organisation

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

As part of the Reorganisation, certain of Sinopec Group Company's core oil and gas and chemical operations and businesses together with the related assets and liabilities that were to be transferred to the Company were segregated such that the operations and businesses were separately managed beginning 31 December 1999. On 25 February 2000, in consideration for Sinopec Group Company transferring such oil and gas and chemical operations and businesses and the related assets and liabilities to the Company, the Company issued 68.8 billion domestic state-owned ordinary shares with a par value of RMB 1.00 each to Sinopec Group Company. The shares issued to Sinopec Group Company on 25 February 2000 represented the entire registered and issued share capital of the Company at that date. The oil and gas and chemical operations and businesses transferred to the Company related to (i) the exploration, development and production of crude oil and natural gas, (ii) the refining, transportation, storage and marketing of crude oil and petroleum products, and (iii) the production and sale of chemicals (collectively the "Predecessor Operations"). Sinopec Group Company retained certain refining and production enterprises and facilities that were not considered strategically competitive with the Company's oil and gas and chemical operations. In addition, Sinopec Group Company retained units providing certain social services, government functions and other ancillary and supporting services.

Basis of presentation

The Group financial statements for the year ended 31 December 2000 present the results of the Company and its subsidiaries as if the Group had been in existence throughout the year and as if the Predecessor Operations were transferred to the Company from Sinopec Group Company at 1 January 2000. Pursuant to the resolution passed at the Extraordinary General Meeting held on 24 August 2001, the Company acquired the entire equity interest of Sinopec National Star Petroleum Company ("Sinopec National Star") from Sinopec Group Company for a consideration of RMB 6.45 billion (hereinafter referred to as the "Acquisition").

As the Group and Sinopec National Star are under the common control of Sinopec Group Company, the Acquisition is considered a "combination of entities under common control" which is accounted in a manner similar to a pooling-of-interests ("as-if pooling-of-interests accounting"). Accordingly, the assets and liabilities of Sinopec National Star acquired have been accounted for at historical cost and the financial statements of the Group and the Company for periods prior to the combination have been restated to include the accounts and results of operations of Sinopec National Star on a combined basis. The consideration paid by the Group has been treated as an equity transaction.

The results of operations and the accounts previously reported by the separate enterprises and the combined amounts as at and for the year ended 31 December 2000 presented in the accompanying consolidated financial statements are summarised below.

	The Group without Sinopec National Star RMB millions	Sinopec National Star RMB millions	Combined RMB millions
Results of operation:			
Operating revenue	328,901	2,675	331,576
Net income	19,004	580	19,584
Basic earnings per share (RMB)	0.26	0.01	0.27
Financial condition:			
Current assets	134,208	1,965	136,173
Total assets	347,409	7,333	354,742
Current liabilities	123,673	1,480	125,153
Total liabilities	194,556	3,822	198,378
Net assets	129,871	3,283	133,154

These financial statements have been prepared in accordance with International Accounting Standards ("IAS") adopted by the International Accounting Standards Board ("IASB"), and interpretations adopted by the International Financial Reporting Interpretations Committee of the IASB, and are prepared on the historical cost basis as modified by the revaluation of certain property, plant and equipment. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The preparation of financial statements in accordance with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2001

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

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

The results of subsidiaries are included in the consolidated income statement from the date that control effectively commences until the date that control effectively ceases, and the share attributable to minority interests is deducted from or added to profit from ordinary activities after taxation. All significant inter-company balances and transactions, and any unrealised gains arising from inter-company transactions, have been eliminated on consolidation.

The particulars of the Group's principal subsidiaries are set out in Note 35.

(b) Translation of foreign currencies

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

Exchange differences, other than those capitalised as construction in progress, are recognised as income or expense in the income statement.

(c) Cash and cash equivalents

Cash equivalents consist of time deposits with financial institutions with an initial term of less than three months.

(d) Trade accounts receivables

Trade accounts receivables are stated at cost less allowance for doubtful accounts. An allowance for doubtful accounts is provided based upon the evaluation of the recoverability of these accounts at the balance sheet date.

(e) Inventories

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

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

(f) Property, plant and equipment

Property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Subsequent to the revaluation (Note 17), which was based on depreciated replacement costs, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluations are performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Expenditure incurred after the asset has been put into operation is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is charged to the income statement in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of property, plant and equipment, other than oil and gas properties, are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the income statement on the date of retirement or disposal. On disposal of a revalued asset, the related revaluation surplus is transferred from the revaluation reserve to retained earnings.

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

Buildings	15 to 45 years
Plant, machinery, equipment and others	4 to 18 years
Oil depots, storage tanks and service station equipment	8 to 14 years

Land and buildings use rights are amortised on a straight-line basis over the respective periods of the rights.

(g) Oil and gas properties

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Oil and gas properties (Continued)

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

Future dismantlement, restoration and abandonment costs are estimated taking into account the anticipated method of dismantlement and restoration, and are provided using the unit-of-production method.

(h) Construction in progress

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

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

No depreciation is provided in respect of construction in progress.

(i) Investments in subsidiaries

In the Company's stand-alone balance sheet, investments in subsidiaries are accounted for using the equity method.

(j) Investments

Investments in unlisted equity securities are stated at cost less provision for impairment losses. A provision is made where, in the opinion of management, there is an impairment in the value of an investment.

(k) Investments in associates and jointly controlled entities

An associate is a company, not being a subsidiary, in which the Group exercises significant influence in its management. A jointly controlled entity is an entity over which the Group can exercise joint control with other venturers. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies. Joint control is the contractually agreed sharing of control over an economic activity.

Investments in associates and jointly controlled entities are accounted for using the equity method in the Company's and the Group's financial statements, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

(l) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(m) Revenue recognition

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

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

(n) Borrowing costs

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

(o) Repairs and maintenance expenditure

Repairs and maintenance expenditure, including cost of major overhaul, is expensed as incurred.

(p) Environmental expenditures

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

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

(q) Research and development costs

Research and development costs are recognised as expenses in the period in which they are incurred.

(r) Operating leases

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

(s) Retirement benefits

The contributions payable under the Group's retirement plans are charged to the income statement according to the contribution determined by the plans. Further information is set out in Note 33.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2001

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(t) Impairment loss

The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value. The amount of the reduction is recognised as an expense in the income statement unless the asset is carried at revalued amount for which an impairment loss is recognised directly against any related revaluation reserve to the extent that the impairment loss does not exceed the amount held in the revaluation reserve for that same asset.

The Group assesses at each balance sheet date whether there is any indication that an impairment loss recognised for an asset in prior years may no longer exist. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down or write-off cease to exist, is recognised as income unless the asset is carried at revalued amount. Reversal of an impairment loss on a revalued asset is credited to the revaluation reserve except for impairment loss which was previously recognised as an expense in the income statement; a reversal of such impairment loss is recognised as income. The reversal is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

(u) Income tax

Income tax comprises current and deferred tax. Current tax is calculated on taxable income by applying the applicable tax rates.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated on the basis of the enacted tax rates that are expected to apply in the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged or credited to the income statement.

The tax value of losses expected to be available for utilisation against future taxable income is set off against the deferred tax liability within the same legal tax unit and jurisdiction to the extent appropriate, and is not available for set-off against the taxable profit of another legal tax unit. Net deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(v) Dividends

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

(w) Segmental reporting

A business segment is a distinguishable component of the Group that is engaged in providing products or services and is subject to risks and rewards that are different from those of other segments.

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	
	2001 RMB millions	2000 RMB millions
Sale of ancillary materials	12,303	4,930
Income from rendering of services	638	596
Rental income	176	216
Others	1,007	494
	14,124	6,236

5. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

	The Group	
	2001 RMB millions	2000 RMB millions
Research and development costs	1,290	1,742
Operating lease charges	2,832	2,900
Auditors' remuneration	89	59

6. PERSONNEL EXPENSES

	The Group	
	2001 RMB millions	2000 RMB millions
Wages and salaries	9,402	9,697
Staff welfare	1,311	1,317
Contributions to retirement schemes	1,358	1,387
Social security contributions	818	863
	12,889	13,264

7. EMPLOYEE REDUCTION EXPENSES

In accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 2,546 million during the year ended 31 December 2001 in respect of the voluntary termination and the transfer to Sinopec Group Company totalling approximately 68,000 employees. The RMB 2,546 million expense included approximately RMB 1,245 million paid to employees that accepted offers to transfer to Sinopec Group Company. As at 31 December 2001, all payments to these employees have been made by the Group. For employees that were transferred to Sinopec Group Company, the employees were entitled to receive termination benefits from Sinopec Group Company to the extent that their employment was subsequently terminated.

8. TAXES OTHER THAN INCOME TAX

	The Group	
	2001 RMB millions	2000 RMB millions
Consumption tax	9,025	9,260
City construction tax	1,615	1,673
Education surcharge	707	713
Resources tax	406	382
Business tax	110	108
Others	24	84
	11,887	12,220

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.

9. OTHER OPERATING EXPENSES, NET

	The Group	
	2001 RMB millions	2000 RMB millions
Fines, penalties and compensations	80	28
Donations	62	123
Loss on disposal of property, plant and equipment	67	928
Impairment losses on long-lived assets	—	187
Reversal of impairment losses on long-lived assets, net of depreciation effect	—	(936)
Others	(16)	388
	193	718

Asset impairment

There were no impairment losses and reversal of impairment losses recognised on long-lived assets for the year ended 31 December 2001.

The factors resulting in the exploration and production ("E&P") segment impairment losses of RMB 92 million for the year ended 31 December 2000, 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, 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, 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.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2001

10. INTEREST EXPENSE

	The Group	
	2001 RMB millions	2000 RMB millions
Interest expense incurred	5,692	7,265
Less: Interest expense capitalised*	(986)	(602)
Interest expense	4,706	6,663
* Interest rates per annum at which borrowing costs were capitalised for construction in progress	3.4% to 8.0%	4.5% to 9.7%

11. TAXATION

Taxation in the consolidated income statement represents:

	The Group	
	2001 RMB millions	2000 RMB millions
Provision for PRC income tax		
- the Group	6,414	8,994
- associates and jointly controlled entities	23	21
Deferred taxation (Note 25)	1,592	623
	8,029	9,638

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

	The Group	
	2001 RMB millions	2000 RMB millions
Profit from ordinary activities before taxation	24,667	31,036
Expected PRC income tax expense at a statutory tax rate of 33%	8,140	10,242
Non-deductible expenses	370	648
Non-taxable income	(261)	(383)
Differential tax rate on subsidiaries' income (Note i)	(390)	(924)
Tax losses not recognised for deferred tax	142	87
Others	28	(32)
	8,029	9,638

Note:

- (i) 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 2000 and 2001, 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:

	2001 RMB'000	2000 RMB'000
Fees	64	—
Salaries and other emoluments	1,267	1,223
Retirement scheme contributions	104	77
	1,435	1,300

Included in the directors' and supervisors' emoluments were fees of RMB 64,000 (2000: Nil) paid to the independent non-executive directors and an independent supervisor during the year.

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

	2001 Number	2000 Number
Nil to HK\$ 1,000,000	20	18

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:

	2001 RMB'000	2000 RMB'000
Salaries and other emoluments	1,362	1,576
Retirement scheme contributions	51	35
	1,413	1,611

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

	2001 Number	2000 Number
Nil to HK\$ 1,000,000	5	5

14. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of RMB 16,025 million (2000: RMB 19,584 million) which has been dealt with in the financial statements of the Company.

15. DIVIDENDS

Dividends attributable to the year

	2001 RMB millions	2000 RMB millions
Final dividends proposed after the balance sheet date of RMB 0.08 per share (2000: RMB 0.08 per share)	6,936	6,712
Dividends declared and paid during the year	—	579
	6,936	7,291

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 28 March 2002, a final dividend of RMB 0.08 (2000: RMB 0.08) per share totalling RMB 6,936 million (2000: RMB 6,712 million) was proposed for shareholders' approval at the Annual General Meeting. The dividend has not been provided for in the financial statements for the year ended 31 December 2001.

Dividends attributable to the previous financial year, approved and paid during the year

	2001 RMB millions	2000 RMB millions
Final dividends in respect of the previous financial year, approved and paid during the year, of RMB 0.08 per share (2000: RMB Nil per share)	6,712	—
Dividends declared and paid during the year	—	579
	6,712	579

16. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of RMB 16,025 million (2000: RMB 19,584 million) and the weighted average number of shares of 85,168,192,425 (2000: 71,936,025,585) in issue during the year. The weighted average number of shares for the year ended 31 December 2001 reflects the issuance of 2,800,000,000 shares in July 2001 in connection with the Company's public offering of domestically listed ordinary shares in Shanghai Stock Exchange (Note 29). The weighted average number of shares for the year ended 31 December 2000 reflects the issuance of 15,102,439,000 shares in October 2000 in connection with the Company's initial public offering (Note 29).

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for both years.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2001

17 PROPERTY, PLANT AND EQUIPMENT

The Group - by segment:

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Corporate and Others RMB millions	Total RMB millions
Cost/valuation:						
Balance at 1 January 2001	122,979	87,272	28,077	104,589	1,348	344,265
Additions	259	1,804	7,183	933	270	10,449
Transferred from construction in progress	19,660	4,871	5,791	8,180	66	38,568
Disposals	(544)	(590)	(368)	(1,220)	(27)	(2,749)
Balance at 31 December 2001	142,354	93,357	40,683	112,482	1,657	390,533
Accumulated depreciation:						
Balance at 1 January 2001	60,705	34,854	5,286	49,222	330	150,397
Depreciation charge for the year	8,071	5,863	1,636	6,477	101	22,148
Written back on disposals	(458)	(332)	(134)	(942)	(18)	(1,884)
Balance at 31 December 2001	68,318	40,385	6,788	54,757	413	170,661
Net book value:						
At 31 December 2001	74,036	52,972	33,895	57,725	1,244	219,872
At 31 December 2000	62,274	52,418	22,791	55,367	1,018	193,868

The Company - by segment:

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Corporate and Others RMB millions	Total RMB millions
Cost/valuation:						
Balance at 1 January 2001	39,052	60,039	27,309	29,132	620	156,152
Additions	112	1,314	6,860	464	219	8,969
Transferred from construction in progress	7,913	3,354	5,750	814	19	17,850
Disposals	(329)	(315)	(248)	(101)	(11)	(1,004)
Balance at 31 December 2001	46,748	64,392	39,671	30,309	847	181,967
Accumulated depreciation:						
Balance at 1 January 2001	20,289	26,116	5,148	13,526	190	65,269
Depreciation charge for the year	2,687	4,068	1,593	1,869	49	10,266
Written back on disposals	(288)	(183)	(93)	(34)	(10)	(608)
Balance at 31 December 2001	22,688	30,001	6,648	15,361	229	74,927
Net book value:						
At 31 December 2001	24,060	34,391	33,023	14,948	618	107,040
At 31 December 2000	18,763	33,923	22,161	15,606	430	90,883

The Group - by asset class:

	Land and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
Cost/valuation:					
Balance at 1 January 2001	35,935	109,393	24,248	174,689	344,265
Additions	1,176	84	5,119	4,070	10,449
Transferred from construction in progress	1,562	16,494	5,358	15,154	38,568
Reclassification	(2,516)	(726)	(1,227)	4,469	—
Disposals	(353)	(126)	(177)	(2,093)	(2,749)
Balance at 31 December 2001	35,804	125,119	33,321	196,289	390,533
Accumulated depreciation:					
Balance at 1 January 2001	13,149	57,183	4,822	75,243	150,397
Depreciation charge for the year	1,747	6,108	1,373	12,920	22,148
Reclassification	(1,451)	(525)	(247)	2,223	—
Written back on disposals	(219)	(90)	(46)	(1,529)	(1,884)
Balance at 31 December 2001	13,226	62,676	5,902	88,857	170,661
Net book value:					
At 31 December 2001	22,578	62,443	27,419	107,432	219,872
At 31 December 2000	22,786	52,210	19,426	99,446	193,868

17 PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company - by asset class:

	Land and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
Cost/valuation:					
Balance at 1 January 2001	16,156	33,002	23,488	83,506	156,152
Additions	836	18	4,901	3,214	8,969
Transferred from construction in progress	1,136	7,042	5,329	4,343	17,850
Reclassification	(627)	(67)	(1,144)	1,838	—
Disposals	(280)	(126)	(177)	(421)	(1,004)
Balance at 31 December 2001	17,221	39,869	32,397	92,480	181,967
Accumulated depreciation:					
Balance at 1 January 2001	5,279	19,006	4,768	36,216	65,269
Depreciation charge for the year	815	2,064	1,326	6,061	10,266
Reclassification	(248)	(61)	(220)	529	—
Written back on disposals	(195)	(90)	(46)	(277)	(608)
Balance at 31 December 2001	5,651	20,919	5,828	42,529	74,927
Net book value:					
At 31 December 2001	11,570	18,950	26,569	49,951	107,040
At 31 December 2000	10,877	13,996	18,720	47,290	90,883

As required by the relevant PRC regulations with respect to the Reorganisation, the property, plant and equipment of the Group at 30 September 1999 were valued for each asset class by China United Assets Appraisal Corporation, Beijing Zhong Zheng Appraisal Company, CIECC Assets Appraisal Corporation and Zhong Fa International Properties Valuation Corporation (collectively, the "PRC valuers"), independent valuers registered in the PRC, on a depreciated replacement cost basis. The value of property, plant and equipment has been determined at RMB 159,788 million. The surplus on revaluation of RMB 32,320 million, net of amounts allocated to minority interests, has been incorporated in the accounts of the Group at 31 December 1999. In connection with the Acquisition, the property, plant and equipment of Sinopec National Star were revalued at 31 December 2000, by a firm of independent valuers and approved by the Ministry of Finance. The value of property, plant and equipment of Sinopec National Star pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB 4,373 million, resulting in a surplus on revaluation of RMB 1,136 million, net of amounts allocated to minority interests.

18. CONSTRUCTION IN PROGRESS

The Group:

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Corporate and others RMB millions	Total RMB millions
Balance at 1 January 2001	2,806	4,319	4,440	4,586	487	16,638
Additions	21,787	7,188	10,073	11,014	88	50,150
Dry hole costs written off	(1,770)	—	—	—	—	(1,770)
Transferred to fixed assets	(19,660)	(4,871)	(5,791)	(8,180)	(66)	(38,568)
Balance at 31 December 2001	3,163	6,636	8,722	7,420	509	26,450

The Company:

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Corporate and others RMB millions	Total RMB millions
Balance at 1 January 2001	1,511	3,097	4,319	629	467	10,023
Additions	9,267	5,436	9,907	922	20	25,552
Dry hole costs written off	(972)	—	—	—	—	(972)
Transferred to fixed assets	(7,913)	(3,354)	(5,750)	(814)	(19)	(17,850)
Balance at 31 December 2001	1,893	5,179	8,476	737	468	16,753

19. INTERESTS IN SUBSIDIARIES

	The Company 2001 RMB millions	2000 RMB millions
Share of net assets	89,608	78,400

Details of the Company's principal subsidiaries at 31 December 2001 are set out in Note 35.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2001

20. INVESTMENTS

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Unlisted investments, at cost	3,463	2,975	611	798
Less: Provision for impairment losses	(181)	(210)	(149)	(140)
	3,282	2,765	462	658

Provision for impairment losses is analysed as follows:

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
At 1 January	210	172	140	—
Transferred from Sinopec Group Company	—	—	—	69
Provision for the year	18	73	9	71
Written back for the year on disposal	(42)	—	—	—
Written-off	(5)	(35)	—	—
At 31 December	181	210	149	140

Unlisted investments represent the Group's interests in PRC domiciled enterprises which are mainly engaged in non oil and gas activities and operations. The Group has no investments in marketable securities.

21. INTERESTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Share of net assets	5,172	2,418	4,155	2,029
Loans to associates and jointly controlled entities	—	117	—	117
	5,172	2,535	4,155	2,146

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

Name of company	Form of business structure	Particulars of issued and paid up capital	Percentage of equity held by the		Principal activities
			Company %	Subsidiary %	
Shengli Oil Field Dynamic Company Limited ("Dynamic")*	Incorporated	303,356,340 ordinary shares of RMB 1.00 each	26.33	—	Exploration of crude oil and distribution of petrochemical products
Sinopec Shandong Taishan Petroleum Company Limited ("Taishan")*	Incorporated	480,793,320 ordinary shares of RMB 1.00 each	38.68	—	Trading of petroleum products and decoration of service gas stations
Sinopec Finance Company Limited	Incorporated	Registered capital RMB 2,500,000,000	32.00	8.22	Provision of non-banking financial services within the Group
Shanghai Petroleum National Gas Corporation	Incorporated	Registered capital RMB 900,000,000	30.00	—	Exploration and production of crude oil and natural gas
BASF-YPC Company Limited	Incorporated	Registered capital RMB 8,793,000,000	30.00	10.00	Manufacturing and distribution of chemical products
Shanghai Secco Petrochemical Company Limited	Incorporated	Registered capital USD 901,440,964	30.00	20.00	Manufacturing and distribution of chemical products

* Shares of Dynamic and Taishan are listed on the Shenzhen Stock Exchange. Shares held by the Company are domestic state-owned A shares which are not admitted for trading in any stock exchange in the PRC. The aggregate value of the Group's and the Company's investments in Dynamic and Taishan based on the quoted market price are RMB 1,074 million and RMB 1,465 million respectively at 31 December 2001.

22. TRADE ACCOUNTS AND BILLS RECEIVABLES

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Third parties	10,049	12,441	6,237	7,580
Subsidiaries	—	—	2,910	5,142
Sinopec Group Company and fellow subsidiaries	3,503	3,436	2,080	1,788
Associates and jointly controlled entities	10	119	8	105
	13,562	15,996	11,235	14,615
Less: Allowance for doubtful accounts	(2,480)	(2,924)	(1,774)	(2,171)
	11,082	13,072	9,461	12,444
Bills receivable	3,542	2,719	1,464	1,307
	14,624	15,791	10,925	13,751

The ageing analysis of trade accounts and bills receivables (net of allowance for doubtful accounts) is as follows:

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Within one year	12,766	14,478	9,906	13,106
Between one and two years	708	696	525	406
Over two years	1,150	617	494	239
	14,624	15,791	10,925	13,751

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

23. INVENTORIES

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Crude oil and other raw materials	17,749	18,923	9,954	10,800
Work in progress	5,050	5,828	3,556	3,618
Finished goods	20,442	23,534	12,925	17,501
Spare parts and consumables	3,555	3,077	1,184	1,281
	46,796	51,362	27,619	33,200
Less: Allowance for diminution in value of inventories	(602)	(849)	(292)	(568)
	46,194	50,513	27,327	32,632

The allowance for diminution in value of inventories is analysed as follows:

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
At 1 January	849	736	568	—
Transferred from Sinopec Group Company	—	—	—	568
Provision for the year	106	370	19	—
Written back for the year on disposal	(161)	(188)	(114)	33
Written-off	(192)	(69)	(181)	(33)
At 31 December	602	849	292	568

At 31 December 2001, the carrying amount of the Group's and the Company's inventories carried at net realisable value amounted to RMB 1,924 million (2000: RMB 1,931 million) and RMB 1,120 million (2000: RMB 626 million), respectively.

The cost of inventories recognised as an expense in the consolidated income statement amounted to RMB 249,700 million for the year ended 31 December 2001 (2000: RMB 252,873 million).

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2001

24. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Advances to third parties	6,618	6,502	5,328	4,986
Amounts due from Sinopec Group Company and fellow subsidiaries	9,421	10,563	7,400	8,561
Amounts due from subsidiaries	—	—	8,802	1,695
Other receivables	3,390	3,430	2,309	2,255
Purchase deposits	2,426	2,305	1,495	1,491
Prepayments in connection with construction work and equipment purchases	1,543	3,036	1,072	2,557
Prepaid value-added tax and customs duty	2,284	2,232	1,651	1,667
Interest receivable	16	70	—	45
Amounts due from associates and jointly controlled entities	373	204	373	204
Prepaid rental	52	46	23	21
	26,123	28,388	28,453	23,482

25. DEFERRED TAX ASSETS AND LIABILITIES

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

The Group

	Assets		Liabilities		Net balance	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
<i>Current</i>						
Provisions, primarily for receivables and inventories	432	1,023	—	—	432	1,023
<i>Non-current</i>						
Property, plant and equipment	35	42	(788)	(388)	(753)	(346)
Accelerated depreciation	—	—	(2,185)	(1,329)	(2,185)	(1,329)
Tax value of losses carried forward, net of valuation allowance	173	18	—	—	173	18
Other assets	33	47	—	(10)	33	37
Others	96	25	(8)	(48)	88	(23)
Deferred tax assets/(liabilities)	769	1,155	(2,981)	(1,775)	(2,212)	(620)

The Company

	Assets		Liabilities		Net balance	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
<i>Current</i>						
Provisions, primarily for receivables and inventories	281	711	—	—	281	711
<i>Non-current</i>						
Property, plant and equipment	3	15	(119)	—	(116)	15
Accelerated depreciation	—	—	(554)	(416)	(554)	(416)
Others	53	8	—	—	53	8
Deferred tax assets/(liabilities)	337	734	(673)	(416)	(336)	318

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 142 million was provided for the year ended 31 December 2001 (2000: RMB 87 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 2001 and 2000 is more likely than not to be realised.

25. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

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

The Group

	Balance at 1 January 2000 RMB millions	Recognised in income statement RMB millions	Recognised in other reserves RMB millions	Balance at 31 December 2000 RMB millions
<i>Current</i>				
Provisions, primarily for receivables and inventories	173	911	(61)	1,023
<i>Non-current</i>				
Property, plant and equipment	(297)	(340)	291	(346)
Accelerated depreciation	104	(1,282)	(151)	(1,329)
Tax value of losses carried forward, net of valuation allowance	67	70	(119)	18
Other assets	3	36	(2)	37
Others	(13)	(18)	8	(23)
Net deferred tax assets/(liabilities)	37	(623)	(34)	(620)

As a result of the 31 December 2000 revaluation of the assets and liabilities of Sinopec National Star in connection with the Acquisition, the tax base of Sinopec National Star's assets and liabilities have been adjusted to the related financial statement carrying amounts. Accordingly, temporary differences that gave rise to net deferred tax assets in the amount of RMB 34 million were eliminated. The reduction in net deferred tax assets at 31 December 2000 was reflected as a decrease in other reserves.

The Group

	Balance at 1 January 2001 RMB millions	Recognised in income statement RMB millions	Balance at 31 December 2001 RMB millions
<i>Current</i>			
Provisions, primarily for receivables and inventories	1,023	(591)	432
<i>Non-current</i>			
Property, plant and equipment	(346)	(407)	(753)
Accelerated depreciation	(1,329)	(856)	(2,185)
Tax value of losses carried forward, net of valuation allowance	18	155	173
Other assets	37	(4)	33
Others	(23)	111	88
Net deferred tax liabilities	(620)	(1,592)	(2,212)

The Company

	Balance at 1 January 2000 RMB millions	Recognised in income statement 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
Net deferred tax assets	—	318	318

The Company

	Balance at 1 January 2001 RMB millions	Recognised in income statement RMB millions	Balance at 31 December 2001 RMB millions
<i>Current</i>			
Provisions, primarily for receivables and inventories	711	(430)	281
<i>Non-current</i>			
Property, plant and equipment	15	(131)	(116)
Accelerated depreciation	(416)	(138)	(554)
Others	8	45	53
Net deferred tax assets/(liabilities)	318	(654)	(336)

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2001

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

Short-term debts represent:

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Third parties' debts				
Short-term bank loans	34,424	42,637	23,460	28,099
Short-term other loans	43	289	24	289
	34,467	42,926	23,484	28,388
Current portion of long-term bank loans	10,140	7,569	6,465	4,541
Current portion of long-term other loans	742	401	70	364
	10,882	7,970	6,535	4,905
	45,349	50,896	30,019	33,293
Loans from Sinopec Group Company and fellow subsidiaries				
Short-term loans	3,448	8,017	2,622	7,719
Current portion of long-term loans	414	197	414	197
	3,862	8,214	3,036	7,916
	49,211	59,110	33,055	41,209

The Group's and the Company's weighted average interest rate on short-term loans were 5.1% at 31 December 2001 (2000: 5.8%).

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	The Group		The Company		
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions	
Third parties' debts					
Long-term bank loans					
Renminbi denominated	Interest rates ranging from interest free to 11.2% per annum at 31 December 2001 with maturities through 2013	32,231	28,629	21,473	19,358
Japanese Yen denominated	Interest rates ranging from 0.3% to 7.3% per annum at 31 December 2001 with maturities through 2024	2,401	3,066	2,272	2,857
US Dollar denominated	Interest rates ranging from interest free to 7.9% per annum at 31 December 2001 with maturities through 2031	4,300	6,746	1,884	2,290
Deutsche Marks denominated	Fixed rates ranging from 6.6% to 6.8% per annum at 31 December 2001 with maturities through 2006	151	191	144	183
Dutch Guilders denominated	Fixed rate at 7.9% per annum at 31 December 2001 with maturity in 2004	28	41	28	41
Hong Kong Dollar denominated	Floating rate at Hong Kong Prime Rate per annum plus 0.25% with maturities through 2006	14	19	—	—
		39,125	38,692	25,801	24,729
Long-term other loans					
Renminbi denominated	Interest rates ranging from interest free to 7.5% per annum at 31 December 2001 with maturities through 2015	596	554	123	539
US Dollar denominated	Interest rates ranging from 1.8% to 4.6% per annum at 31 December 2001 with maturities through 2015	522	133	34	11
French Francs denominated	Interest rates ranging from 1.8% to 8.1% per annum at 31 December 2001 with maturities through 2025	15	18	15	18
		1,133	705	172	568
Convertible bonds	Fixed rate at 2.5% per annum and redeemable in July 2004 (a)	1,500	2,770	—	—
Total third parties' long-term debts		41,758	42,167	25,973	25,297
Less: Current portion		(10,882)	(7,970)	(6,535)	(4,905)
		30,876	34,197	19,438	20,392
Long-term loans from Sinopec Group Company and fellow subsidiaries					
Renminbi denominated	Interest free with maturity in 2020	35,561	35,561	35,561	35,561
Renminbi denominated	Interest rates ranging from 5.9% to 6.0% per annum at 31 December 2001 with maturities through 2006	796	1,077	790	1,071
US Dollar denominated	Interest rates ranging from 3.4% to 4.4% per annum at 31 December 2001 with maturities through 2006	182	366	180	39
		36,539	37,004	36,531	36,671
Less: Current portion		(414)	(197)	(414)	(197)
		36,125	36,807	36,117	36,474
		67,001	71,004	55,555	56,866

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2001

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

(a) Convertible bonds amounting to RMB 1,500 million were issued by a 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. Convertible bonds amounting to RMB 1,270 million were repaid during the year.

Third parties' loans of RMB 171 million of the Group at 31 December 2001 (2000: RMB 2,457 million) were secured by certain of the Group's property, plant and equipment. The net book value of property, plant and equipment of the Group pledged as security amounted to RMB 233 million at 31 December 2001 (2000: RMB 3,348 million).

Third parties' loans of RMB 76 million of the Company at 31 December 2001 (2000: RMB1,637 million) were secured by certain of the Company's property, plant and equipment. The net book value of property, plant and equipment of the Company pledged as security amounted to RMB 104 million at 31 December 2001 (2000: RMB1,674 million).

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

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Within one year	11,296	8,167	6,949	5,102
Between one to two years	10,383	10,258	6,043	6,677
Between two to five years	14,608	16,114	7,931	8,489
After five years	42,010	44,632	41,581	41,700
	78,297	79,171	62,504	61,968

27. TRADE ACCOUNTS AND BILLS PAYABLES

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Third parties	13,556	13,414	5,513	7,565
Subsidiaries	—	—	5,856	10,565
Sinopec Group Company and fellow subsidiaries	3,233	6,121	1,354	1,271
Associates and jointly controlled entities	4	19	4	19
	16,793	19,554	12,727	19,420
Bills payable	26,022	11,203	19,291	6,409
	42,815	30,757	32,018	25,829

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

The ageing analysis of trade accounts and bills payables is as follows:

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Due within 1 month or on demand	24,820	30,140	15,578	25,501
Due after 1 month but within 6 months	17,242	555	15,903	266
Due after 6 months	753	62	537	62
	42,815	30,757	32,018	25,829

28. ACCRUED EXPENSES AND OTHER PAYABLES

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Amounts due to Sinopec Group Company and fellow subsidiaries	10,220	13,574	6,757	9,151
Amounts due to subsidiaries	—	—	9,700	3,435
Accrued expenditure	8,477	8,179	4,331	5,595
Taxes other than income tax	3,062	3,675	1,659	2,041
Receipts in advance	2,884	2,481	1,596	1,434
Advances from third parties	2,005	1,827	1,442	1,561
Others	3,228	2,829	2,067	1,930
	29,876	32,565	27,552	25,147

29. SHARE CAPITAL

	The Group and the Company	
	2001 RMB millions	2000 RMB millions
Registered, issued and fully paid		
67,121,951,000 domestic state-owned A shares of RMB 1.00 each	67,122	67,122
16,780,488,000 overseas listed H shares of RMB 1.00 each	16,780	16,780
2,800,000,000 domestic listed A shares of RMB 1.00 each	2,800	—
	86,702	83,902

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

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

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

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2001

30. RESERVES

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Revaluation reserve				
At 1 January	33,257	32,320	33,257	—
Revaluation surplus of Sinopec National Star after adjusting for the amount attributable to minority interests (Note 17)	—	1,136	—	1,136
Transferred from Sinopec Group Company	—	—	—	32,320
Revaluation surplus realised	(232)	(199)	(232)	(199)
At 31 December	33,025	33,257	33,025	33,257
Capital reserve				
At 1 January	(14,579)	—	(14,579)	—
Capitalisation as share capital upon legal establishment of the Company (Note (e))	—	(14,579)	—	(14,579)
Transfer from other reserves	(4,299)	—	(4,299)	—
At 31 December	(18,878)	(14,579)	(18,878)	(14,579)
Share premium				
At 1 January	9,224	—	9,224	—
Share premium from issuance of shares	9,016	10,700	9,016	10,700
Issuing expenses	(168)	(1,476)	(168)	(1,476)
At 31 December	18,072	9,224	18,072	9,224
Statutory surplus reserve (Note (a))				
At 1 January	1,615	—	1,615	—
Appropriation of net income	1,402	1,615	1,402	1,615
At 31 December	3,017	1,615	3,017	1,615
Statutory public welfare fund (Note (b))				
At 1 January	1,615	—	1,615	—
Appropriation of net income	1,402	1,615	1,402	1,615
At 31 December	3,017	1,615	3,017	1,615
Other reserves				
At 1 January	2,147	56,079	2,147	—
Transfer from Sinopec Group Company	—	—	—	2,757
Capitalisation as share capital upon legal establishment of the Company (Note (e))	—	(53,322)	—	—
Transfer from retained earnings	—	580	—	580
Elimination of net deferred tax assets (Note 25)	—	(34)	—	(34)
Net assets distributed to Sinopec Group Company (Note (c))	—	(1,156)	—	(1,156)
Consideration for Acquisition of Sinopec National Star (Note 1)	(6,446)	—	(6,446)	—
Transfer to capital reserves	4,299	—	4,299	—
At 31 December	—	2,147	—	2,147
Retained earnings (Note (d))				
At 1 January	15,973	1,478	15,973	—
Dividend paid	(6,712)	(579)	(6,712)	—
Capitalisation as share capital upon legal establishment of the Company (Note (e))	—	(899)	—	—
Net profit for the year	16,025	19,584	16,025	19,584
Transfer to other reserves	—	(580)	—	(580)
Transfer to statutory surplus reserve	(1,402)	(1,615)	(1,402)	(1,615)
Proposed transfer to statutory public welfare fund	(1,402)	(1,615)	(1,402)	(1,615)
Revaluation surplus realised	232	199	232	199
At 31 December	22,714	15,973	22,714	15,973
	60,967	49,252	60,967	49,252

Notes:

(a) According to the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined in accordance with the PRC Accounting Rules and Regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital. During the year ended 31 December 2001, the Company transferred RMB 1,402 million (2000: RMB 1,615 million), being 10% of the current year's net profit determined in accordance with the PRC Accounting Rules and Regulations to this reserve.

(b) According to the Company's Articles of Association, the Company is required to transfer 5% to 10% of its net profit, as determined in accordance with the PRC Accounting Rules and Regulations, to the statutory public welfare fund. This fund can only be utilised on capital items for the collective benefits of the Company's employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders. The directors authorised the transfer of RMB 1,402 million (2000: RMB 1,615 million) subject to shareholders' approval, being 10% of the current year's net profit determined in accordance with the PRC Accounting Rules and Regulations, to this fund.

30. RESERVES (Continued)

- (c) This represents net assets distributed to Sinopec Group Company for no monetary consideration. The net assets distributed to Sinopec Group Company during the year ended 31 December 2000 primarily represent certain assets and liabilities of Sinopec National Star distributed to Sinopec Group Company. The transaction was recorded at historical cost and was reflected as changes in other reserves in the year the transaction occurred.
- (d) According to the Company's Articles of Association, the amount of retained profits available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IAS. At 31 December 2001, the amount of retained profits available for distribution was RMB 16,942 million (2000: RMB12,924 million), being the amount determined in accordance with the PRC Accounting Rules and Regulations. Final dividend of RMB 6,936 million (2000: RMB 6,712 million) in respect of the financial year 2001 has not been provided for.
- (e) The aggregate amount of RMB 68,800 million represents the par value of share capital issued to Sinopec Group Company on incorporation of the Company. The balance of capital reserve represents the excess of par value of shares issued over the net assets at historical cost transferred from Sinopec Group Company.

31. COMMITMENTS AND CONTINGENT LIABILITIES

Operating lease commitments

The Group and the Company leases service stations and other equipment through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments.

At 31 December 2001, the future minimum lease payments under operating leases are as follows:

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Within one year	2,844	2,657	2,590	2,540
Between one to two years	2,736	2,656	2,565	2,540
Between two to three years	2,563	2,539	2,494	2,504
Between three to four years	2,559	2,537	2,492	2,502
Between four to five years	2,550	2,532	2,484	2,497
Thereafter	85,368	86,933	84,250	86,933
	98,620	99,854	96,875	99,516

Capital commitments

At 31 December 2001, the Group and the Company had capital commitments as follows:

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Authorised and contracted for	21,636	15,880	8,436	1,839
Authorised but not contracted for	18,204	39,036	12,437	20,538
	39,840	54,916	20,873	22,377

These capital commitments relate to oil and gas exploration and development, refining and petrochemical production capacity expansion projects, and the construction of service stations and oil depots.

Exploration and production licenses

Exploration licenses for exploration activities are registered with the Ministry of Land and Resources. The maximum term of the Group's exploration licenses is 7 years, and these may be renewed twice within 30 days prior to expiration of the original term with each renewal being for a two-year term. The Group is obligated to make progressive annual minimum exploration investment relating to the exploration blocks in respect of which the license is issued. The Ministry of Land and Resources also issues production licenses to the Group on the basis of the reserve reports approved by relevant authorities. The maximum term of a full production license is 30 years unless a special dispensation is given by the State Council. The maximum term of production licenses issued to the Group is 55 years as a special dispensation was given to the Company by the State Council. The Group's production license is renewable upon application by the Group 30 days prior to expiration.

The Group has to make payments of exploration license fees and production right usage fees to the Ministry of Land and Resources annually which are expensed as incurred. Payments incurred were approximately RMB 29 million for the year ended 31 December 2001 (2000: RMB 19 million).

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2001

31. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Estimated annual payments in the future are as follows:

	The Group RMB millions	The Company RMB millions
2002	43	28
2003	39	26
2004	51	26
2005	62	31
2006	56	24
Thereafter	284	114
Total payments	535	249

Contingent liabilities

(a) The Company has been advised by its PRC lawyers that, except for liabilities constituting or arising out of or relating to the business assumed by the Company in the Reorganisation, no other liabilities were assumed by the Company, and the Company is not jointly and severally liable for other debts and obligations incurred by Sinopec Group Company prior to the Reorganisation.

(b) At 31 December 2001, guarantees given to banks in respect of banking facilities granted to the parties below were as follows:

	The Group RMB millions	The Company RMB millions
Associates and jointly controlled entities	546	—
Third parties	322	—
	868	—

In February 2002, the Company made guarantees of RMB 6,999 million given to banks in respect of banking facilities granted to a jointly controlled entity.

Environmental contingencies

To date, the Group has not incurred any significant expenditures for environmental remediation, is currently not involved in any environmental remediation, and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved, and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include i) the exact nature and extent of the contamination at various sites including, but not limited to refineries, oil fields, service stations, terminals and land development areas, whether operating, closed or sold, ii) the extent of required cleanup efforts, iii) varying costs of alternative remediation strategies, iv) changes in environmental remediation requirements, and v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. The Group paid normal routine pollutant discharge fees of approximately RMB 221 million for the year ended 31 December 2001 (2000: RMB 305 million).

Legal contingencies

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

32. RELATED PARTY TRANSACTIONS

Companies are considered to be related if one company has the ability, directly or indirectly, to control the other company or exercise significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control or common significant influence.

The Group is part of a larger group of companies under Sinopec Group Company and has significant transactions and relationships with members of the Sinopec Group. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties. Sinopec Group Company itself is owned by the PRC government. There are also many other enterprises directly or indirectly owned or controlled by the PRC government ("state-owned enterprises"). Under IAS, state-owned enterprises, other than Sinopec Group Company and fellow subsidiaries, are not considered related parties. Related parties refer to enterprises over which Sinopec Group Company is able to exercise significant influence.

32. RELATED PARTY TRANSACTIONS (Continued)

The majority of the Group's business activities are conducted with state-owned enterprises. Furthermore, the PRC government itself represents a significant customer of the Group both directly through its numerous authorities and indirectly through its numerous affiliates and other organisations. Sales of certain products to PRC government authorities and affiliates and other state-owned enterprises may be at regulated prices, which differ from market prices. The Group considers that these sales are activities in the ordinary course of business in the PRC and has not disclosed such sales as related party transactions.

The principal related party transactions with Sinopec Group Company, which were carried out in the ordinary course of business, are as follows:

	Note	2001 RMB millions	2000 RMB millions
Sales of goods	(i)	37,261	43,167
Purchases	(ii)	19,264	17,479
Transportation and storage	(iii)	1,471	1,700
Exploration and development services	(iv)	10,250	9,050
Production related services	(v)	6,116	6,604
Ancillary and social services	(vi)	2,000	2,610
Operating lease charges	(vii)	2,489	2,377
Agency commission income	(viii)	7	11
Intellectual property licence fee paid	(ix)	10	8
Interest received	(x)	153	60
Interest paid	(xi)	534	578
Net deposits placed with related parties	(xii)	528	4,090
Net loans (repaid to)/obtained from related parties	(xiii)	(5,034)	34,657

The amounts set out in the table above in respect of the years ended 31 December 2001 and 2000 represent the relevant costs to the Group as determined by the corresponding contracts with the related parties.

At 31 December 2001, guarantees given to banks by the Group in respect of banking facilities to Sinopec Group Company and fellow subsidiaries amounted to RMB nil million (2000: RMB 55 million).

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

Notes:

- (i) Sales of goods represent the sale of crude oil, intermediate chemical products and petroleum products.
- (ii) Purchases represent the purchase of material and utility supplies directly related to the Group's operations such as the procurement of raw and ancillary materials and related services, supply of water, electricity and gas.
- (iii) Transportation and storage represent the cost for the use of railway, road and marine transportation services, pipelines, loading, unloading and depots.
- (iv) Exploration and development services comprise direct costs incurred in the exploration of crude oil such as geophysical, drilling, well testing and well measurement services.
- (v) Production related services represent ancillary services rendered in relation to the Group's operations such as equipment repair and general maintenance, insurance premium, technical research, communications, fire fighting, security, product quality testing and analysis, information technology, design and engineering, construction which includes the construction of oilfield ground facilities, refineries and chemical plants, manufacture of replacement parts and machinery, installation, project management and environmental protection.
- (vi) Ancillary and social services represent expenditures for social welfare and support services such as educational facilities, media communication services, sanitation, accommodation, canteens, property maintenance and management services.
- (vii) Operating lease charges represent the rental paid to Sinopec Group Company for operating leases in respect of land and buildings.
- (viii) Agency commission income represents commission earned for acting as an agent in respect of sales of products of certain entities owned by Sinopec Group Company.
- (ix) Intellectual property licence fee represents reimbursement paid to Sinopec Group Company for fees required to maintain the validity of certain licences, for trademarks, patents, technology and computer software.
- (x) Interest received represents interest received from deposits placed with related companies. The applicable interest rate is determined in accordance with the prevailing saving deposit rate. The balance of deposits at 31 December 2001 was RMB 7,129 million (2000: RMB 6,601 million).
- (xi) Interest paid represents interest charges on the loans and advances obtained from Sinopec Group Company and Sinopec Finance Company Limited, a finance company controlled by Sinopec Group Company.
- (xii) Deposits were placed with/withdrawn from Sinopec Finance Company Limited.
- (xiii) The Group obtained/repaid loans and advances from/to Sinopec Group Company and Sinopec Finance Company Limited.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2001

32. RELATED PARTY TRANSACTIONS (Continued)

In connection with the Reorganisation, the Company and Sinopec Group Company entered into a number of agreements under which 1) Sinopec Group Company will provide goods and products and a range of ancillary, social and supporting services to the Group and 2) the Group will sell certain goods to Sinopec Group Company. These agreements impacted the results of operations of the Group for the year ended 31 December 2001. The terms of these agreements are summarised as follows:

- (a) The Company has entered into a three year non-exclusive Agreement for Mutual Provision of Products and Ancillary Services ("Mutual Provision Agreement") with Sinopec Group Company effective from 1 January 2000 in which Sinopec Group Company has agreed to provide the Group with certain ancillary production services, construction services, information advisory services, supply services and other services and products. While each of Sinopec Group Company and the Company is permitted to terminate the Mutual Provision Agreement upon at least six months notice, Sinopec Group Company has agreed not to terminate the agreement if the Group is unable to obtain comparable services from a third party. The pricing policy for these services and products provided by Sinopec Group Company to the Group is as follows:
- the government-prescribed price;
 - where there is no government-prescribed price, the government-guidance price;
 - where there is neither a government-prescribed price nor a government-guidance price, the market price; or
 - where none of the above is applicable, the price to be agreed between the parties, which shall be based on a reasonable cost incurred in providing such services plus a profit margin not exceeding 6%.
- (b) The Company has entered into a three year non-exclusive Agreement for Provision of Cultural and Educational, Health Care and Community Services with Sinopec Group Company effective from 1 January 2000 in which Sinopec Group Company has agreed to provide the Group with certain cultural, educational, health care and community services on the same pricing terms and termination conditions as agreed to in the above Mutual Provision Agreement.
- (c) The Company has entered into lease agreements with Sinopec Group Company effective from 1 January 2000 to lease certain land and buildings for terms the shorter of the period of the existing land use rights and 50 years for land and 20 years for buildings at a rental of approximately RMB 2,007 million and RMB 482 million, respectively, per annum. The Company and Sinopec Group Company can renegotiate the rental amount every three years for land and every year for buildings, such amount not to exceed the market price as determined by an independent third party. The Group has the option to terminate these leases upon six months notice to Sinopec Group Company.
- (d) The Company has entered into agreements with Sinopec Group Company effective from 1 January 2000 under which the Group has been granted the right to use certain trademarks, patents, technology and computer software developed by Sinopec Group Company for a term of ten years. The Group will reimburse Sinopec Group Company for fees required to maintain the validity of these licenses.
- (e) The Company has entered into agency agreements for a period of three years effective from 1 January 2000 with certain entities owned by Sinopec Group Company under which the Group acts as a sole agent in respect of the sale of all the products of these entities. In exchange for the Group's sales agency services, Sinopec Group Company has agreed to pay the Group a commission of between 0.2% and 1.0% of actual sales receipts depending on the products and to reimburse the Group for reasonable costs incurred in the capacity as its sales agent.
- (f) The Company has entered into a service stations franchise agreement with Sinopec Group Company effective from 1 January 2000 for a term of 10 years under which its service stations and retail stores would exclusively sell the refined products supplied by the Group.

33. EMPLOYEE BENEFITS PLAN

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The Group is required to make contributions to the retirement plans at rates ranging from 16.0% to 30.0% of the salaries, bonuses and certain allowances of its staff. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the year ended 31 December 2001 were RMB 1,358 million (2000: RMB 1,387 million).

34. SEGMENTAL REPORTING

The Group has five operating segments as follows:

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

34. SEGMENTAL REPORTING (Continued)

The segments were determined primarily because the Group manages its exploration and production; refining; marketing and distribution; chemicals; and corporate and others businesses separately. The reportable segments are each managed separately because they manufacture and/or distribute distinct products with different production processes and due to their distinct operating and gross margin characteristics. In view of the fact that the Company and its subsidiaries operate mainly in the PRC, no geographical segment information is presented.

The Group evaluates the performance and allocates resources to its operating segments on an operating income basis, without considering the effects of finance costs or investment income. The accounting policies of the Group's segments are the same as those described in the Principal Accounting Policies (see Note 2). Corporate administrative costs and assets are not allocated to the operating segments; instead, operating segments are billed for direct corporate services. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by the Group's policy. Beginning 1 January 2000, sales of the exploration and production segment to the refining segment are based on market prices.

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

	2001 RMB millions	2000 RMB millions
Turnover		
Exploration and production		
External sales	11,095	12,254
Inter-segment sales	43,332	46,213
	54,427	58,467
Refining		
External sales	49,497	67,872
Inter-segment sales	156,782	162,153
	206,279	230,025
Marketing and distribution		
External sales	180,610	174,645
Inter-segment sales	2,460	652
	183,070	175,297
Chemicals		
External sales	48,945	56,224
Inter-segment sales	5,626	3,443
	54,571	59,667
Corporate and others		
External sales	14,200	14,345
Inter-segment sales	8,875	11,527
	23,075	25,872
Elimination of inter-segment sales	(217,075)	(223,988)
Turnover	304,347	325,340
Other operating revenues		
Exploration and production	6,168	1,441
Refining	2,761	3,070
Marketing and distribution	201	326
Chemicals	4,361	1,273
Corporate and others	633	126
Other operating revenues	14,124	6,236
Turnover and other operating revenues	318,471	331,576

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2001

34. SEGMENTAL REPORTING (Continued)

	2001 RMB millions	2000 RMB millions
Result		
Operating profit		
By segment		
— Exploration and production	23,185	25,411
— Refining	2,106	1,394
— Marketing and distribution	2,443	6,358
— Chemicals	(758)	2,437
— Corporate and others	324	(89)
Total operating profit	27,300	35,511
Share of profits less losses from investments accounted for under the equity method		
— Exploration and production	258	229
— Refining	10	33
— Marketing and distribution	71	60
— Chemicals	(23)	(64)
— Corporate and others	4	12
Aggregate share of profits less losses from investments accounted for under the equity method	320	270
Finance costs		
Interest expense	(4,706)	(6,663)
Interest income	1,183	861
Foreign exchange losses	(222)	(85)
Foreign exchange gains	593	951
Net finance costs	(3,152)	(4,936)
Investment income	199	191
Profit from ordinary activities and before taxation	24,667	31,036
Taxation	(8,029)	(9,638)
Profit after ordinary activities after taxation	16,638	21,398
Minority interests	(613)	(1,814)
Profit attributable to shareholders	16,025	19,584

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities. Assets which benefit more than one segment or are considered to be corporate assets are not allocated. "Unallocated assets" consists primarily of cash and cash equivalents, time deposits with financial institutions, investments and deferred tax assets. "Unallocated liabilities" consists primarily of short-term and long-term debts, loans from Sinopec Group Company and fellow subsidiaries, income tax payable, deferred tax liabilities and other liabilities.

Investments in and earnings from associates are included in the segments in which the associates operate. Information on associates is included in Note 21. Additions to long-lived assets by operating segment are included in Notes 17 and 18.

34. SEGMENTAL REPORTING (Continued)

	2001 RMB millions	2000 RMB millions
Assets		
Segment assets		
— Exploration and production	80,063	68,073
— Refining	88,488	88,854
— Marketing and distribution	72,014	61,497
— Chemicals	78,277	76,455
— Corporate and others	13,506	11,937
Total segment assets	332,348	306,816
Investments in associates and jointly controlled entities accounted for under the equity method		
— Exploration and production	1,032	900
— Refining	120	51
— Marketing and distribution	1,168	1,090
— Chemicals	1,691	226
— Corporate and others	1,161	151
Aggregate investments in associates and jointly controlled entities accounted for under the equity method	5,172	2,418
Unallocated assets	29,189	45,508
Total assets	366,709	354,742
Liabilities		
Segment liabilities		
— Exploration and production	13,419	13,134
— Refining	23,985	26,022
— Marketing and distribution	18,700	11,105
— Chemicals	8,831	10,351
— Corporate and others	7,760	3,143
Total segment liabilities	72,695	63,755
Unallocated liabilities	122,804	134,623
Total liabilities	195,499	198,378

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

	2001 RMB millions	2000 RMB millions
Capital expenditure		
Exploration and production	20,276	14,813
Refining	8,992	5,511
Marketing and distribution	17,256	16,080
Chemicals	11,947	6,205
Corporate and others	358	251
	58,829	42,860
Depreciation, depletion and amortisation		
Exploration and production	8,081	6,643
Refining	5,901	5,916
Marketing and distribution	1,661	1,160
Chemicals	6,686	6,986
Corporate and others	101	76
	22,430	20,781
Impairment losses on long-lived assets		
Exploration and production	—	92
Refining	—	95
	—	187
Reversal of impairment losses, net of depreciation effect		
Exploration and production	—	936

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2001

35. PRINCIPAL SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results or assets of the Group.

Name of company	Particulars of issued capital and debt securities (millions)	Type of legal entity	Percentage of equity		Principal activities
			held by the Company %	held by Subsidiary %	
Sinopec Beijing Yanhua Petrochemical Company Limited	RMB 3,374	Limited company	70.01	—	Manufacturing of chemical products
Sinopec Sales Company Limited	RMB 420	Limited company	100.00	—	Marketing and distribution of refined petroleum products
Sinopec Shengli Oilfield Company Limited	RMB 29,000	Limited company	100.00	—	Exploration and production of crude oil and natural gas
Sinopec Fujian Petrochemical Company Limited (i)	RMB 1,000	Limited company	50.00	—	Manufacturing of plastics, intermediate petrochemical products and petroleum products
Sinopec Hubei Xinghua Company Limited	RMB 282	Limited company	57.58	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Maoming Refining and Chemical Company Limited	RMB 1,064 and RMB 1,500 convertible bonds 2.5 %	Limited company	98.79	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Qilu Petrochemical Company Limited	RMB 1,950	Limited company	82.05	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Shanghai Petrochemical Company Limited	RMB 7,200	Limited company	55.56	—	Manufacturing of synthetic fibres, resin and plastics, intermediate petrochemical products and petroleum products
Sinopec Shijiazhuang Refining-Chemical Company Limited	RMB 1,154	Limited company	79.73	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Kantons Holdings Limited	HK\$ 104	Limited company	—	72.40	Trading of crude oil and petroleum products
Sinopec Wuhan Petroleum Group Company Limited	RMB 147	Limited company	51.79	—	Marketing and distribution of refined petroleum products and manufacturing of intermediate petrochemical products
Sinopec Wuhan Phoenix Company Limited (i)	RMB 519	Limited company	40.72	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Yangzi Petrochemical Company Limited	RMB 2,330	Limited company	84.98	—	Manufacturing of petrochemical products and petroleum products
Sinopec Yizheng Chemical Fibre Company Limited (i)	RMB 4,000	Limited company	42.00	—	Production and sale of polyester chips and polyester fibres
Sinopec Zhenhai Refining and Chemical Company Limited	RMB 2,524	Limited company	71.32	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Zhongyuan Petroleum Company Limited	RMB 680	Limited company	75.00	—	Exploration and production of crude oil and natural gas

Except for Sinopec Kantons Holdings Limited, which is incorporated in Bermuda, all of the above principal subsidiaries are incorporated in the PRC.

(i) The Company consolidated the results of the entity because the Company controlled the board of this entity and had the power to govern its financial and operating policies.

36. FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, time deposits with financial institutions, investments, trade accounts receivable, bills receivable, amount due from Sinopec Group Company and fellow subsidiaries, loans to third parties, due from associates and jointly controlled entities, and other receivables. Financial liabilities of the Group include bank and other loans, loans from Sinopec Group Company and fellow subsidiaries, trade accounts payable, bills payable, amount due to Sinopec Group Company and fellow subsidiaries, receipts in advance, and advances from third parties. The Group does not hold or issue financial instruments for trading purposes. The Group had no positions in derivative contracts at 31 December 2001 and 2000.

Credit risk

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

The majority of the Group's trade accounts receivable relate to sales of petroleum and chemical products to related parties and third parties operating in the petroleum and chemical industries. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade accounts receivable. The Group maintains an allowance for doubtful accounts and actual losses have been within management's expectations. No single customer accounted for greater than 10% of total revenues.

No other financial assets carry a significant exposure to credit risk.

Currency risk

Substantially all of the revenue-generating operations of the Group are transacted in Renminbi, which is not freely convertible into foreign currencies. On 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the People's Bank of China. However, the unification of the exchange rate does not imply convertibility of Renminbi into United States dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the People's Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

Interest rate risk

The interest rates and terms of repayment of short-term and long-term debts of the Group are disclosed in Note 26.

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32. Fair value estimates, methods and assumptions, set forth below for the Group's financial instruments, are made solely to comply with the requirements of IAS 32 and should be read in conjunction with the Group's consolidated financial statements and related notes. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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

The following table presents the carrying amounts and fair values of the Group's long-term indebtedness other than loans from Sinopec Group Company and fellow subsidiaries at 31 December 2001:

	2001 RMB millions	2000 RMB millions
Carrying amount	41,758	42,167
Fair value	41,996	42,585

The fair values of long-term indebtedness are estimated by discounting future cash flows thereon using current market interest rates offered to the Group for debts with substantially the same characteristics and maturities.

Investments in unlisted equity securities have no quoted market prices in the PRC. Accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

The fair values of all other financial instruments approximate their carrying amounts due to the nature or short-term maturity of these instruments.

37. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Group at 31 December 2001 to be Sinopec Group Company, a state-owned enterprise established in the PRC.