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 RMB1.00 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

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 RMB6.45 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 interim financial statements of the Group for periods prior to the Acquisition have been restated to include the results of operations of Sinopec National Star on a combined basis. The consideration paid by the Group was treated as an equity transaction.

The results of operations previously reported by the separate enterprises and the combined amounts for the period ended 30 June 2001 presented in the accompanying interim financial statements are summarised below.

	The Group without Sinopec National Star RMB millions *(unaudited)*	Sinopec National Star RMB millions *(unaudited)*	Combined RMB millions *(unaudited)*
Results of operation:			
Operating revenue	164,307	1,513	165,820
Net income	9,580	395	9,975
Basic earnings per share (RMB)	0.11	0.01	0.12

The accompanying interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board. IFRS includes International Accounting Standards ("IAS") and related interpretations. These interim financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The accompanying interim financial statements are prepared on the historical cost basis as modified by the revaluation of property, plant and equipment (Note 14). The accounting policies described in Note 2 have been consistently applied by the Group. As described in note (d) to the consolidated statement of changes in shareholders' funds, land use rights are carried at cost effective 1 January 2002. The effect of this change resulted in a decrease in the revaluation reserve and an increase in other reserves relating to the recognition of the deferred tax asset as of 1 January 2002.

The preparation of the interim financial statements in accordance with IFRS 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 interim financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

The interim financial information relating to 30 June 2001 are unaudited and reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the Group's results of operations and cash flows for the six-month period ended 30 June 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 30.

(b) Translation of foreign currencies

The functional and reporting currency of the Group is Renminbi. Foreign currency transactions during the period 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 14), 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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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.

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

Investments in unlisted equity securities are stated at cost less provision for impairment losses. A provision is made where, in the opinion of management, the carrying amount of the investments exceeds its recoverable amount.

(j) Investments in associates and jointly controlled entities

An associate is a company, not being a subsidiary, in which the Group exercises significant influence over 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 from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

(k) 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.

(l) 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.

(m) 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.

(n) Repairs and maintenance expenditure

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) 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.

(p) Research and development costs

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

(q) Operating leases

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

(r) 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 28.

(s) 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.

(t) 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.

(u) Dividends

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

(v) 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.

(w) Lease prepayments

Lease prepayments represent land use rights paid to the PRC's land bureau. Land use rights are carried at cost and amortised on a straight-line basis over the respective periods of the rights.

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

	Six-month periods ended 30 June	
	2002	2001
	RMB millions	RMB millions *(unaudited)*
Sale of ancillary materials	4,614	4,633
Income from rendering of services	417	277
Rental income	83	135
Others	455	461
	5,569	**5,506**

5. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

	Six-month periods ended 30 June	
	2002	2001
	RMB millions	RMB millions *(unaudited)*
Research and development costs	554	528
Operating lease charges	1,527	1,416

6. PERSONNEL EXPENSES

	Six-month periods ended 30 June	
	2002	2001
	RMB millions	RMB millions *(unaudited)*
Wages and salaries	4,256	4,214
Staff welfare	575	569
Contributions to retirement schemes	682	612
Social security contributions	360	357
	5,873	**5,752**

7. EMPLOYEE REDUCTION EXPENSES

There was no employee reduction expenses incurred during the period ended 30 June 2002. For the six-month period ended 30 June 2001, in accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB1,301 million *(unaudited)* in respect of the voluntary termination of approximately 27,000 employees.

8. TAXES OTHER THAN INCOME TAX

	Six-month periods ended 30 June	
	2002	2001
	RMB millions	RMB millions *(unaudited)*
Consumption tax	4,300	4,401
City construction tax	774	860
Education surcharge	370	399
Resources tax	282	199
Business tax	50	67
Others	—	3
	5,776	**5,929**

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

	Six-month periods ended 30 June	
	2002	2001
	RMB millions	RMB millions
		(unaudited)
Fines, penalties and compensations	32	3
Donations	22	23
Loss on disposal of property, plant and equipment	92	258
Others	55	63
	201	**347**

10. INTEREST EXPENSE

	Six-month periods ended 30 June	
	2002	2001
	RMB millions	RMB millions
		(unaudited)
Interest expense incurred	2,791	3,359
Less: Interest expense capitalised*	(528)	(393)
Interest expense	**2,263**	**2,966**
* Interest rates per annum at which borrowing costs were capitalised for construction in progress	3.1% to 6.2%	5.13% to 8.0%

11. TAXATION

Taxation in the consolidated income statement represents:

	Six-month periods ended 30 June	
	2002	2001
	RMB millions	RMB millions
		(unaudited)
Provision for PRC income tax		
- the Group	1,994	3,511
- associates and jointly controlled entities	14	34
Deferred taxation *(Note 21)*	586	550
	2,594	**4,095**

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

	Six-month periods ended 30 June	
	2002	2001
	RMB millions	RMB millions
		(unaudited)
Profit from ordinary activities before taxation	8,478	14,677
Expected PRC income tax expense at a statutory tax rate of 33%	2,798	4,843
Non-deductible expenses	24	26
Non-taxable income	(120)	(161)
Differential tax rate on subsidiaries' income *(Note (i))*	(115)	(290)
Tax losses not recognised for deferred tax	162	42
Others	(155)	(365)
	2,594	**4,095**

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 periods ended 30 June 2001 and 2002, except for certain subsidiaries of the Company, which are taxed at a preferential rate of 15%.

12. DIVIDENDS

Dividends attributable for the periods represent:

	Six-month periods ended 30 June **2002** **RMB millions**	2001 RMB millions *(unaudited)*
Interim dividends declared after the balance sheet date of RMB0.02 per share (2001: RMB nil per share *(unaudited)*)	1,734	—

Pursuant to the shareholders' approval at the Annual General Meeting on 13 June 2002, the Board of Directors was authorised to declare the interim dividends for the year ending 31 December 2002. According to the resolution passed at the Director's meeting on 16 August 2002, an interim dividend of RMB0.02 (2001: RMB nil *(unaudited)*) per share totalling RMB1,734 million (2001: RMB nil *(unaudited)*) was declared. The interim dividend for the year ending 2002 has not been provided for in the interim financial statements for the six-month period ended 30 June 2002.

Dividends attributable to the previous financial year and approved during the periods represent:

	Six-month periods ended 30 June **2002** **RMB millions**	2001 RMB millions *(unaudited)*
Final dividends in respect of the previous financial year approved during the period of RMB0.08 per share (2000: RMB0.08 per share)	6,936	6,712

Pursuant to the shareholders' approval at the Annual General Meeting on 13 June 2002, a final dividend of RMB0.08 per share totalling RMB6,936 million in respect of the year ended 31 December 2001 was declared and paid on 8 August 2002. Pursuant to the shareholders' approval at the Annual General Meeting on 5 June 2001, a final dividend of RMB0.08 per share totalling RMB6,712 million in respect of the year ended 31 December 2000 was declared and was paid on 27 July 2001.

13. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the six-month period 30 June 2002 is based on the profit attributable to shareholders of RMB5,433 million (2001: RMB9,975 million *(unaudited)*) and 86,702,439,000 (2001: 83,902,439,000 *(unaudited)*) shares in issue during the period.

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

14. PROPERTY, PLANT AND EQUIPMENT

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 2002	142,354	93,003	40,683	110,429	1,657	388,126
Additions	491	227	150	258	36	1,162
Transferred from construction in progress	3,785	1,867	4,410	3,965	59	14,086
Disposals	(124)	(484)	(349)	(223)	(18)	(1,198)
Balance at 30 June 2002	**146,506**	**94,613**	**44,894**	**114,429**	**1,734**	**402,176**
Accumulated depreciation:						
Balance at 1 January 2002	68,318	40,338	6,788	54,512	413	170,369
Depreciation charge for the period	4,093	2,735	836	3,463	58	11,185
Written back on disposal	(28)	(198)	(187)	(145)	(3)	(561)
Balance at 30 June 2002	**72,383**	**42,875**	**7,437**	**57,830**	**468**	**180,993**
Net book value:						
At 30 June 2002	**74,123**	**51,738**	**37,457**	**56,599**	**1,266**	**221,183**
At 31 December 2001	**74,036**	**52,665**	**33,895**	**55,917**	**1,244**	**217,757**

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

By asset class:

	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 2002	33,397	125,119	33,321	196,289	388,126
Additions	95	—	39	1,028	1,162
Transferred from construction in progress	198	3,703	4,349	5,836	14,086
Disposals	(111)	(121)	(69)	(897)	(1,198)
Balance at 30 June 2002	**33,579**	**128,701**	**37,640**	**202,256**	**402,176**
Accumulated depreciation:					
Balance at 1 January 2002	12,934	62,676	5,902	88,857	170,369
Depreciation charge for the period	759	3,630	624	6,172	11,185
Written back on disposal	(26)	(25)	(10)	(500)	(561)
Balance at 30 June 2002	**13,667**	**66,281**	**6,516**	**94,529**	**180,993**
Net book value:					
At 30 June 2002	**19,912**	**62,420**	**31,124**	**107,727**	**221,183**
At 31 December 2001	**20,463**	**62,443**	**27,419**	**107,432**	**217,757**

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, independent valuers registered in the PRC, on a depreciated replacement cost basis. The value of property, plant and equipment has been determined at RMB159,788 million. The surplus on revaluation of RMB32,320 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 RMB4,373 million, resulting in a surplus on revaluation of RMB1,136 million, net of amounts allocated to minority interests.

15. CONSTRUCTION IN PROGRESS

	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 2002	3,163	6,636	8,722	7,420	509	26,450
Additions	9,634	2,433	3,327	3,758	220	19,372
Dry hole costs written off	(623)	—	—	—	—	(623)
Transferred to fixed assets	(3,785)	(1,867)	(4,410)	(3,965)	(59)	(14,086)
Balance at 30 June 2002	**8,389**	**7,202**	**7,639**	**7,213**	**670**	**31,113**

16. INVESTMENTS

	At 30 June 2002 RMB millions	At 31 December 2001 RMB millions
Unlisted investments, at cost	3,491	3,463
Less: Provision for impairment losses	(184)	(181)
	3,307	**3,282**

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.

17. INTERESTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

	At 30 June 2002 RMB millions	At 31 December 2001 RMB millions
Share of net assets	6,142	5,172

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 Company %	Percentage of equity held by the Company's subsidiaries %	Principal activities
Shengli Oil Field Dynamic Company Limited ("Dynamic")*	Incorporated	303,356,340 ordinary shares of RMB1.00 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 RMB1.00 each	38.68	—	Trading of petroleum products and decoration of service gas stations
Sinopec Finance Company Limited	Incorporated	Registered capital RMB2,500,000,000	32.00	8.22	Provision of non-banking financial services within the Group
Shanghai Petroleum National Gas Corporation	Incorporated	Registered capital RMB900,000,000	30.00	—	Exploration and production of crude oil and natural gas
BASF-YPC Company Limited	Incorporated	Registered capital RMB8,793,000,000	30.00	10.00	Manufacturing and distribution of petrochemical products
Shanghai Secco Petrochemical Company Limited	Incorporated	Registered capital USD 901,440,964	30.00	20.00	Manufacturing and distribution of petrochemical products

* Shares of Dynamic and Taishan are listed on the Shenzhen Stock Exchange. Shares held by the Group 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 investments in Dynamic and Taishan based on the quoted market price are RMB1,020 million (2001: RMB1,074 million) and RMB1,871 million (2001: RMB1,465 million) respectively at 30 June 2002.

18. TRADE ACCOUNTS AND BILLS RECEIVABLES

	At 30 June 2002 RMB millions	At 31 December 2001 RMB millions
Third parties	12,551	10,049
Sinopec Group Company and fellow subsidiaries	3,272	3,503
Associates and jointly controlled entities	79	10
	15,902	**13,562**
Less: Allowance for doubtful accounts	(2,637)	(2,480)
	13,265	11,082
Bills receivable	4,316	3,542
	17,581	**14,624**

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

	At 30 June 2002 RMB millions	At 31 December 2001 RMB millions
Within one year	15,805	12,766
Between one and two years	853	708
Over two years	923	1,150
	17,581	**14,624**

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.

19. INVENTORIES

	At 30 June 2002 RMB millions	At 31 December 2001 RMB millions
Crude oil and other raw materials	20,897	17,749
Work in progress	5,616	5,050
Finished goods	18,230	20,442
Spare parts and consumables	3,472	3,555
	48,215	**46,796**
Less: Allowance for diminution in value of inventories	(524)	(602)
	47,691	**46,194**

At 30 June 2002, the carrying amount of the Group's inventories carried at net realisable value amounted to RMB949 million (2001: RMB1,924 million).

The cost of inventories recognised as an expense in the consolidated income statement amounted to RMB115,010 million for the six-month period ended 30 June 2002 (2001: RMB128,724 million *(unaudited)*).

20. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	At 30 June 2002 RMB millions	At 31 December 2001 RMB millions
Advances to third parties	7,439	6,618
Amounts due from Sinopec Group Company and fellow subsidiaries	10,448	9,421
Other receivables	2,469	3,390
Purchase deposits	2,156	2,426
Prepayments in connection with construction work and equipment purchases	1,774	1,543
Prepaid value-added tax and customs duty	1,825	2,284
Interest receivable	2	16
Amounts due from associates and jointly controlled entities	379	373
Prepaid rental	5	52
	26,497	**26,123**

21. DEFERRED TAX ASSETS AND LIABILITIES

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

	Assets		Liabilities		Net balance	
	At 30 June 2002 RMB millions	At 31 December 2001 RMB millions	**At 30 June 2002 RMB millions**	At 31 December 2001 RMB millions	**At 30 June 2002 RMB millions**	At 31 December 2001 RMB millions
Current						
Provisions, primarily for receivables and inventories	343	432	—	—	343	432
Non-current						
Property, plant and equipment	59	35	(822)	(788)	(763)	(753)
Accelerated depreciation	—	—	(2,597)	(2,185)	(2,597)	(2,185)
Tax value of losses carried forward, net of valuation allowance	208	173	—	—	208	173
Other assets	—	33	—	—	—	33
Land use rights *(Note)*	367	—	—	—	367	—
Others	27	96	(12)	(8)	15	88
Deferred tax assets/(liabilities)	**1,004**	**769**	**(3,431)**	**(2,981)**	**(2,427)**	**(2,212)**

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 RMB162 million was provided for the six-month period ended 30 June 2002 (2001: RMB42 million *(unaudited)*) 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 is more likely than not to be realised.

21. DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

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

	Balance at 1 January 2002 RMB millions	Recognised in other reserves RMB millions	Recognised in income statement RMB millions	Balance at 30 June 2002 RMB millions
Current				
Provisions, primarily for receivables and inventories	432	—	(89)	343
Non-current				
Property, plant and equipment	(753)	—	(10)	(763)
Accelerated depreciation	(2,185)	—	(412)	(2,597)
Tax value of losses carried forward, net of valuation allowance	173	—	35	208
Other assets	33	—	(33)	—
Land use rights *(Note)*	—	371	(4)	367
Others	88	—	(73)	15
Net deferred tax liabilities	**(2,212)**	**371**	**(586)**	**(2,427)**

Note: As described in note (d) to the consolidated statements of changes in shareholders' funds, land use rights are carried at cost effective 1 January 2002. The effect of this change resulted in a decrease in the revaluation reserve and an increase in other reserves relating to the recognition of the deferred tax asset as of 1 January 2002.

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

Short-term debts represent:

	At 30 June 2002 RMB millions	At 31 December 2001 RMB millions
Third parties' debts		
Short-term bank loans	27,461	34,424
Short-term other loans	61	43
	27,522	**34,467**
Current portion of long-term bank loans	9,556	10,140
Current portion of long-term other loans	372	742
	9,928	**10,882**
	37,450	**45,349**
Loans from Sinopec Group Company and fellow subsidiaries		
Short-term loans	4,286	3,448
Current portion of long-term loans	90	414
	4,376	**3,862**
	41,826	**49,211**

The Group's weighted average interest rate on short-term loans was 4.4 % at 30 June 2002 (2001: 5.1%).

22. 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	**At 30 June 2002 RMB millions**	At 31 December 2001 RMB millions
Third parties' debts			
Long-term bank loans			
Renminbi denominated	Interest rates ranging from interest free to 11.2% per annum at 30 June 2002 with maturities through 2013	32,987	32,231
Japanese Yen denominated	Interest rates ranging from 0.3% to 7.3% per annum at 30 June 2002 with maturities through 2024	2,520	2,401
US Dollar denominated	Interest rates ranging from interest free to 7.9% per annum at 30 June 2002 with maturities through 2031	4,733	4,300
Deutsche Marks denominated	Fixed rates ranging from 6.6% to 6.8% per annum at 31 December 2001 which was converted to Euro denominated during the six-month period ended 30 June 2002	—	151
Dutch Guilders denominated	Fixed rate at 7.9% per annum at 31 December 2001 which was converted to Euro denominated during the six-month period ended 30 June 2002	—	28
Hong Kong Dollar denominated	Floating rate at Hong Kong Prime Rate per annum plus 0.25% with maturities through 2006	12	14
Euro denominated	Fixed rates ranging from 6.0% to 7.9% per annum at 30 June 2002 with maturities through 2006	178	—
		40,430	**39,125**
Long-term other loans			
Renminbi denominated	Interest rates ranging from interest free to 7.5% per annum at 30 June 2002 with maturities through 2015	688	596
US Dollar denominated	Interest rates ranging from interest free to 4.3% per annum at 30 June 2002 with maturities through 2015	530	522
French Francs denominated	Interest rates ranging from 1.8% to 8.1% per annum at 31 December 2001 which was converted to Euro denominated during the six-month period ended 30 June 2002	—	15
Euro denominated	Interest rates ranging from 1.8% to 8.1% per annum at 30 June 2002 with maturities through 2025	17	—
		1,235	**1,133**
Convertible bonds	Fixed rate at 2.5% per annum and redeemable in July 2004 (a)	1,500	1,500
Total third parties' long-term debts		**43,165**	**41,758**
Less: Current portion		(9,928)	(10,882)
		33,237	**30,876**
Long-term loans from Sinopec Group Company and fellow subsidiaries			
Renminbi denominated	Interest free with maturity in 2020	35,561	35,561
Renminbi denominated	Interest rates ranging from 5.0% to 5.9% per annum at 30 June 2002 with maturities through 2006	1,732	796
US Dollar denominated	Interest rates ranging from 3.3% to 3.7% per annum at 30 June 2002 with maturities through 2006	28	182
		37,321	**36,539**
Less: Current portion		(90)	(414)
		37,231	**36,125**
		70,468	**67,001**

(a) Convertible bonds amounting to RMB1,500 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.

Third parties' loans of RMB116 million at 30 June 2002 (2001: RMB171 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 RMB227 million at 30 June 2002 (2001: RMB233 million).

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

	At 30 June 2002 RMB millions	At 31 December 2001 RMB millions
Within one year	10,018	11,296
Between one to two years	9,221	10,383
Between two to five years	19,079	14,608
After five years	42,168	42,010
	80,486	**78,297**

23. TRADE ACCOUNTS AND BILLS PAYABLES

	At 30 June 2002 RMB millions	At 31 December 2001 RMB millions
Third parties	15,824	13,556
Sinopec Group Company and fellow subsidiaries	1,800	3,233
Associates and jointly controlled entities	31	4
	17,655	**16,793**
Bills payable	32,903	26,022
	50,558	**42,815**

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:

	At 30 June 2002 RMB millions	At 31 December 2001 RMB millions
Due within 1 month or on demand	30,078	24,820
Due after 1 month but within 6 months	18,971	17,242
Due after 6 months	1,509	753
	50,558	**42,815**

24. ACCRUED EXPENSES AND OTHER PAYABLES

	At 30 June 2002 RMB millions	At 31 December 2001 RMB millions
Amounts due to Sinopec Group Company and fellow subsidiaries	14,122	10,220
Accrued expenditures	9,311	8,477
Taxes other than income tax	2,179	3,062
Receipts in advance	2,362	2,884
Advances from third parties	863	2,005
Dividend payable	6,936	—
Others	2,974	3,228
	38,747	**29,876**

25. SHARE CAPITAL

	At 30 June 2002 RMB millions	At 31 December 2001 RMB millions
Registered, issued and fully paid		
67,121,951,000 domestic state-owned A shares of RMB1.00 each	67,122	67,122
16,780,488,000 overseas listed H shares of RMB1.00 each	16,780	16,780
2,800,000,000 domestic listed A shares of RMB1.00 each	2,800	2,800
	86,702	**86,702**

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 RMB1.00 each. Such shares were issued to Sinopec Group Company in consideration for the assets and liabilities of 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 RMB1.00 each and offer not more than 19.5 billion shares with a par value of RMB1.00 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 RMB1.00 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 RMB1.00 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 RMB1.00 each at RMB4.22 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.

26. COMMITMENTS AND CONTINGENT LIABILITIES

Operating lease commitments

The Group 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 30 June 2002 and 31 December 2001, the future minimum lease payments under operating leases are as follows:

	At 30 June 2002 RMB millions	At 31 December 2001 RMB millions
Within 1 year	2,814	2,844
Between 1 to 2 years	2,658	2,736
Between 2 to 3 years	2,597	2,563
Between 3 to 4 years	2,588	2,559
Between 4 to 5 years	2,578	2,550
Thereafter	84,426	85,368
	97,661	**98,620**

Capital commitments

At 30 June 2002 and 31 December 2001, the Group had capital commitments as follows:

	At 30 June 2002 RMB millions	At 31 December 2001 RMB millions
Authorised and contracted for	20,993	21,636
Authorised but not contracted for	18,299	18,204
	39,292	**39,840**

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 RMB22 million for the period ended 30 June 2002 (2001: RMB2 million *(unaudited)*).

Estimated annual payments in the future are as follows:

	At 30 June 2002 RMB millions	At 31 December 2001 RMB millions
Within 1 year	76	43
Between 1 to 2 years	80	39
Between 2 to 3 years	72	51
Between 3 to 4 years	73	62
Between 4 to 5 years	55	56
Thereafter	266	284
Total payments	**622**	**535**

26. COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

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 30 June 2002 and 31 December 2001, guarantees given to banks in respect of banking facilities granted to the parties below were as follows:

	At 30 June 2002 RMB millions	At 31 December 2001 RMB millions
Associates and jointly controlled entities	7,422	546
Third parties	65	322
	7,487	**868**

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 RMB105 million for the period ended 30 June 2002 (2001: RMB94 million *(unaudited)*).

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.

27. 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 the Sinopec Group Company and its affiliates. 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 IFRS, 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.

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.

27. RELATED PARTY TRANSACTIONS *(Continued)*

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

	Note	**2002 RMB millions**	2001 RMB millions *(unaudited)*
Sales of goods	(i)	14,785	19,925
Purchases	(ii)	10,320	10,106
Transportation and storage	(iii)	619	722
Exploration and development services	(iv)	5,273	3,237
Production related services	(v)	2,792	2,377
Ancillary and social services	(vi)	982	1,259
Operating lease charges	(vii)	1,358	1,239
Agency commission income	(viii)	2	3
Intellectual property licence fee paid	(ix)	5	5
Interest received	(x)	28	38
Interest paid	(xi)	226	290
Net deposits withdrawn from with related parties	(xii)	1,816	2,018
Net loans obtained /(repaid to) from related parties	(xiii)	1,620	(728)

The amounts set out in the table above in respect of the six-month periods ended 30 June 2001 and 2002 represent the relevant costs to the Group as determined by the corresponding contracts with the related parties.

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.

Notes:

(i) Sales of goods represent the sale of crude oil, intermediate petrochemical 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 storage facilities.

(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 30 June 2002 was RMB5,313 million (2001: RMB7,129 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.

27. 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. 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 RMB2,007 million and RMB482 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.

28. 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 period ended 30 June 2002 were RMB682 million (2001: RMB612 million *(unaudited)*).

29. 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 petrochemical products, derivative petrochemical 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.

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 or market prices, as specified by the Group's policy.

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

	Six-month periods ended 30 June	
	2002	2001
	RMB millions	RMB millions *(unaudited)*
Turnover		
Exploration and production		
External sales	5,185	5,684
Inter-segment sales	17,252	21,693
	22,437	**27,377**
Refining		
External sales	21,991	26,747
Inter-segment sales	69,500	81,615
	91,491	**108,362**
Marketing and distribution		
External sales	81,081	93,844
Inter-segment sales	1,281	1,372
	82,362	**95,216**
Chemicals		
External sales	24,800	26,087
Inter-segment sales	2,760	2,928
	27,560	**29,015**
Corporate and others		
External sales	7,571	7,952
Inter-segment sales	3,518	4,841
	11,089	**12,793**
Elimination of inter-segment sales	(94,311)	(112,449)
Turnover	**140,628**	**160,314**
Other operating revenues		
Exploration and production	2,373	2,479
Refining	970	960
Marketing and distribution	49	103
Chemicals	1,971	1,598
Corporate and others	206	366
Other operating revenues	**5,569**	**5,506**
Turnover and other operating revenues	**146,197**	**165,820**

29. SEGMENTAL REPORTING *(Continued)*

	Six-month periods ended 30 June	
	2002	2001
	RMB millions	RMB millions *(unaudited)*
Result		
Operating profit		
By segment		
· Exploration and production	6,610	12,169
· Refining	1,589	2,776
· Marketing and distribution	3,283	974
· Chemicals	(476)	186
· Corporate and others	(299)	353
Total operating profit	**10,707**	**16,458**
Share of profits less losses from investments accounted for under the equity method		
· Exploration and production	52	136
· Refining	(6)	(3)
· Marketing and distribution	7	74
· Chemicals	(8)	(19)
· Corporate and others	45	2
Aggregate share of profits less losses from investments accounted for under the equity method	**90**	**190**
Finance costs		
Interest expense	(2,263)	(2,966)
Interest income	130	739
Foreign exchange losses	(259)	(103)
Foreign exchange gains	31	277
Net finance costs	**(2,361)**	**(2,053)**
Investment income	42	82
Profit from ordinary activities before taxation	**8,478**	**14,677**
Taxation	(2,594)	(4,095)
Profit from ordinary activities after taxation	**5,884**	**10,582**
Minority interests	(451)	(607)
Profit attributable to shareholders	**5,433**	**9,975**

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 17. Additions to long-lived assets by operating segment are included in Notes 14 and 15.

29. SEGMENTAL REPORTING *(Continued)*

	At 30 June 2002 RMB millions	Six-month periods ended 30 June At 31 December 2001 RMB millions
Assets		
Segment assets		
- Exploration and production	85,862	80,063
- Refining	92,717	88,488
- Marketing and distribution	73,716	72,014
- Chemicals	79,607	78,277
- Corporate and others	14,296	13,506
Total segment assets	**346,198**	**332,348**
Investments in associates accounted for under the equity method		
- Exploration and production	1,044	1,032
- Refining	128	120
- Marketing and distribution	1,370	1,168
- Chemicals	2,319	1,691
- Corporate and others	1,281	1,161
Aggregate investments in associates accounted for under the equity method	**6,142**	**5,172**
Unallocated assets	25,709	29,189
Total assets	**378,049**	**366,709**
Liabilities		
Segment liabilities		
- Exploration and production	18,170	13,419
- Refining	27,489	23,985
- Marketing and distribution	19,874	18,700
- Chemicals	10,654	8,831
- Corporate and others	6,182	7,760
Total segment liabilities	**82,369**	**72,695**
Unallocated liabilities	126,403	122,804
Total liabilities	**208,772**	**195,499**

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.

	At 30 June 2002 RMB millions	Six-month periods ended 30 June At 31 December 2001 RMB millions *(unaudited)*
Capital expenditure		
Exploration and production	9,502	5,415
Refining	2,660	2,814
Marketing and distribution	3,477	7,914
Chemicals	4,016	4,191
Corporate and others	256	209
	19,911	**20,543**
Depreciation, depletion and amortisation		
Exploration and production	4,098	3,435
Refining	2,754	2,859
Marketing and distribution	849	619
Chemicals	3,587	3,489
Corporate and others	58	39
	11,346	**10,441**

30. 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 held by the Company %	Percentage of equity held by Subsidiary %	Principal activities
Sinopec Beijing Yanhua Petrochemical Company Limited	RMB3,374	Limited company	70.01	—	Manufacturing of chemical products
Sinopec Sales Company Limited	RMB1,700	Limited company	100.00	—	Marketing and distribution of refined petroleum products
Sinopec Shengli Oilfield Company Limited	RMB29,000	Limited company	100.00	—	Exploration and production of crude oil and natural gas
Sinopec Fujian Petrochemical Company Limited (i)	RMB2,253	Limited company	50.00	—	Manufacturing of plastics, intermediate petrochemical products and petroleum products
Sinopec Hubei Xinghua Company Limited	RMB282	Limited company	57.58	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Maoming Refining and Chemical Company Limited	RMB1,064 and RMB1,500 convertible bonds 2.5 %	Limited company	98.79	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Qilu Petrochemical Company Limited	RMB1,950	Limited company	82.05	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Shanghai Petrochemical Company Limited	RMB7,200	Limited company	55.56	—	Manufacturing of synthetic fibres, resin and plastics, intermediate petrochemical products and petroleum products
Sinopec Shijiazhuang Refining-Chemical Company Limited	RMB1,154	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 (i)	RMB147	Limited company	46.25	—	Marketing and distribution of refined petroleum products
Sinopec Wuhan Phoenix Company Limited (i)	RMB519	Limited company	40.72	—	Manufacturing of petrochemical products and petroleum products
Sinopec Yangzi Petrochemical Company Limited	RMB2,330	Limite company	84.98	—	Manufacturing of petrochemical products and petroleum products
Sinopec Yizheng Chemical Fibre Company Limited (i)	RMB4,000	Limited company	42.00	—	Production and sale of polyester chips and polyester fibres
Sinopec Zhenhai Refining and Chemical Company Limited	RMB2,524	Limited company	71.32	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Zhongyuan Petroleum Company Limited	RMB816	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 Group consolidated the results of the entity because the Group controlled the board of this entity and had the power to govern its financial and operating policies.

31. FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, time deposits with financial institutions, investments, trade accounts receivables, bills receivable, amounts due from Sinopec Group Company and fellow subsidiaries, advances to third parties, amounts 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, amounts 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 30 June 2002 and 31 December 2001.

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 and deposits, represent the Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Group's trade accounts receivables 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 receivables. 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 fully 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 22.

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 interim 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 30 June 2002 and 31 December 2001:

	At 30 June 2002 RMB millions	At 31 December 2001 RMB millions
Carrying amount	42,850	41,758
Fair value	43,638	41,996

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.