

### 30. RESERVES

	2000 RMB millions	The Group 1999 RMB millions	The Company 2000 RMB millions
<b>Revaluation reserve</b>			
At 1 January	32,320	—	—
Revaluation surplus after adjusting for the amount attributable to minority interests	—	32,320	—
Transferred from Sinopec Group Company in connection with the Reorganisation	—	—	32,320
Revaluation surplus realised	(199)	—	(199)
<b>At 31 December</b>	<b>32,121</b>	<b>32,320</b>	<b>32,121</b>
<b>Capital reserve</b>			
At 1 January	—	—	—
Capitalisation as share capital upon legal establishment of the Company (Note (e))	(14,579)	—	(14,579)
<b>At 31 December</b>	<b>(14,579)</b>	<b>—</b>	<b>(14,579)</b>
<b>Share premium</b>			
At 1 January	—	—	—
Share premium from issuance of shares	10,700	—	10,700
Issuing expenses	(1,476)	—	(1,476)
<b>At 31 December</b>	<b>9,224</b>	<b>—</b>	<b>9,224</b>
<b>Statutory surplus reserve (Note (a))</b>			
At 1 January	—	—	—
Transfer from profit and loss account	1,615	—	1,615
<b>At 31 December</b>	<b>1,615</b>	<b>—</b>	<b>1,615</b>
<b>Statutory public welfare fund (Note (b))</b>			
At 1 January	—	—	—
Proposed transfer from profit and loss account	1,615	—	1,615
<b>At 31 December</b>	<b>1,615</b>	<b>—</b>	<b>1,615</b>
<b>Other reserves</b>			
At 1 January	53,322	72,558	—
Transfer from profit and loss account	—	1,988	—
Cash contributions from Sinopec Group Company	—	467	—
Net assets contributed from Sinopec Group Company (Note (c))	—	6,982	—
Elimination of net deferred tax assets (Note 25)	—	(2,072)	—
Net assets distributed to Sinopec Group Company in connection with the Reorganisation (Note 1)	—	(26,601)	—
Capitalisation as share capital upon legal establishment of the Company (Note (e))	(53,322)	—	—
<b>At 31 December</b>	<b>—</b>	<b>53,322</b>	<b>—</b>
<b>Retained earnings/(deficit) (Note (d))</b>			
At 1 January	1,478	(1,206)	—
Dividend paid	(579)	—	—
Capitalisation as share capital upon legal establishment of the Company (Note (e))	(899)	—	—
Net profit for the year	19,004	4,672	19,004
Transfer to other reserves	—	(1,988)	—
Transfer to statutory surplus reserve	(1,615)	—	(1,615)
Proposed transfer to statutory public welfare fund	(1,615)	—	(1,615)
Revaluation surplus realised	199	—	199
<b>At 31 December</b>	<b>15,973</b>	<b>1,478</b>	<b>15,973</b>
	<b>45,969</b>	<b>87,120</b>	<b>45,969</b>

#### 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.

- (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 RMB1,615 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.
- (c) This represents net assets contributed from Sinopec Group Company for no monetary consideration. The net assets contributed from Sinopec Group Company during the year ended 31 December 1999 presented primarily represent 1) assets and liabilities transferred to and from ancillary, social, and supporting operations that were retained by Sinopec Group Company in connection with the Reorganisation and 2) the assumption of the Group's debts to third parties by Sinopec Group Company. Such transactions are recorded at historical cost and are reflected as changes in reserves in the year the transactions 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 2000, the amount of retained profits available for distribution was RMB 12,924 million, being the amount determined in accordance with the PRC accounting rules and regulations. Final dividend of RMB 6,712 million in respect of the financial year 2000 has not been provided for.
- (e) The aggregate of these amounts 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.

## NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 December 2000

### 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 2000, the future minimum lease payments under operating leases are as follows:

	2000 RMB millions	The Group 1999 RMB millions	The Company 2000 RMB millions
First year	2,657	62	2,540
Second year	2,656	55	2,540
Third year	2,539	52	2,504
Fourth year	2,537	46	2,502
Fifth year	2,532	44	2,497
Thereafter	86,933	928	86,933
	<b>99,854</b>	<b>1,187</b>	<b>99,516</b>

The Group's leasing arrangements impose no restrictions on dividends, additional debts and/or further leasing.

#### Capital commitments

At 31 December 2000, the Group and the Company had capital commitments as follows:

	2000 RMB millions	The Group 1999 RMB millions	The Company 2000 RMB millions
Authorised and contracted for	15,491	7,857	1,450
Authorised but not contracted for	37,466	7,549	18,968
	<b>52,957</b>	<b>15,406</b>	<b>20,418</b>

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 15 million for the year ended 31 December 2000 (1999: RMB 10 million).

Estimated annual payments in the future are as follows:

	The Group RMB millions	The Company RMB millions
2001	15	7
2002	12	6
2003	13	4
2004	16	4
2005	12	7
Thereafter	198	61
<b>Total payments</b>	<b>266</b>	<b>89</b>

#### 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 2000, 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
Sinopec Group Company and fellow subsidiaries	55	—
Third parties	862	—
	<b>917</b>	<b>—</b>

### 31. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

#### 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 305 million for the year ended 31 December 2000 (1999: RMB 300 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.

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	2000 RMB millions	1999 RMB millions
Sales of goods	(i)	42,515	24,534
Purchases	(ii)	17,374	15,363
Transportation and storage	(iii)	1,631	1,969
Exploration and development services	(iv)	8,006	6,161
Production related services	(v)	6,604	12,110
Ancillary and social services	(vi)	2,493	6,527
Operating lease charges	(vii)	2,377	268
Agency commission income	(viii)	11	—
Intellectual property licence fee paid	(ix)	8	—
Interest received	(x)	60	175
Interest paid	(xi)	578	502
Net deposits placed with related parties	(xii)	4,090	1,113
Net loans obtained from related parties	(xiii)	34,656	321

The amounts set out in the table above in respect of the year ended 31 December 2000 represent the relevant costs to the Group as determined by the corresponding contracts with the related parties. The corresponding amounts for the year ended 31 December 1999 represent the historical costs incurred by the related parties in carrying out such transactions.

At 31 December 2000, guarantees given to banks by the Group in respect of banking facilities to Sinopec Group Company and fellow subsidiaries amounted to RMB 55 million (1999: RMB 1,009 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 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) These transactions represent transportation and storage related services rendered, such as 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.