

34. SEGMENTAL REPORTING (Continued)

	2000 RMB millions	1999 RMB millions
Assets		
Segment assets		
— Exploration and production	61,577	52,084
— Refining	88,854	79,450
— Marketing and distribution	61,497	26,064
— Chemicals	76,455	79,390
— Corporate and others	11,937	10,369
Total segment assets	300,320	247,357
Investments in associates and jointly controlled entities accounted for under the equity method		
— Exploration and production	410	131
— Refining	51	79
— Marketing and distribution	1,090	725
— Chemicals	226	—
— Corporate and others	151	4
Aggregate investments in associates and jointly controlled entities accounted for under the equity method	1,928	939
Unallocated assets	45,161	28,613
Total assets	347,409	276,909
Liabilities		
Segment liabilities		
— Exploration and production	12,114	8,147
— Refining	26,022	14,915
— Marketing and distribution	11,105	6,406
— Chemicals	10,351	8,714
— Corporate and others	3,143	3,786
Total segment liabilities	62,735	41,968
Unallocated liabilities	131,821	125,948
Total liabilities	194,556	167,916

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.

	2000 RMB millions	1999 RMB millions
Capital expenditure		
Exploration and production	14,547	9,790
Refining	5,511	6,942
Marketing and distribution	16,080	3,176
Chemicals	6,205	12,919
Corporate and others	251	1,092
	42,594	33,919
Depreciation, depletion and amortisation		
Exploration and production	5,912	5,046
Refining	5,916	4,246
Marketing and distribution	1,160	1,122
Chemicals	6,986	7,404
Corporate and others	76	87
	20,050	17,905
Impairment losses on long-lived assets		
Exploration and production	92	824
Refining	95	296
Marketing and distribution	—	53
Chemicals	—	33
	187	1,206
Reversal of impairment losses, net of depreciation effect		
Exploration and production	936	593

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 December 2000

35. PRINCIPAL SUBSIDIARIES

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

Name of company	Particulars of issued capital and debt securities (millions)	Type of legal entity	Percentage of equity held by the Company %	Percentage of equity held by Subsidiary %	Principal activities
Sinopec Beijing Yanhua Petrochemical Company Limited	RMB 3,374	Limited company	70.01	—	Manufacturing of chemical fibres
Sinopec Sales Company Limited	RMB 420	Limited company	100.00	—	Marketing and distribution of refined petroleum products
Sinopec Shengli Oilfield Company Limited	RMB 18,400	Limited company	100.00	—	Exploration and production of crude oil and natural gas
Sinopec Fujian Petrochemical Company Limited (i)	RMB 1,000	Limited company	50.00	—	Manufacturing of plastics, intermediate petrochemical products and petroleum products
Sinopec Hubei Xinghua Company Limited	RMB 282	Limited company	57.58	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Maoming Refining and Chemical Company Limited	RMB 1,064 and RMB 1,500 convertible bonds 2.5 %	Limited company	98.79	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Qilu Petrochemical Company Limited	RMB 1,950	Limited company	82.05	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Shanghai Petrochemical Company Limited	RMB 7,200	Limited company	55.56	—	Manufacturing of synthetic fibres, resin and plastics, intermediate petrochemical products and petroleum products
Sinopec Shijiazhuang Refining-Chemical Company Limited	RMB 1,154	Limited company	79.73	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Kantons Holdings Limited	HK\$ 104	Limited company	—	72.40	Trading of crude oil and petroleum products
Sinopec Wuhan Petroleum Group Company Limited	RMB 147	Limited company	51.79	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Wuhan Phoenix Company Limited (i)	RMB 519	Limited company	40.72	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Yangzi Petrochemical Company Limited	RMB 2,330	Limited company	84.98	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Yizheng Chemical Fibre Company Limited (i)	RMB 4,000	Limited company	42.00	—	Production and sale of polyester chips and polyester fibres
Sinopec Zhenhai Refining and Chemical Company Limited	RMB 2,524 and RMB 1,270 convertible bonds 3%	Limited company	71.32	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Zhongyuan Petroleum Company Limited	RMB 680	Limited company	75.00	—	Exploration and production of crude oil and natural gas

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

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

36. CONCENTRATION OF RISKS

Credit risk

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

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

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

36. CONCENTRATION OF RISKS (Continued)

Concentration of economic risk

The Group's operations may be adversely affected by significant political, economic, and social uncertainties in the PRC. In addition, the ability to negotiate and implement specific projects in a timely and favourable manner may be impacted by political considerations unrelated to or beyond the control of the Group. Although the PRC government has been pursuing economic reform policies for the past 18 years, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered. There is also no guarantee that the PRC government's pursuit of economic reforms will be consistent or effective and as a result, changes in the rate or method of taxation, reduction in tariff protection and other import restrictions, and changes in state policies affecting the industries to which the Group sells its products, may have a negative effect on its operating results and financial conditions.

Currency risk

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

Business risk

The Group conducts its principal operations in China and accordingly is subject to special considerations and significant risks not typically associated with investments in equity securities of the United States and Western European companies. These include risks associated with, among others, the political, economic and legal environment, influence of the State Council over substantially all aspects of its operations and competition in the oil and gas industry.

Interest rate risk

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

Supply risk

The Group's largest domestic supplier of crude oil is PetroChina Company Limited. Negotiating another contract with a key supplier at similar terms and costs could have a severe and significant impact on the Group's results of operations.

37. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, time deposits with financial institutions, investments, trade accounts receivable, bills receivable, amount due from Sinopec Group Company and fellow subsidiaries, loans to third parties, due from associates and jointly controlled entities, and other receivables. Financial liabilities of the Group include bank and other loans, loans from Sinopec Group Company and fellow subsidiaries, trade accounts payable, bills payable, amount due to Sinopec Group Company and fellow subsidiaries, receipts in advance, and advances from third parties. The Group does not hold or issue financial instruments for trading purposes. The Group had no positions in derivative contracts at 31 December 2000 (1999: Nil).

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 accounts 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 realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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

The following table presents the carrying amounts and fair values of the Group's long-term indebtedness other than loans from Sinopec Group Company and fellow subsidiaries at 31 December 2000:

	2000 RMB millions	1999 RMB millions
Carrying amount	39,689	52,434
Fair value	40,082	52,623

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 are unquoted equity interests and there are no quoted market prices for such interests 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.

38. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Group at 31 December 2000 to be Sinopec Group Company, a state-owned enterprise established in the PRC.