NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying condensed interim consolidated financial statements are prepared in accordance with International Accounting Standards ("IAS") issued by the International Accounting Standards Committee and Appendix 16 of the Rules governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The principal accounting policies adopted in preparing the interim financial statements of the Group are the same as those adopted in the preparation of the annual financial statements as of and for the year ended 31st December, 2000, except that financial instruments are recognized and measured in accordance with IAS 39, which is effective from 1st January, 2001 (see Note 2). In addition, there is no change of accounting policies as the result of the effectiveness of IAS 12 (revised 2000) and IAS 19 (revised 2000), which are also effective from 1st January, 2001.

2. CHANGE OF ACCOUNTING POLICIES

Financial instruments

From 1st January, 2001, the Group changed its accounting policies with respect to the recognition and measurement of the financial instruments to conform to IAS 39 "Financial Instruments: Recognition and Measurement".

Financial assets and financial liabilities are initially recognized at cost. After initial recognition, financial assets are measured at fair values, except for loans and receivables originated by the Company not held for trading and held-to-maturity investments, which are measured at cost or amortized cost in accordance with IAS 39. After initial recognition, financial liabilities are measured at amortized cost except for liabilities held for trading and derivatives that are liabilities, which are measured at fair value. Regular way purchases and sales of financial assets are accounted for at trade date. The gains and losses arising from changes in the fair value of those available-for-sale financial assets that are measured at fair value subsequent to initial recognition are included in net profit or loss for the period.

Short-term investment and other long-term investment are classified as held-for-trading and available-for-sale financial assets respectively. Fair value of these financial assets is determined as described in Note 16(b).

The financial effects of adopting IAS 39 did not have a significant effect on the opening balances to these condensed financial statements.

For the six months ended 30th June, 2001, there is no gain or loss arising from changes in the fair value of those available-for-sale financial assets that are measured at fair value subsequent to initial recognition.

3. TRADE RECEIVABLES, NET

	As of 30th June, 2001 (unaudited) *RMB'000*	As of 31st December, 2000 (audited) *RMB'000*
Accounts receivable	86,148	170,646
Notes receivable	57,600	47,110
	143,748	217,756
Less: Provision for doubtful accounts	(4,999)	(4,942)
	138,749	212,814

Ageing analysis of trade receivables is as follows:

	As of 30th June, 2001 (unaudited) *RMB'000*	As of 31st December, 2000 (audited) *RMB'000*
Ageing		
– not exceeding one year	137,478	210,155
– more than one year but not exceeding two years	1,102	1,967
– more than two years but not exceeding three years	955	3,351
– more than three years	4,213	2,283
	143,748	217,756

4. APPROPRIATIONS AND RESERVES

In accordance with the People's Republic of China ("PRC") Company Law, the Company is required to appropriate 10 per cent of its statutory after-tax profit (after offsetting any prior years' losses) to a statutory surplus reserve ("SSR") until the balance of SSR reaches 50 per cent of the Company's share capital and thereafter any further appropriation is optional. SSR can be utilized to offset prior years' losses or for issuance of bonus shares. However, such SSR shall be maintained at a minimum of 25 per cent of share capital after such issuance.

In accordance with the provisions of the Company's articles of association, the Company shall appropriate 5 to 10 per cent of its statutory after-tax profit to the public welfare fund ("PWF"). PWF shall be utilized for collective staff benefits such as building of staff quarters or housing. No distribution of the fund shall be made other than on liquidation of the Company.

Furthermore, pursuant to the Notice [1995] 31 issued by Ministry of Finance ("MOF") on 24th August, 1995, provisions of SSR and PWF should be based on after-tax profit determined in accordance with PRC accounting standards and regulations.

Pursuant to the Notice [1995] 31 issued by MOF on 24th August, 1995, the amount of profit available for distribution to the shareholders will be determined based on the lower of unappropriated profits determined in accordance with (i) PRC accounting standards and regulations, and (ii) IAS or Hong Kong Statements of Standard Accounting Practice.

There is no appropriation of after-tax profit to SSR and PWF during the six months ended 30th June, 2001 and 2000.

5. SHORT-TERM BANK LOANS

As of 30th June, 2001, the Group had unsecured short-term bank loans amounting to RMB300,000,000 (as of 31st December, 2000: nil). These loans bear interest at 5.58 per cent per annum.

6. TRADE PAYABLES

Ageing analysis of trade payables is as follows:

	As of 30th June, 2001	**As of 31st December, 2000**
	(unaudited) *RMB'000*	**(audited)** *RMB'000*
Ageing		
– not exceeding one year	284,501	516,710
– more than one year but not exceeding two years	2,001	–
	286,502	516,710

7. TURNOVER

Turnover represents sales at invoiced value (excluding value-added tax) of goods supplied to customers, net of returns, business tax, consumption tax and surtaxes. Revenue is recognized when the significant risks and rewards of ownership of goods have been transferred to the buyer.

8. PROFIT BEFORE TAX

Profit before tax in the condensed consolidated statement of income is determined after charging or crediting the following items:

	Six months ended 30th June, 2001	**Six months ended 30th June, 2000**
	(unaudited) *RMB'000*	**(unaudited)** *RMB'000*
After charging:		
Depreciation of property, plant and equipment, net of change in the amount of depreciation inventorised	413,153	383,655
Amortisation of intangible assets, net of change in the amount of amortisation inventorised	3,359	1,951
Net loss on disposals of property, plant and equipment	27,504	10,635
Provision for impairment in value of long-term investments	10,000	15,165
Interest expense	77,789	79,154
Exchange loss	3,532	1,523
After crediting:		
Interest income	27,150	21,741
Income from unlisted investments	2,889	3,215
Exchange gain	221	612
Net gain on disposals of long-term investments	929	–

9. INCOME TAX EXPENSES

Individual companies within the Group are generally subject to enterprise income tax ("EIT") at 33 per cent on taxable income determined according to the PRC tax laws. Pursuant to the relevant tax regulations, the Company is eligible to certain EIT preferential treatments because of its recycling of certain wasted materials. The amount of the reduced EIT was RMB69,697,000 (for the six months ended 30th June, 2000: RMB32,028,000).

Deferred taxation is provided under the balance sheet liability method in respect of significant temporary differences arising from differences between the carrying amount of an asset and liability for financial reporting purposes and the amount used for income tax purposes. Deferred tax assets are recognized to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilized.

The Group was not subject to Hong Kong profits tax as the Group did not earn any profit that was subject to Hong Kong profits tax.

10. DIVIDENDS

The shareholder's meeting held on 12th June, 2001 approved the final dividend appropriation for 2000 of approximately RMB88,332,000 (RMB0.035 per share).

According to the Board of Directors' resolution passed on 24th August, 2001, the Company will pay an interim dividend of RMB0.025 per share (2000 interim: RMB0.015 per share), which will amount to a total of RMB63,093,862 (2000 interim: RMB37,856,317). The calculation of interim dividend for the period ended 30th June, 2001 was based on the number of shares in issue according to the register of shareholders as of 30th June, 2001. However, actual dividend payments will be based on the total registered shares of the Company as of 28th September, 2001.

11. EARNINGS PER SHARE

The calculation of basic earnings per share was based on the consolidated net profit of approximately RMB293,868,000 for the six months ended 30th June, 2001 (for the six months ended 30th June, 2000: RMB152,820,000) and on the 2,523,754,468 shares (for the six months ended 30th June, 2000: 2,523,754,468 shares) in issue during the period.

The calculation of diluted earnings per share was based on the adjusted consolidated net profit of approximately RMB327,819,000 (for the six months ended 30th June, 2000: RMB185,610,000) on the assumption that all convertible bonds were converted on 1st January, 2001 and on the weighted average number of approximately 2,952,500,000 shares (for the six months ended 30th June, 2000: 2,952,500,000 shares) deemed to have been in issue during the period.

12. RELATED PARTY TRANSACTIONS

Substantially all transactions undertaken by the Group have been effected with such counterparties and on such terms as determined by China Petroleum & Chemical Corporation ("Sinopec", the Group's parent company) and other relevant PRC authorities. Sinopec negotiates and agrees with suppliers the terms of State-allocated crude oil on a group basis, which is then allocated among the companies under its control, including the Group, on a discretionary basis.

Major transactions between the Group and Sinopec/China Petrochemical Corporation ("Sinopec Group Company", the Group's ultimate parent company) were as follows:

	Six months ended 30th June, 2001	**Six months ended 30th June, 2000**
	(unaudited) *RMB'000*	**(unaudited)** *RMB'000*
Research and development expenditures payable *(Note (a))*	17,520	17,520
Research and development subventions received *(Note (a))*	3,450	150
Insurance premiums paid *(Note (b))*	19,196	17,291
Subsidy received *(Note (c))*	6,739	7,275

(a) *The Company pays Sinopec for research and development expenditures in accordance with the provisions in an agreement between the Company and Sinopec. Also, the Company undertakes certain research and development projects for Sinopec.*

(b) *Pursuant to administrative measures issued by Sinopec, the Group maintains insurance coverage with a subsidiary of Sinopec Group Company, which covers the Group's buildings, machinery, equipment and inventories. The insurance premium is calculated based on certain percentage of the carrying value of the Group's assets covered.*

(c) *Subsidy received from Sinopec Group Company can only be utilized to enhance the Group's security and safety measures and to conduct specified researches.*

Transactions between the Group and other Sinopec group companies are as follows:

	Six months ended 30th June, 2001	**Six months ended 30th June, 2000**
	(unaudited) *RMB'000*	**(unaudited)** *RMB'000*
Sales of products	7,924,499	6,340,192
Purchases		
– Import of crude oil through a Sinopec group company	4,200,428	4,258,740
– Purchase of crude oil through a Sinopec group company	–	566,427
– Others	8,000	14,035
Service fee payable in relation to import of crude oil	25,203	42,587
Construction fees payable	150,690	46,226

Transactions between the Group and its associates are as follows:

	Six months ended 30th June, 2001	Six months ended 30th June, 2000
	(unaudited) *RMB'000*	(unaudited) *RMB'000*
Sales of products	21,884	84,820

The directors of the Company are of the opinion that the above transactions were conducted in the ordinary course of business and on normal commercial terms.

13. SEGMENTAL INFORMATION

The Group conducts the majority of its business activities in two areas, refining and chemicals. The refining segment is principally engaged in the production and sale of petroleum, intermediate petrochemical and other petrochemical products. Gasoline, diesel fuel and jet fuel are three major products of the segment. The chemical segment is principally engaged in the production and sale of urea. An analysis by business segment is as follows:

	2001			
	Refining	Chemicals	Elimination	Total
	(unaudited) *RMB'000*	(unaudited) *RMB'000*	(unaudited) *RMB'000*	(unaudited) *RMB'000*
Turnover	9,848,898	244,979	(173,085)	9,920,792
Cost of sales	(9,039,929)	(243,038)	173,085	(9,109,882)
Gross profit	808,969	1,941	–	810,910
Unallocated corporate expenses				(390,493)
Profit from operations				420,417
Finance cost				(50,639)
Share of losses of associates	(3,437)	–	–	(3,437)
Others, net				(35,898)
Income tax expenses				(36,575)
Net profit				293,868
OTHER INFORMATION				
Segment assets	9,004,712	398,870	–	9,403,582
Unallocated corporate assets				2,115,321
Total assets				11,518,903
Segment liabilities	(908,636)	(17,610)	–	(926,246)
Unallocated corporate liabilities				(2,935,912)
Total liabilities				(3,862,158)
Capital expenditure	440,829	7,760	–	448,589
Depreciation and amortisation	375,636	40,876	–	416,512

	2000			
	Refining	Chemicals	Elimination	Total
	(unaudited) *RMB'000*	(unaudited) *RMB'000*	(unaudited) *RMB'000*	(unaudited) *RMB'000*
Turnover	9,341,097	359,577	(211,714)	9,488,960
Cost of sales	(8,830,461)	(294,025)	211,714	(8,912,772)
Gross profit	510,636	65,552	–	576,188
Unallocated corporate expenses				(322,452)
Profit from operations				253,736
Finance cost				(57,413)
Share of profits of associates	4,692	–	–	4,692
Others, net				(21,101)
Income tax expenses				(27,094)
Net profit				152,820
OTHER INFORMATION				
Segment assets	9,069,777	533,647	–	9,603,424
Unallocated corporate assets				1,993,395
Total assets				11,596,819
Segment liabilities	(1,761,160)	(7,584)	–	(1,768,744)
Unallocated corporate liabilities				(2,377,313)
Total liabilities				(4,146,057)
Capital expenditure	257,006	5,495	–	262,501
Depreciation and amortisation	347,108	38,498	–	385,606

14. COMMITMENTS

As of 30th June, 2001, the Group had capital commitments amounting to RMB20,352,000 (as of 31st December, 2000: RMB12,700,000), which had been contracted but not provided for.

Capital commitments relate primarily to construction of buildings and machinery and equipment to support the Company's expansion plan.

15. CONTINGENT LIABILITIES

As of 30th June, 2001, the Group provided bank loan guarantee in the amount of RMB110 million (as of 31st December, 2000: RMB100 million) to an associate of the Group.

16. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks, including credit risk and interest rate risk.

Financial risk management is carried out by the Finance Department under policies approved by the Board of Directors.

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit terms and monitoring procedures. The Group has no significant concentration of credit risk with any single counterparty or group counterparties.

The Group's income and operating cash flows are substantially independent of changes in market interest rate prices.

The Group has no significant concentration of foreign exchange risk due to limited foreign currency transactions.

(b) Fair value estimation

The fair value of publicly traded securities is based on quoted market prices at the balance sheet date.

In assessing the fair value of non-trading securities and other financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

17. SUBSEQUENT EVENTS

There is no significant subsequent event incurred except the declaration of an interim dividend as discussed in Note 10 above.

18. COMPARATIVE FIGURES

Certain comparative figures for the six months ended 30th June, 2000 and as of 31st December, 2000 have been reclassified to conform to the current interim period's presentation.