

## 5. NOTES ON THE UNAUDITED INTERIM ACCOUNTS

### (i) PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PREPARATION

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”).

The Company was established in the PRC on 25 February 2000 as a joint stock limited company as part of 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.

These interim accounts are unaudited, but have been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants. KPMG’s independent review report to the Board of Directors is included on page 35.

The interim accounts have been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with IAS 34 “Interim Financial Reporting” adopted by the International Accounting Standards Board.

The financial information relating to the financial year ended 31 December 2000 included in the interim accounts does not constitute the Company’s statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2000 are available from the Company’s registered office. The Company’s independent auditors have expressed an unqualified opinion on those accounts in their report dated 12 April 2001.

The accounting policies have been consistently applied by the Group and, except for the adoption of IAS 39 “Financial Instruments: Recognition and Measurement” which is effective for accounts covering periods beginning on or after 1 January 2001, are consistent with those adopted in the 2000 annual accounts.

IAS 39 establishes principles for recognising, measuring and disclosing information about financial assets and financial liabilities. IAS 39 defines several categories of financial assets and liabilities. It requires an entity to measure at fair value assets and liabilities qualified as trading or available-for-sale, and to recognise changes in fair value through profit and loss account for trading assets and liabilities and in shareholders’ funds for available-for-sale assets. In addition, IAS 39 requires an entity to recognise all derivatives instruments on the balance sheet at fair value.

The Group considers the adoption of IAS 39 did not have material impact on its financial position or results of operations.

The Company also prepares a set of interim accounts which complies with the PRC Accounting Rules and Regulations. A reconciliation of the Group’s profit attributable to shareholders and shareholders’ funds prepared under IAS and the PRC Accounting Rules and Regulations is presented in Section C.

**(ii) SEGMENTAL REPORTING**

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

	Six-month periods ended 30 June	
	2001	2000
	RMB	RMB
	millions	millions
		(Audited)
<b>Turnover</b>		
Exploration and production		
External sales	4,227	4,253
Inter-segment sales	21,693	21,177
	25,920	25,430
Refining		
External sales	26,747	30,252
Inter-segment sales	81,615	67,941
	108,362	98,193
Marketing and distribution		
External sales	93,844	77,816
Inter-segment sales	1,372	283
	95,216	78,099
Chemicals		
External sales	26,087	27,823
Inter-segment sales	2,928	1,485
	29,015	29,308
Corporate and others		
External sales	7,952	7,654
Inter-segment sales	4,841	1,086
	12,793	8,740
Elimination of inter-segment sales	(112,449)	(91,972)
<b>Turnover</b>	<b>158,857</b>	<b>147,798</b>
<b>Other operating revenues</b>		
Exploration and production	2,423	141
Refining	960	561
Marketing and distribution	103	174
Chemicals	1,598	570
Corporate and others	366	123
<b>Other operating revenues</b>	<b>5,450</b>	<b>1,569</b>
<b>Turnover and other operating revenues</b>	<b>164,307</b>	<b>149,367</b>

## 5. NOTES ON THE UNAUDITED INTERIM ACCOUNTS (CONTINUED)

### (ii) SEGMENTAL REPORTING (continued)

	Six-month periods ended 30 June	
	2001	2000
	RMB	RMB
	millions	millions
		(Audited)
<b>Operating profit/(loss)</b>		
By segment		
- Exploration and production	11,570	11,055
- Refining	2,776	(1,571)
- Marketing and distribution	974	3,155
- Chemicals	186	1,938
- Corporate and others	353	42
<b>Total operating profit</b>	<b>15,859</b>	<b>14,619</b>
<b>Share of profits less losses from investments accounted for under the equity method</b>		
- Exploration and production	53	8
- Refining	(3)	—
- Marketing and distribution	74	11
- Chemicals	(19)	(39)
- Corporate and others	2	2
<b>Aggregate share of profits less losses from investments accounted for under the equity method</b>	<b>107</b>	<b>(18)</b>
<b>Finance costs</b>		
Interest expense	(2,876)	(3,367)
Interest income	733	311
Foreign exchange losses	(103)	(75)
Foreign exchange gains	277	351
<b>Net finance costs</b>	<b>(1,969)</b>	<b>(2,780)</b>
Investment income	77	95
<b>Profit from ordinary activities before taxation</b>	<b>14,074</b>	<b>11,916</b>
Taxation	(3,911)	(3,490)
<b>Profit from ordinary activities after taxation</b>	<b>10,163</b>	<b>8,426</b>
Minority interests	(583)	(913)
<b>Profit attributable to shareholders</b>	<b>9,580</b>	<b>7,513</b>

In view of the fact that the Group operates mainly in the PRC, no geographical segmental information is presented.

### (iii) EMPLOYEE REDUCTION EXPENSES

In accordance with the Group's employee reduction plan, the Group recorded employee reduction expenses of RMB 1,301 million (2000: RMB nil) during the six-month period ended 30 June 2001 in respect of the voluntary resignation of approximately 27,000 employees.

**(iv) PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION**

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	Six-month periods ended 30 June	
	2001	2000
	RMB	RMB
	millions	millions
		(Audited)
Interest on debts and advances	3,256	3,591
Less: Amount capitalised as construction in progress	(380)	(224)
Interest expenses, net	2,876	3,367
Cost of inventories	127,958	116,860
Loss on disposal of property, plant and equipment	258	147
Impairment losses on long-lived assets	—	92
Reversal of impairment losses on long-lived assets, net of depreciation effect	—	(936)

**(v) TAXATION**

	Six-month periods ended 30 June	
	2001	2000
	RMB	RMB
	millions	millions
		(Audited)
Provision for PRC income tax		
- the Group	3,303	3,545
- associates and jointly controlled entities	34	3
Deferred taxation	574	(58)
	3,911	3,490

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 six-month periods ended 30 June 2000 and 2001, except for certain subsidiaries of the Company, which are taxed at a preferential rate of 15%.

**(vi) DIVIDENDS**

Pursuant to the shareholders' approval at the Annual General Meeting held on 5 June 2001, a final dividend of RMB 0.08 per share totalling RMB 6,712 million in respect of the year ended 31 December 2000 was paid on 27 July 2001.

The Board of Directors has resolved not to pay any interim dividend for the year ending 31 December 2001.

**(vii) BASIC EARNINGS PER SHARE**

The calculation of basic earnings per share for the six-month period ended 30 June 2001 is based on the profit attributable to shareholders of RMB 9,580 million and 83,902,439,000 shares in issue during the period. The calculation of basic earnings per share for the six-month period ended 30 June 2000 is based on the profit attributable to shareholders of RMB 7,513 million and 68,800,000,000 shares issued and outstanding upon the legal formation of the Company on 25 February 2000 as if such shares had been outstanding during the six-month period ended 30 June 2000.

## 5. NOTES ON THE UNAUDITED INTERIM ACCOUNTS (CONTINUED)

### (viii) TRADE ACCOUNTS AND BILLS RECEIVABLES

	At 30 June 2001 RMB millions	At 31 December 2000 RMB millions (Audited)
Trade accounts receivables	19,185	15,504
Less: Allowance for doubtful accounts	(2,869)	(2,817)
	16,316	12,687
Bills receivable	4,012	2,603
	20,328	15,290

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

	At 30 June 2001 RMB millions	At 31 December 2000 RMB millions (Audited)
Invoice date:		
Within one year	18,164	14,043
Between one and two years	1,273	638
Over two years	891	609
	20,328	15,290

Sales are generally on a cash term. Credit sales are generally only available for major customers with well-established trading records.

### (ix) TRADE ACCOUNTS AND BILLS PAYABLES

	At 30 June 2001 RMB millions	At 31 December 2000 RMB millions (Audited)
Trade accounts payable	13,466	19,403
Bills payable	18,194	11,203
	31,660	30,606

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

	At 30 June 2001 RMB millions	At 31 December 2000 RMB millions (Audited)
Due within 1 month or on demand	18,852	22,613
Due after 1 month but within 6 months	12,808	7,993
	31,660	30,606

### (x) CAPITAL COMMITMENTS

The Group had capital commitments as follows:

	At 30 June 2001 RMB millions	At 31 December 2000 RMB millions (Audited)
Authorised and contracted for	9,826	15,491
Authorised but not contracted for	23,030	37,466
	32,856	52,957

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.

**(xi) CONTINGENT LIABILITIES**

Guarantees given to banks in respect of banking facilities granted to the parties below are as follows:

	<b>At 30 June 2001 RMB millions</b>	<b>At 31 December 2000 RMB millions (Audited)</b>
Sinopec Group Company and fellow subsidiaries	—	55
Third parties	877	862
	<b>877</b>	<b>917</b>

**(xii) RELATED PARTY TRANSACTIONS**

The principal related party transactions are with Sinopec Group Company and fellow subsidiaries and are as follows:

	<b>Six-month periods ended 30 June 2001 RMB millions</b>	<b>2000 RMB millions (Audited)</b>
Sales of goods	19,564	19,732
Purchases	10,080	7,778
Transportation and storage	708	814
Exploration and development services	2,981	2,774
Production related services	2,359	2,211
Ancillary and social services	1,224	1,318
Operating lease charges	1,196	1,192
Agency commission income	3	6
Intellectual property licence fee paid	5	5
Interest received	38	44
Interest paid	290	255
Net deposits (withdrawn from)/ placed with related parties	(2,018)	2,364
Net loans (repaid to)/ obtained from related parties	(728)	30,265

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 all of which have been confirmed by the independent non-executive directors.

Other than those separately disclosed on the consolidated balance sheet, details of amounts due from / (to) Sinopec Group Company and fellow subsidiaries are as follows:

	<b>At 30 June 2001 RMB millions</b>	<b>At 31 December 2000 RMB millions (Audited)</b>
Trade accounts receivables	3,532	3,280
Prepaid expenses and other current assets	12,780	10,593
Trade accounts payable	(2,237)	(6,074)
Accrued expenses and other payables	(11,688)	(13,256)

## 5. NOTES ON THE UNAUDITED INTERIM ACCOUNTS (CONTINUED)

### (xiii) POST BALANCE SHEET EVENTS

- (a) Pursuant to the resolutions passed at the Annual General Meeting held on 5 June 2001, the Company issued 2,800,000,000 domestically listed ordinary shares ("A shares") with a par value of RMB 1.00 each at RMB 4.22 on 16 July 2001 to natural persons and institutional investors in the PRC. Total gross proceeds of the A shares offering was RMB 11.8 billion. The A shares were listed on the Shanghai Stock Exchange on 8 August 2001. All the A and H shares rank pari passu in all material respects.
- (b) On 24 August 2001, the Company held an Extraordinary General Meeting to consider an ordinary resolution in connection with the purchase by the Company of the entire equity interest of Sinopec National Star Petroleum Company ("Sinopec National Star") from Sinopec Group Company for a consideration of RMB 6.45 billion. The resolution was duly passed.

Under IAS, turnover and net profit of Sinopec National Star for the six-month period ended 30 June 2001 was RMB 1,464 million and RMB 183 million, respectively.