

4. NOTES ON THE UNAUDITED INTERIM ACCOUNTS (CONTINUED)

(xi) INVESTMENT INCOME

	The Group			The Company		
	Six-month periods ended 30 June		Year ended 31 December	Six-month periods ended 30 June		Year ended 31 December
	2001 RMB millions	2000 RMB millions	2000 RMB millions (Audited)	2001 RMB millions	2000 RMB millions	2000 RMB millions (Audited)
Investment income accounted for under the cost method	77	95	186	17	68	139
Investment income accounted for under the equity method	107	(18)	49	9,783	9,873	23,292
	184	77	235	9,800	9,941	23,431

(xii) NON-OPERATING INCOME

	The Group			The Company		
	Six-month periods ended 30 June		Year ended 31 December	Six-month periods ended 30 June		Year ended 31 December
	2001 RMB millions	2000 RMB millions	2000 RMB millions (Audited)	2001 RMB millions	2000 RMB millions	2000 RMB millions (Audited)
Gain on disposal of fixed assets	19	37	102	17	27	83
Income from final penalties	7	19	26	3	2	9
Others	84	29	87	19	12	45
	110	85	215	39	41	137

(xiii) NON-OPERATING EXPENSES

	The Group			The Company		
	Six-month periods ended 30 June		Year ended 31 December	Six-month periods ended 30 June		Year ended 31 December
	2001 RMB millions	2000 RMB millions	2000 RMB millions (Audited)	2001 RMB millions	2000 RMB millions	2000 RMB millions (Audited)
Impairment losses on long-lived assets	—	92	187	—	92	92
Reversal of impairment losses on long-lived assets, net of depreciation effect	—	(1,049)	(1,049)	—	(338)	(338)
Loss on disposal of fixed assets	277	184	880	121	107	521
Fines, penalties and compensation	10	39	53	8	36	48
Employee reduction expenses	1,301	—	—	753	—	—
Donations	21	17	120	16	8	51
Others	144	293	466	111	259	377
	1,753	(424)	657	1,009	164	751

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.

(xiv) TAXATION

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%.

(xv) No transfers have been made to the statutory surplus reserves, the statutory public welfare fund nor the discretionary surplus reserve from net profit for the six-month period ended 30 June 2001 (2000: RMB nil).

(xvi) DIVIDEND PAYABLE

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

(xvii) RELATED PARTY TRANSACTIONS**(a) Related party having the ability to exercise control over the Group**

Name of company	:	Sinopec Group Company
Registered address	:	No. 6A Huixin East Street, Chaoyang District, Beijing, China
Principal activities	:	Processing crude oil into refined products and petrochemical products, petrochemical products which include: petrochemical products made from crude oil and natural gas; production, sale and import and export of synthetic fibre and synthetic fibre monomer.
Relationship with the Company	:	Ultimate holding company
Type of legal entity	:	State-owned
Authorised representative	:	Li Yi-zhong
Registered capital	:	RMB 104,912 million

The above registered capital of Sinopec Group Company has not been changed since the reorganisation on 24 July 1998 until 30 June 2001. At 30 June 2001, Sinopec Group Company held 56.9% shareholding of the Company and there is no change during the period ended 30 June 2001.

(b) Related parties not having the ability to exercise control over the Group

Sinopec Finance Company Limited
 Nanjing Chemical Industry Company Limited
 Zhongyuan Petrochemical Company
 Sichuan Vinylon Company
 Nanjing Petrochemical Company
 Qingjiang Petrochemical Limited Liability Company
 Baoding Petrochemical Company
 Maoming Ethylene Plant
 Luoyang Petrochemical Polypropylene Industrial Company
 Baling Petrochemical Yueyang Petrochemical Company
 Tianjin United Chemical Company

The above companies are considered to be related parties of the Company as they are subject to common control of Sinopec Group Company.

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

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

4. NOTES ON THE UNAUDITED INTERIM ACCOUNTS (CONTINUED)

(xvii) RELATED PARTY TRANSACTIONS (continued)

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.
 - (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 2001 was RMB 4,583 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.
- (d) Loans from Sinopec Group Company and fellow subsidiaries at 30 June 2001 amounted to RMB 44,284 million (31 December 2000: RMB 45,012 million). Included in loans from Sinopec Group Company and fellow subsidiaries at 30 June 2001 is a Renminbi denominated interest-free loan of RMB 35,561 million (31 December 2000: RMB 35,561 million) due to Sinopec Group Company with maturity in 2020. The Group may choose to repay by one repayment in 2020 or two equal instalments in 2020 and 2021 upon maturity of the loan in 2020.
- (e) Details of amounts due from/ (to) related parties of the Group are as follows:

	Ultimate holding company		Other related parties	
	30 June 2001 RMB millions	31 December 2000 RMB millions (Audited)	30 June 2001 RMB millions	31 December 2000 RMB millions (Audited)
Trade accounts receivables	539	440	2,993	2,840
Advances to suppliers	302	499	793	138
Other receivables	3,252	2,034	8,433	7,922
Trade accounts payable	(981)	(734)	(1,256)	(5,340)
Other payables	(2,254)	(852)	(9,434)	(12,404)

(xviii) CAPITAL COMMITMENTS

The Group and the Company had capital commitments as follows:

	The Group		The Company	
	At 30 June 2001 RMB millions	At 31 December 2000 RMB millions (Audited)	At 30 June 2001 RMB millions	At 31 December 2000 RMB millions (Audited)
Authorised and contracted for	9,826	15,491	7,661	1,450
Authorised but not contracted for	23,030	37,466	2,238	18,968
	32,856	52,957	9,899	20,418

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

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

(xx) 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 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 from Sinopec Group Company for a consideration of RMB 6.45 billion. The resolution was duly passed.

4. NOTES ON THE UNAUDITED INTERIM ACCOUNTS (CONTINUED)

(xxi) SEGMENTAL INFORMATION

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

	Six-month periods ended 30 June		Year ended 31 December
	2001 RMB millions	2000 RMB millions	2000 RMB millions (Audited)
Income from principal operations			
Exploration and production			
External sales	4,227	4,253	9,846
Inter-segment sales	21,693	21,177	46,213
	25,920	25,430	56,059
Refining			
External sales	26,747	30,252	67,872
Inter-segment sales	81,615	67,941	162,153
	108,362	98,193	230,025
Marketing and distribution			
External sales	93,844	77,816	174,645
Inter-segment sales	1,372	283	652
	95,216	78,099	175,297
Chemicals			
External sales	26,087	27,823	56,224
Inter-segment sales	2,928	1,485	3,443
	29,015	29,308	59,667
Corporate and others			
External sales	7,952	7,654	14,345
Inter-segment sales	4,841	1,086	11,527
	12,793	8,740	25,872
Elimination of inter-segment sales	(112,449)	(91,972)	(223,988)
Income from principal operations	158,857	147,798	322,932
Cost of sales, sales tax and surcharges			
Exploration and production	13,681	13,731	26,391
Refining	103,469	95,904	222,186
Marketing and distribution	87,837	70,176	157,743
Chemicals	26,233	25,387	51,491
Corporate and others	12,277	8,298	24,919
Elimination of inter-segment cost of sales	(113,917)	(91,058)	(221,395)
Cost of sales, sales tax and surcharges	129,580	122,438	261,335
Profit from principal operations			
Exploration and production	13,183	10,330	27,155
Refining	5,417	2,744	7,759
Marketing and distribution	7,379	7,923	17,554
Chemicals	2,782	3,921	8,176
Corporate and others	516	442	953
Profit from principal operations	29,277	25,360	61,597