

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 December 2000

32. RELATED PARTY TRANSACTIONS (Continued)

- (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 31 December 2000 was RMB 6,601 million (1999: RMB 2,511 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- (xii) Deposits were placed with/withdrawn from Sinopec Finance Company Limited.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.

In connection with the Reorganisation, the Company and Sinopec Group Company entered into a number of agreements under which 1) Sinopec Group Company will provide goods and products and a range of ancillary, social and supporting services to the Group and 2) the Group will sell certain goods to Sinopec Group Company. These agreements impacted the results of operations of the Group for the year ended 31 December 2000. The terms of these agreements are summarised as follows:

- (a) The Company has entered into a three year non-exclusive Agreement for Mutual Provision of Products and Ancillary Services ("Mutual Provision Agreement") with Sinopec Group Company effective from 1 January 2000 in which Sinopec Group Company has agreed to provide the Group with certain ancillary production services, construction services, information advisory services, supply services and other services and products. While each of Sinopec Group Company and the Company is permitted to terminate the Mutual Provision Agreement upon at least six months notice, Sinopec Group Company has agreed not to terminate the agreement if the Group is unable to obtain comparable services from a third party. The pricing policy for these services and products provided by Sinopec Group Company to the Group is as follows:
 - the government-prescribed price;
 - where there is no government-prescribed price, the government-guidance price;
 - where there is neither a government-prescribed price nor a government-guidance price, the market price; or
 - where none of the above is applicable, the price to be agreed between the parties, which shall be based on a reasonable cost incurred in providing such services plus a profit margin not exceeding 6%.
- (b) The Company has entered into a three year non-exclusive Agreement for Provision of Cultural and Educational, Health Care and Community Services with Sinopec Group Company effective from 1 January 2000 in which Sinopec Group Company has agreed to provide the Group with certain cultural, educational, health care and community services on the same pricing terms and termination conditions as agreed to in the above Mutual Provision Agreement.
- (c) The Company has entered into lease agreements with Sinopec Group Company effective from 1 January 2000 to lease certain land and buildings for terms the shorter of the period of the existing land use rights and 50 years for land and 20 years for buildings at a rental of approximately RMB 1,948 million and RMB 436 million, respectively, per annum. The Company and Sinopec Group Company can renegotiate the rental amount every three years for land and every year for buildings, such amount not to exceed the market price as determined by an independent third party. The Group has the option to terminate these leases upon six months notice to Sinopec Group Company.
- (d) The Company has entered into agreements with Sinopec Group Company effective from 1 January 2000 under which the Group has been granted the right to use certain trademarks, patents, technology and computer software developed by Sinopec Group Company for a term of ten years. The Group will reimburse Sinopec Group Company for fees required to maintain the validity of these licenses.
- (e) The Company has entered into agency agreements for a period of three years effective from 1 January 2000 with certain entities owned by Sinopec Group Company under which the Group acts as a sole agent in respect of the sale of all the products of these entities. In exchange for the Group's sales agency services, Sinopec Group Company has agreed to pay the Group a commission of between 0.2% and 1.0% of actual sales receipts depending on the products and to reimburse the Group for reasonable costs incurred in the capacity as its sales agent.
- (f) The Company has entered into a service stations franchise agreement with Sinopec Group Company effective from 1 January 2000 for a term of 10 years under which its service stations and retail stores would exclusively sell the refined products supplied by the Group.

Sinopec Group Company has granted the Company an option to acquire Sinopec National Star Petroleum Company ("Sinopec National Star") at any time in the future. The Company and Sinopec Group Company must appoint a qualified third party to value the business and operations of Sinopec National Star following the exercise of the option. Sinopec National Star is engaged in both onshore and offshore exploration and production of crude oil and natural gas.

The Company has entered into several debts related transactions with Sinopec Group Company during the year ended 31 December 2000 as follows:

- (i) RMB 5,847 million of the Group's debts to third parties were assumed by Sinopec Group Company in April 2000 in consideration for the Group transferring an equivalent amount of receivables to Sinopec Group Company.
- (ii) RMB 35,561 million of the Group's debts, which included RMB 21,262 million of the Group's debts to third parties assumed by Sinopec Group Company, were exchanged for an interest free subordinated loan from Sinopec Group Company. The Group may repay all or part of the loan after 31 December 2006 with the approval of the shareholders at that time. Upon maturity of the loan in 2020, the Group may choose to repay by one repayment in 2020 or two equal instalments in 2020 and 2021.

33. EMPLOYEE BENEFITS PLAN

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The Group is required to make contributions to the retirement plans at rates ranging from 9.0% to 25.5% of the salaries, bonuses and certain allowances of its staff. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the year ended 31 December 2000 were RMB 1,359 million (1999: RMB 1,312 million).

34. SEGMENTAL REPORTING

The Group has five operating segments as follows:

- (i) Exploration and production, which explores and develops oil fields, produces crude oil and natural gas and sells such products to the refining segment of the Group and external customers.
- (ii) Refining, which processes and purifies crude oil, which is sourced from the exploration and production segment of the Group and external suppliers, and manufactures and sells petroleum products to the chemicals and marketing and distribution segments of the Group and external customers.
- (iii) Marketing and distribution, which owns and operates oil depots and service stations in the PRC, and distributes and sells refined petroleum products (mainly gasoline and diesel) in the PRC through wholesale and retail sales networks.
- (iv) Chemicals, which manufactures and sells petrochemical products, derivative petrochemical products and other chemical products mainly to external customers.
- (v) Corporate and others, which largely comprise the trading activities of the import and export companies of the Group and research and development undertaken by other subsidiaries.

The segments were determined primarily because the Group manages its exploration and production; refining; marketing and distribution; chemicals; and corporate and others businesses separately. The reportable segments are each managed separately because they manufacture and/or distribute distinct products with different production processes and due to their distinct operating and gross margin characteristics. In view of the fact that the Company and its subsidiaries operate mainly in the PRC, no geographical segment information is presented.

The Group evaluates the performance and allocates resources to its operating segments on an operating income basis, without considering the effects of finance costs or investment income. The accounting policies of the Group's segments are the same as those described in the Principal Accounting Policies (see Note 2). Corporate administrative costs and assets are not allocated to the operating segments; instead, operating segments are billed for direct corporate services. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by the Group's policy. Beginning 1 January 2000, sales of the exploration and production segment to the refining segment are based on market prices.

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

	2000 RMB millions	1999 RMB millions
Turnover		
Exploration and production		
External sales	9,846	6,145
Inter-segment sales	46,213	24,728
	56,059	30,873
Refining		
External sales	67,872	50,441
Inter-segment sales	162,153	87,086
	230,025	137,527
Marketing and distribution		
External sales	174,645	120,255
Inter-segment sales	652	53
	175,297	120,308
Chemicals		
External sales	56,224	60,064
Inter-segment sales	3,443	2,153
	59,667	62,217
Corporate and others		
External sales	14,345	726
Inter-segment sales	11,527	354
	25,872	1,080
Elimination of inter-segment sales	(223,988)	(114,374)
Turnover	322,932	237,631
Other operating revenues		
Exploration and production	1,174	358
Refining	3,070	1,100
Marketing and distribution	326	445
Chemicals	1,273	449
Corporate and others	126	16
Other operating revenues	5,969	2,368
Turnover and other operating revenues	328,901	239,999

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 December 2000

34. SEGMENTAL REPORTING (Continued)

	2000 RMB millions	1999 RMB millions
Result		
Operating profit		
By segment		
— Exploration and production	24,704	3,919
— Refining	1,394	6,065
— Marketing and distribution	6,358	2,550
— Chemicals	2,437	3,677
— Corporate and others	(89)	(831)
Total operating profit	34,804	15,380
Share of profits less losses from investments accounted for under the equity method		
— Exploration and production	8	54
— Refining	33	14
— Marketing and distribution	60	36
— Chemicals	(64)	(42)
— Corporate and others	12	84
Aggregate share of profits less losses from investments accounted for under the equity method	49	146
Finance costs		
Interest expense	(6,529)	(10,053)
Interest income	820	1,240
Foreign exchange losses	(84)	(1,501)
Foreign exchange gains	950	90
Net finance costs	(4,843)	(10,224)
Gains from issuance of shares by subsidiaries	—	607
Investment income	186	597
Profit from ordinary activities and before taxation	30,196	6,506
Taxation	(9,399)	(277)
Profit after ordinary activities after taxation	20,797	6,229
Minority interests	(1,793)	(1,557)
Profit attributable to shareholders	19,004	4,672

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities. Assets which benefit more than one segment or are considered to be corporate assets are not allocated. "Unallocated assets" consists primarily of cash and cash equivalents, time deposits with financial institutions, investments and deferred tax assets. "Unallocated liabilities" consists primarily of short-term and long-term debts, loans from Sinopec Group Company and fellow subsidiaries, income tax payable, deferred tax liabilities and other liabilities.

Investments in and earnings from associates are included in the segments in which the associates operate. Information on associates is included in Note 21. Additions to long-lived assets by operating segment are included in Notes 17 and 18.