

NOTES ON THE FINANCIAL STATEMENTS

for the year ended 31 December 2001

1 STATUS OF THE COMPANY

China Petroleum and Chemical Corporation (“the Company”) was established in the PRC on 25 February 2000 as a joint stock limited company.

According to the State Council’s approval to the “Preliminary Plan for the Reorganisation of China Petrochemical Corporation” (“the Reorganisation”), the Company was established by China Petrochemical Corporation (“Sinopec Group Company”), which transferred its core businesses together with the related assets and liabilities at 30 September 1999 to the Company. Such assets and liabilities had been valued jointly by China United Assets Appraisal Corporation, Beijing Zhong Zheng Appraisal Company, CIECC Assets Appraisal Corporation and Zhong Fa International Properties Valuation Corporation. The net asset value was determined at RMB 98,249,084,000. The valuation was reviewed and approved by the Ministry of Finance (“MOF”) (Cai Ping Zi [2000] No. 20 “Comments on the Review of the Valuation Regarding the Formation of a Joint Stock Limited Company by China Petrochemical Corporation”).

In addition, pursuant to the notice Cai Guan Zi [2000] No. 34 “Reply to the Issue Regarding Management of State-Owned Equity by China Petroleum and Chemical Corporation” issued by the MOF, 68.8 billion domestic state-owned shares with a par value of RMB1.00 each were issued to Sinopec Group Company, the amount of which is equivalent to 70% of the above net asset value transferred from Sinopec Group Company to the Company in connection with the Reorganization.

Pursuant to the notice Guo Jing Mao Qi Gai [2000] No. 154 “Reply on the Formation of China Petroleum and Chemical Corporation”, the Company obtained the approval from the State Economic and Trade Commission on 21 February 2000 for the formation of a joint stock limited company .

The Company took over the exploration, development and production of crude oil and natural gas, refining, chemicals and related sales and marketing business of Sinopec Group Company after the establishment of the Company.

Pursuant to the resolution passed at the extraordinary general meeting held on 24 August 2001, the Company acquired 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.

2 CHANGE IN ACCOUNTING POLICY

Pursuant to the notices “Cai Qi [2000] No. 295” and “Cai Kui Zi [2001] No.5” issued by MOF on 6 September 2000 and 7 January 2001, respectively, the debit balance of Housing Revolving Fund at 31 December 2000, net of the amount attributable to minority interests, should be written-off against the undistributed profits brought forward in 2001. The shareholders’ funds of the Company and its subsidiaries (“the Group”) and the Company were reduced by RMB 484 million accordingly.

The effect of the above change in accounting policy is as follows:

	The Group and the Company RMB millions
Undistributed profits at 31 December 2000	6,212
Write-off of debit balance of Housing Revolving Fund, net of the amount attributable to minority interests	484
Undistributed profits at 1 January 2001 (as restated)	5,728

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are in conformity with the “Accounting Standards for Business Enterprises” and “Accounting Regulations for Business Enterprises” issued by the MOF of the PRC.

(a) Accounting year

The accounting year of the Group is from 1 January to 31 December.

(b) Basis of consolidation

The Group prepared the consolidated financial statements according to Cai Kui Zi [1995] No.11 “Temporary regulations on consolidated financial statements” issued by the MOF.

The consolidated financial statements include the financial statements of the Company and all of its principal subsidiaries made up to 31 December each year. Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated income statement of the Company only includes the results of the subsidiaries during the period when such control effectively commences until the date that control effectively ceases. The effect of minority interests on equity and profit/loss attributable to minority interests are separately shown in the consolidated financial statements.

Where the accounting policies adopted by the subsidiaries are different from the policies adopted by the Company, the financial statements of the subsidiaries have been adjusted in accordance with the accounting policies adopted by the Company on consolidation. All significant inter-company balances and transactions, and any unrealised gains arising from inter-company transactions, have been eliminated on consolidation. For those subsidiaries whose assets and results of operation are not significant and have no significant effect on the Group’s consolidated financial statements, the Company does not consolidate these subsidiaries, but includes in the long-term equity investments.

For those jointly controlled entities which the Company has joint control with other investors under contractual arrangement, the Company consolidates their assets, liabilities, revenues, costs and expenses based on the proportionate consolidation method according to its percentage of holding of equity interest in those entities.

(c) Basis of preparation

The financial statements of the Group have been prepared on an accrual basis under the historical costs convention, unless otherwise stated.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2001

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Reporting currency and translation of foreign currencies

The Group's financial statements are prepared in Renminbi. Foreign currency transactions during the year are translated into Renminbi at the applicable rates of exchange quoted by the People's Bank of China ("PBOC rates") prevailing on the transaction dates. Foreign currency monetary assets and liabilities are translated into Renminbi at the applicable PBOC rates at the balance sheet date. Exchange differences, other than those arising from foreign currency loans using to finance the construction of fixed assets before they are ready for their intended use are capitalised, are recognised as income or expenses in the income statement.

The results of overseas subsidiaries are translated into Renminbi at the annual average PBOC rates. The balance sheet items are translated into Renminbi at the applicable PBOC rates at the balance sheet date. The resulting exchange gains or losses are accounted for as foreign currency exchange differences in the income statement.

(e) Cash equivalents

Cash equivalents are short-term and highly liquid investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value, including time deposits with financial institutions with an initial term of less than three months.

(f) Allowance for doubtful accounts

Doubtful debts are accounted for based on allowance method which are estimated periodically. Trade accounts receivables showing signs of uncollectibility are identified individually and allowance is then made based on the probability of being uncollectible. In respect of trade accounts receivables showing no sign of uncollectibility, allowance is made with reference to the ageing analysis and management's estimation based on past experience. Allowances for other receivables are determined based on the nature and corresponding collectibility. Specific approval from management is required for allowances made in respect of significant doubtful receivables.

(g) Inventories

Inventories, other than spare parts and consumables, are stated at the lower of cost and net realisable value. Difference between the cost and net realisable value of each category of inventories is recognised as provision for diminution in value of inventories. Cost of inventories includes the cost of purchase of raw material computed using the weighted average method and, in the case of work in progress and finished goods, an appropriate proportion of direct labor and production overheads, also computed using the weighted average method. Net realisable value is determined based on the estimated selling price subsequent to the balance sheet date in the ordinary course of business or the management's estimation based on the prevailing market conditions.

Spare parts and consumables are stated at cost less any provision for obsolescence.

(h) Long-term equity investments

The Group's investments in the associates and jointly controlled entities and the Company's investments in subsidiaries, associates and jointly controlled entities and the related investment income are accounted for in the long-term equity investment using the equity method. Equity investments difference is the difference between initial investment cost and the share of shareholders' funds of the investee companies, which is amortised on a straight-line basis and recognised in the investment income. The amortisation period is determined according to the investment period as stipulated in the relevant agreement or 10 years if not specified.

An associate is a company in which the Group holds, for long-term purposes, not less than 20% but not more than 50% of its equity interests and exercises significant influence in its management. A jointly controlled entity is an entity over which the Group can exercise joint control with other ventures.

Long-term investments in entities in which the Group does not hold more than 20% of their equity interests or those in which the Group holds more than 20% of their equity interests but does not exercise significant influence in their management are stated at cost less provision for impairment losses. Provision for impairment losses is made when there is a permanent diminution in the value of investment. Investment income is recognised when an investee company declares cash dividend or distributes profit.

Disposals or transfers of long-term equity investments are recognised in the income statement based on the difference between the disposal proceeds and the carrying amount of the investments.

(i) Fixed assets and construction in progress

Fixed assets and construction in progress are stated in the balance sheet at cost or revalued amount less accumulated depreciation and impairment losses. Valuation is carried out in accordance with the relevant rules and regulations in the PRC and fixed assets and construction in progress are adjusted to the revalued amounts accordingly.

All direct and indirect costs related to the purchase or construction of fixed assets, including interest charges and foreign exchange gains or losses on related borrowings during the construction period, are capitalised as construction in progress.

Construction in progress is transferred to fixed assets when the asset is substantially completed and ready for its intended use.

Depreciation is provided to write off the cost of fixed assets over their estimated useful lives on a straight-line basis, after taking into account their estimated residual values.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Fixed assets and construction in progress (Continued)

The respective estimated useful lives, residual values and annual depreciation rates on fixed assets are as follows:

	Depreciation life	Residual value	Annual depreciation rate
Land and buildings	15-45 years	3%-5%	2.1%-6.7%
Oil and gas properties	10-14 years	0%-3%	6.9%-10.0%
Machinery, equipment and vehicles	4-18 years	3%	5.4%-24.3%
Oil depots and storage tanks	8-14 years	3%	6.9%-12.1%
Service station equipment	8-14 years	3%	6.9%-12.1%

No depreciation is provided in respect of construction in progress.

(j) Oil and gas properties

Costs of development wells and the related support equipment are capitalised. The cost of exploratory wells is initially capitalised as construction in progress pending determination of whether the well has found proved reserves. The impairment of exploratory well costs occurs upon the determination that the well has not found proved reserves. However, in the absence of a determination of the discovery of proved reserves, exploratory well costs are not carried as an asset for more than one year following completion of drilling. If, after one year has passed, a determination of the discovery of proved reserves cannot be made, the exploratory well costs are impaired and charged to expense. All other exploration costs, including geological and geophysical costs, are expensed as incurred.

(k) Intangible assets

Intangible assets are carried in the balance sheet at cost or valuation less accumulated amortisation and provision for impairment losses. Amortisation is provided on a straight-line basis. The amortisation period is the shorter of the beneficial period as specified in the related agreement and the legal life of the intangible asset. Amortisation is provided over 10 years if it is not specified in agreements or stipulated by law.

Intangible assets include exploration and production right. Exploration and production right are amortised on a straight-line basis over the average period of the production rights of the related oil fields.

(l) Debentures payable

Debentures payable is valued based on the proceeds received upon issuance and the related interest payable. Interest expenses are calculated using actual interest rate.

(m) Revenue recognition

Revenues associated with the sale of crude oil, natural gas, petroleum and chemical products and all other items are recorded when the customer accepts the goods and the significant risks and rewards of ownership and title have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

Revenue from the rendering of services is recognised upon performance of the services.

Interest income is recognised on a time apportioned basis that takes into account the effective yield on the asset.

(n) Income tax

Income tax is provided using the tax effect accounting method. It represents tax expense relating to the income for the period and is computed based on the income and expenses for the period.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. When the initial recognition of assets or liabilities which affect neither accounting profit nor taxable profit / loss, no deferred tax is provided for in this regard.

The tax value of losses expected to be available for utilisation against future taxable income is set off against the deferred tax liability within the same legal tax unit and jurisdiction. A valuation allowance is provided for the tax value of losses to reduce the deferred tax asset to the amount that is more likely than not to be realised through future taxable income.

(o) Borrowing costs

Borrowing costs represent interest expenses and foreign exchange difference on loans. Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being attributable to the construction of an asset which necessarily takes a period of time to get ready for its intended use.

(p) Repairs and maintenance expenses

Repairs and maintenance expenses, including cost of major overhaul, are expensed as incurred.

(q) Environmental expenditures

Environmental expenditures that relate to current ongoing operations or to conditions caused by past operations are expensed as incurred.

(r) Research and development costs

Research and development costs are recognised as expenses in the period in which they are incurred.

(s) Operating leases

Operating lease payments are charged to the income statement on a straight-line basis over the period of the respective leases.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2001

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Retirement benefits

The contributions payable under the Group's retirement plans are charged to the income statement according to the contribution determined by the plans.

(u) Impairment loss

The carrying amounts of long-lived assets are reviewed by the Group periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value. The amount of the reduction is recognised as an expense in the income statement.

The Group assesses at each balance sheet date whether there is any indication that an impairment loss recognised for an asset in prior years may no longer exist. The provision for impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount by which the impairment loss is reduced. The reversed amount is recognised as income in the period in the income statement.

(v) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

4 TAXATION

Major taxes applicable to the Group and the Company comprise income tax, consumption tax, resources tax and value added tax.

Income tax rate is 33% and that of certain subsidiaries is 15%.

Consumption tax is levied on gasoline and diesel at a rate of RMB 277.6 per tonne and RMB 117.6 per tonne respectively.

Resources tax is levied on crude oil and natural gas at rates ranging from RMB 8 per tonne to RMB 30 per tonne and RMB 2 per 1000 cubic metre to RMB 15 per 1000 cubic metre respectively.

Value added tax rate for liquefied petroleum gas, natural gas and certain agricultural products is 13% and that for other products is 17%.

The subsidiaries granted with tax concession are set out below:

Name of subsidiaries	Applicable tax rate	Reasons for granting concession
Sinopec Shanghai Petrochemical Company Limited	15%	Among the first batch of joint stock enterprises which successfully launched their overseas listings
Sinopec Yizheng Chemical Fibre Company Limited	15%	Among the first batch of joint stock enterprises which successfully launched their overseas listings
Sinopec Qilu Petrochemical Company Limited	15%	Hi-tech enterprise
Sinopec Shijiazhuang Refining-Chemical Company Limited	15%	Hi-tech enterprise
Sinopec Yangzi Petrochemical Company Limited	15%	Hi-tech enterprise
Sinopec Zhongyuan Petroleum Company Limited	15%	Hi-tech enterprise

5 CASH AT BANK AND IN HAND

	Exchange rates	The Group			The Company		
		Original currency millions	2001 RMB millions	2000 RMB millions	Original currency millions	2001 RMB millions	2000 RMB millions
Cash in hand							
Renminbi			79	141		31	138
Cash at bank							
Renminbi			12,300	12,488		7,595	5,474
US Dollars	8.28	116	958	6,350	4	37	4,403
Hong Kong Dollars	1.06	2,199	2,332	15,238	2,092	2,217	15,214
Deutsche Marks	3.74	2	6	6			
Japanese Yen	0.06	270	17	1			
Pound Sterling	12.00	0.25	3	277			
Swiss Francs	4.93	0.20	1	1			
French Francs				31			
Euro	7.34	4	29				
			15,725	34,533		9,880	25,229
Deposits at related parties							
Renminbi			7,129	6,601		1,945	4,038
Total cash at bank and in hand			22,854	41,134		11,825	29,267

Deposits at related parties represent deposits placed at Sinopec Finance Company Limited. Deposits interest is calculated at market rate.

6 BILLS RECEIVABLE

Bills receivable represents mainly the bills of acceptance issued by banks for sales of goods and products.

7 TRADE ACCOUNTS RECEIVABLES

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Subsidiaries	—	—	2,910	5,142
Sinopec Group Company and fellow subsidiaries	3,503	3,280	2,080	1,632
Associates and jointly controlled entities	10	117	8	103
Others	10,049	12,107	6,237	7,246
	13,562	15,504	11,235	14,123
Less: Allowance for doubtful accounts	2,480	2,817	1,774	2,064
	11,082	12,687	9,461	12,059

Ageing analyses on trade accounts receivables are as follows:

	The Group			
	Amount RMB millions	2001 Allowance % RMB millions	2000 Allowance % RMB millions	2000 Allowance % RMB millions
Within one year	9,237	68.1	13	0.2
Between one and two years	962	7.1	254	26.4
Between two and three years	714	5.3	346	48.5
Over three years	2,649	19.5	1,867	70.5
	13,562	100.0	2,480	15,504

	The Company			
	Amount RMB millions	2001 Allowance % RMB millions	2000 Allowance % RMB millions	2000 Allowance % RMB millions
Within one year	8,449	75.2	7	0.1
Between one and two years	656	5.8	131	20.0
Between two and three years	442	3.9	212	48.0
Over three years	1,688	15.1	1,424	84.4
	11,235	100.0	1,774	14,123

Major trade accounts receivables of the Group at 31 December 2001 are set out below:

Name of entity	Particulars	Percentage of trade accounts receivables	
		Balance RMB millions	%
China Petrochemical Corporation	Trade	627	4.6
Shanghai Gaoqiao Petrochemical International Trading Company	Trade	200	1.5
Jinling Petrochemical Export Company	Trade	164	1.2
Jinan Petrochemical Factory	Trade	164	1.2
Qingdao Petrochemical Factory	Trade	131	1.0

Except for the balances disclosed in Note 40, there is no amount due from shareholders who hold 5% or more shareholdings of the Company included in the balance of trade accounts receivables.

During the year ended 31 December 2001, the Group and the Company had no individually significant write off or write back of doubtful debts which had been fully or substantially provided in prior years.

At 31 December 2001, the Group and the Company did not have individually significant trade accounts receivables that aged over three years.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2001

8 OTHER RECEIVABLES

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Subsidiaries	—	—	8,802	1,695
Sinopec Group Company and fellow subsidiaries	8,289	9,956	6,763	7,954
Associates and jointly controlled entities	373	321	373	321
Others	12,690	11,868	9,607	8,936
	21,352	22,145	25,545	18,906
Less: Allowance for doubtful accounts	1,550	2,040	1,242	1,799
	19,802	20,105	24,303	17,107

Ageing analyses of other receivables are as follows:

	The Group							
	Amount RMB millions	2001 Allowance % RMB millions	2001 Allowance % RMB millions	%	Amount RMB millions	2000 Allowance % RMB millions	2000 Allowance % RMB millions	%
Within one year	10,784	50.5	16	0.1	19,159	86.5	20	0.1
Between one and two years	7,715	36.1	3	0.0	449	2.0	123	27.4
Between two and three years	585	2.7	201	34.4	358	1.6	265	74.0
Over three years	2,268	10.7	1,330	58.6	2,179	9.9	1,632	74.9
	21,352	100.0	1,550		22,145	100.0	2,040	

	The Company							
	Amount RMB millions	2001 Allowance % RMB millions	2001 Allowance % RMB millions	%	Amount RMB millions	2000 Allowance % RMB millions	2000 Allowance % RMB millions	%
Within one year	16,538	64.7	8	0.0	16,763	88.6	12	0.1
Between one and two years	7,563	29.6	1	0.0	275	1.5	108	39.3
Between two and three years	226	0.9	150	66.4	280	1.5	215	76.8
Over three years	1,218	4.8	1,083	88.9	1,588	8.4	1,464	92.2
	25,545	100.0	1,242		18,906	100.0	1,799	

Major others receivables of the Group at 31 December 2001 are set out below:

Name of entity	Particulars	Balance RMB millions	Percentage of other receivables %
Daqing Petrochemical Company	Current Account	2,105	9.9
Fushun Petrochemical Company	Current Account	1,194	5.6
Baling Petrochemical Company Limited	Current Account	967	4.5
Yuelian Wanda Petrochemical Company Limited	Current Account	543	2.5
Lanzhou Chemical Industrial Company	Current Account	447	2.1

Except for the balances disclosed in Note 40, there is no amount due from shareholders who hold 5% or more shareholdings of the Company included in the balance of other receivables.

During the year ended 31 December 2001, the Group and the Company had no individually significant write off of other receivables.

At 31 December 2001, the Group and the Company did not have individually significant other receivables that aged over three years.

9 ADVANCE PAYMENTS

All advance payments are due within a year.

Advance payments made to shareholders who hold 5% or more shareholdings of the Company are disclosed in Note 40.

10 INVENTORIES

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 millions
Raw materials	17,777	18,637	9,954	10,522
Work in progress	5,050	5,828	3,556	3,618
Finished goods	20,442	23,534	12,925	17,493
Spare parts and consumables	2,781	2,603	1,044	1,161
	46,050	50,602	27,479	32,794
Less: Provision for diminution in value of inventories	602	841	292	560
	45,448	49,761	27,187	32,234

Provision for diminution in value of inventories is mainly against finished goods.

Provision for diminution in value of inventories are analysed as follows:

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Balance at 1 January	841	730	560	562
Provision for the year	114	370	27	31
Written back for the year	(161)	(190)	(114)	—
Written off	(192)	(69)	(181)	(33)
Balance at 31 December	602	841	292	560

11 LONG-TERM EQUITY INVESTMENTS

The Group

	Listed stock investment RMB millions	Unlisted stock and other equity investment RMB millions	Equity investment differences RMB millions	Provision for impairment losses RMB millions	Total RMB millions
Balance at 1 January 2001	644	4,248	553	(210)	5,235
Addition for the year	—	3,876	404	—	4,280
Share of profits less losses from investments accounted for under the equity method	63	252	—	—	315
Dividends received	(16)	(122)	—	—	(138)
Disposal for the year	—	(292)	(380)	—	(672)
Amortisation for the year	—	—	(139)	—	(139)
Movement of provision for impairment losses	—	—	—	29	29
Balance at 31 December 2001	691	7,962	438	(181)	8,910

The Company

	Listed stock investment RMB millions	Unlisted stock and other equity investment RMB millions	Equity investment differences RMB millions	Provision for impairment losses RMB millions	Total RMB millions
Balance at 1 January 2001	36,953	42,295	473	(140)	79,581
Addition for the year	5	10,901	404	—	11,310
Change in accounting policy (Note 2)	(484)	—	—	—	(484)
Share of profits less losses from investments accounted for under the equity method	611	12,309	—	—	12,920
Dividends received	(1,114)	(10,383)	—	—	(11,497)
Disposal for the year	—	(224)	(365)	—	(589)
Amortisation for the year	—	—	(127)	—	(127)
Movement of provision for impairment losses	—	—	—	(9)	(9)
Balance at 31 December 2001	35,971	54,898	385	(149)	91,105

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2001

11 LONG-TERM EQUITY INVESTMENTS (Continued)

Provision for impairment losses are analysed as follows:

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Balance at 1 January	210	172	140	140
Provision for the year	18	73	9	—
Written back for the year	(42)	—	—	—
Written off	(5)	(35)	—	—
Balance at 31 December	181	210	149	140

At 31 December 2001, the Group and the Company did not have individually significant provision for impairment losses on long-term equity investments.

Other equity investments represent the Group's interests in PRC domiciled enterprises which are mainly engaged in non oil and gas and chemical activities and operations. This includes non-consolidated investments which the Group has over 50% equity interest but the costs of investment are not significant or the Group has no control on the entities' boards of directors. Stock investment of the Company represents investment in subsidiaries and associates. Details of the Company's principal subsidiaries are set out in Note 41.

At 31 December 2001, details of listed stock investment of the Group are as follows:

Name of invested company	Type of investment	No. of shares millions	Percentage of equity interest held by the Group	Initial investment cost RMB millions	Balance at 1 January 2001	Shares of profits accounted for under the equity method	Dividends received RMB millions	Balance at 31 December 2001	Market value as at 31 December 2001*
					RMB millions	RMB millions		RMB millions	RMB millions
Sinopec Shengli Oil Field Dynamic Co Ltd	Legal person shares	80	26.33%	223	362	47	(16)	393	1,074
Sinopec Shandong Taishan Petroleum Co Ltd	Legal person shares	186	38.68%	124	282	16	—	298	1,465
					644	63	(16)	691	

* Information of market price is sourced from Shenzhen Stock Exchange.

At 31 December 2001, details of principal unlisted stock and other equity investment of the Group are as follows:

Name of invested company	Initial investment cost RMB millions	Investment period	Percentage of equity interest held by the Group	Balance at 1 January 2001	Addition for the year	Share of profits/(losses) accounted for under the equity method	Dividends received	Balance at 31 December 2001
				RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
BASF-YPC Company limited (i)	1,231	—	40%	—	1,231	—	—	1,231
Sinopec Finance Company Limited (ii)	1,205	—	40%	245	960	—	—	1,205
Shanghai Petroleum National Gas Corporation	300	—	30%	—	483	200	(99)	584
Shanghai Chemical Industry Park Development Company Limited (i)	560	30 years	38%	250	310	—	—	560
Block A Oil Field in the Western Area Chengda in Bohai Bay (i)	237	15 years	43%	37	200	—	—	237
Shanghai Secco Petrochemical Company Limited (i)	165	50 years	50%	—	165	—	—	165
China Everbright Bank	83	—	—	83	—	—	—	83
Shanghai Jinpu Packaging Material Company Limited	50	30 years	50%	50	10	18	—	78
Shanghai Golden Conti Petrochemical Company Limited	142	30 years	48%	99	—	(28)	—	71
Hangzhou Jinshan Real Estate Company Limited (iii)	64	30 years	84%	64	—	—	—	64

No provision for impairment losses or equity investment difference was made for the long-term equity investments as set out above.

- (i) Due to the fact that the projects in these companies are still under construction, there are no income statements for these companies. Accordingly the Group did not have any share of profits or losses of these companies for the year ended 31 December 2001.
- (ii) The Group increased its equity interest in Sinopec Finance Company Limited from 12.36% to 40% in mid-December 2001. Accordingly the Group did not have any significant share of profit or loss of this company for the year ended 31 December 2001.
- (iii) This subsidiary whose assets and results of operation is not significant and have no significant effect on the Group's consolidated financial statements, therefore, costing method is adopted.

12 FIXED ASSETS

The Group - by segment

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others RMB millions	Total RMB millions
Cost / valuation						
Balance at 1 January 2001	116,795	87,272	28,077	104,589	1,348	338,081
Acquisition of Sinopec National Star	6,184	—	—	—	—	6,184
Addition for the year	259	1,804	7,183	933	270	10,449
Transferred from construction in progress	19,660	4,871	5,791	8,180	66	38,568
Disposals	(544)	(590)	(368)	(1,220)	(27)	(2,749)
Balance at 31 December 2001	142,354	93,357	40,683	112,482	1,657	390,533
Accumulated depreciation:						
Balance at 1 January 2001	62,762	34,854	5,286	49,222	330	152,454
Acquisition of Sinopec National Star	1,811	—	—	—	—	1,811
Depreciation charge for the year	10,582	5,863	1,636	6,477	101	24,659
Written back on disposal	(458)	(332)	(134)	(942)	(18)	(1,884)
Balance at 31 December 2001	74,697	40,385	6,788	54,757	413	177,040
Net book value:						
At 31 December 2001	67,657	52,972	33,895	57,725	1,244	213,493
At 31 December 2000	54,033	52,418	22,791	55,367	1,018	185,627

The Company - by segment

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others RMB millions	Total RMB millions
Cost / valuation						
Balance at 1 January 2001	32,868	60,039	27,309	29,132	620	149,968
Acquisition of Sinopec National Star	6,184	—	—	—	—	6,184
Addition for the year	112	1,314	6,860	464	219	8,969
Transferred from construction in progress	7,913	3,354	5,750	814	19	17,850
Disposals	(329)	(315)	(248)	(101)	(11)	(1,004)
Balance at 31 December 2001	46,748	64,392	39,671	30,309	847	181,967
Accumulated depreciation:						
Balance at 1 January 2001	19,391	26,116	5,148	13,526	190	64,371
Acquisition of Sinopec National Star	1,811	—	—	—	—	1,811
Depreciation charge for the year	3,051	4,068	1,593	1,869	49	10,630
Written back on disposal	(288)	(183)	(93)	(34)	(10)	(608)
Balance at 31 December 2001	23,965	30,001	6,648	15,361	229	76,204
Net book value:						
At 31 December 2001	22,783	34,391	33,023	14,948	618	105,763
At 31 December 2000	13,477	33,923	22,161	15,606	430	85,597

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2001

12 FIXED ASSETS (Continued)

The Group - by asset class

	Land and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
Cost/valuation:					
Balance at 1 January 2001	35,862	104,204	24,248	173,767	338,081
Acquisition of Sinopec National Star	73	5,189	—	922	6,184
Addition for the year	1,176	84	5,119	4,070	10,449
Transferred from construction in progress	1,562	16,494	5,358	15,154	38,568
Reclassification	(2,516)	(726)	(1,227)	4,469	—
Disposals	(353)	(126)	(177)	(2,093)	(2,749)
Balance at 31 December 2001	35,804	125,119	33,321	196,289	390,533
Accumulated depreciation:					
Balance at 1 January 2001	13,132	59,503	4,822	74,997	152,454
Acquisition of Sinopec National Star	17	1,548	—	246	1,811
Depreciation charge for the year	1,747	8,619	1,373	12,920	24,659
Reclassification	(1,451)	(525)	(247)	2,223	—
Written back on disposal	(219)	(90)	(46)	(1,529)	(1,884)
Balance at 31 December 2001	13,226	69,055	5,902	88,857	177,040
Net book value:					
At 31 December 2001	22,578	56,064	27,419	107,432	213,493
At 31 December 2000	22,730	44,701	19,426	98,770	185,627

The Company - by asset class

	Land and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
Cost/valuation:					
Balance at 1 January 2001	16,083	27,813	23,488	82,584	149,968
Acquisition of Sinopec National Star	73	5,189	—	922	6,184
Addition for the year	836	18	4,901	3,214	8,969
Transferred from construction in progress	1,136	7,042	5,329	4,343	17,850
Reclassification	(627)	(67)	(1,144)	1,838	—
Disposals	(280)	(126)	(177)	(421)	(1,004)
Balance at 31 December 2001	17,221	39,869	32,397	92,480	181,967
Accumulated depreciation:					
Balance at 1 January 2001	5,262	18,371	4,768	35,970	64,371
Acquisition of Sinopec National Star	17	1,548	—	246	1,811
Depreciation charge for the year	815	2,428	1,326	6,061	10,630
Reclassification	(248)	(61)	(220)	529	—
Written back on disposal	(195)	(90)	(46)	(277)	(608)
Balance at 31 December 2001	5,651	22,196	5,828	42,529	76,204
Net book value:					
At 31 December 2001	11,570	17,673	26,569	49,951	105,763
At 31 December 2000	10,821	9,442	18,720	46,614	85,597

The fixed assets and construction in progress of the Group at 30 September 1999 were valued by registered valuers in the PRC. The valuation was reviewed and approved by the MOF (note 1). Surplus on revaluation was RMB 29,093 million and deficit on revaluation was RMB 3,210 million. A net surplus on revaluation of RMB 25,883 million was resulted which has been incorporated in the Group's financial statements of 1999 and 2000.

In accordance with the relevant rules and regulations in respect of the acquisition of Sinopec National Star, the fixed assets and construction in progress of Sinopec National Star have been valued by a firm of independent valuers in the PRC. Surplus on revaluation of RMB 541 million has been incorporated in the Group's financial statements of 2001.

At 31 December 2001, the carrying amounts of fixed assets that were pledged by the Group and the Company are RMB 0.233 billion (2000: RMB 3.348 billion) and RMB 0.104 billion (2000: RMB 1.674 billion) respectively.

12 FIXED ASSETS (Continued)

Provision for impairment losses on fixed assets are analysed as follows:

	The Group and the Company RMB millions
Balance at 1 January and 31 December 2001	391

At 31 December 2001, the Group's and the Company's provision for impairment losses on fixed asset were with respect to the exploration and production segment.

13 CONSTRUCTION MATERIALS

At 31 December 2001, construction materials mainly represent the actual cost of materials such as steel and copper to be used for construction projects.

14 CONSTRUCTION IN PROGRESS

The Group

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others RMB millions	Total RMB millions
Balance at 1 January 2001	2,318	4,319	4,440	4,586	487	16,150
Acquisition of Sinopec National Star	488	—	—	—	—	488
Addition for the year	21,787	7,020	9,943	10,868	88	49,706
Dry hole costs written off	(1,770)	—	—	—	—	(1,770)
Transferred to fixed assets	(19,660)	(4,871)	(5,791)	(8,180)	(66)	(38,568)
Balance at 31 December 2001	3,163	6,468	8,592	7,274	509	26,006

At 31 December 2001, major projects of the Group are as follows:

Project name	Budgeted amount RMB millions	Balance at 1 Jan 2001 RMB millions	Additions for the year RMB millions	Balance at 31 Dec 2001 RMB millions	Percentage of completion	Source of funding	Interest capitalised for the year RMB millions
650k ton / year ethylene project	4,487	243	1,404	1,647	37%	Bank loans & self-financing	27
700k ton / year ethylene project	4,706	378	1,028	1,406	30%	Bank loans & self-financing	27
Refinery plant reconstruction project	3,100	572	662	1,234	40%	Bank loans & self-financing	23
Polyethylene Production Project	888	—	710	710	80%	Bank loans	26
Aromatic Supporting Facilities	1,238	—	650	650	53%	Bank loans	15

The Company

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others RMB millions	Total RMB millions
Balance at 1 January 2001	1,023	3,097	4,319	629	467	9,535
Acquisition of Sinopec National Star	488	—	—	—	—	488
Addition for the year	9,267	5,303	9,777	913	20	25,280
Dry hole costs written off	(972)	—	—	—	—	(972)
Transferred to fixed assets	(7,913)	(3,354)	(5,750)	(814)	(19)	(17,850)
Balance at 31 December 2001	1,893	5,046	8,346	728	468	16,481

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2001

15 INTANGIBLE ASSETS

The Group

	Computer Software licence RMB millions	Technical know-how RMB millions	Exploration and production right RMB millions	Others RMB millions	Total RMB millions
Cost:					
Balance at 1 January 2001	293	931	—	150	1,374
Addition for the year	3	62	3,163	—	3,228
Disposals	—	—	—	(50)	(50)
Balance at 31 December 2001	296	993	3,163	100	4,552
Accumulated Amortisation:					
Balance at 1 January 2001	9	274	—	42	325
Amortisation charge for the year	29	93	117	21	260
Written back on disposal	—	—	—	(10)	(10)
Balance at 31 December 2001	38	367	117	53	575
Net book value:					
At 31 December 2001	258	626	3,046	47	3,977
At 31 December 2000	284	657	—	108	1,049

Except for exploration and production right, the above intangible assets were acquired from third parties. The Company acquired Sinopec National Star together with the exploration and production right from Sinopec Group Company. The exploration and production right was valued with reference to the proved reserves of the associated oil fields. The remaining amortisation period of exploration and production right was 27 years. The remaining amortisation periods of other intangible assets range from 4 to 10 years.

The Company

	Computer Software licence RMB millions	Technical know-how RMB millions	Exploration and production right RMB millions	Others RMB millions	Total RMB millions
Cost:					
Balance at 1 January 2001	153	864	—	88	1,105
Addition for the year	3	54	3,163	—	3,220
Disposals	—	—	—	(45)	(45)
Balance at 31 December 2001	156	918	3,163	43	4,280
Accumulated Amortisation:					
Balance at 1 January 2001	6	267	—	20	293
Amortisation charge for the year	18	91	117	13	239
Written back on disposals	—	—	—	(5)	(5)
Balance at 31 December 2001	24	358	117	28	527
Net book value:					
At 31 December 2001	132	560	3,046	15	3,753
At 31 December 2000	147	597	—	68	812

Except for exploration and production right, the above intangible assets were acquired from third parties. The Company acquired Sinopec National Star together with the exploration and production right from Sinopec Group Company. The exploration and production right was valued with reference to the proved reserves of the associated oil fields. The remaining amortisation period of exploration and production right was 27 years. The remaining amortisation periods of other intangible assets range from 4 to 10 years.

16 DEFERRED TAX ASSETS AND LIABILITIES

The Group

	Assets		Liabilities		Net balance	
	2001	2000	2001	2000	2001	2000
	RMB millions					
<i>Current</i>						
Provision primarily for receivables and inventories	423	1,023	—	—	423	1,023
<i>Non-current</i>						
Property, plant and equipment	35	42	(671)	(369)	(636)	(327)
Tax value of losses carried forward, net of valuation allowance	173	18	—	—	173	18
Other assets	33	47	—	(10)	33	37
Others	96	25	(8)	(48)	88	(23)
Deferred tax assets/(liabilities)	760	1,155	(679)	(427)	81	728

The Company

	Assets		Liabilities		Net balance	
	2001	2000	2001	2000	2001	2000
	RMB millions					
<i>Current</i>						
Provision primarily for receivables and inventories	281	711	—	—	281	711
<i>Non-current</i>						
Property, plant and equipment	3	15	(33)	—	(30)	15
Others	53	8	—	—	53	8
Deferred tax assets/(liabilities)	337	734	(33)	—	304	734

The Group

	Balance at 1 January 2001 RMB millions	Recognised in income statement RMB millions	Balance at 31 December 2001 RMB millions
<i>Current</i>			
Provision primarily for receivables and inventories	1,023	(600)	423
<i>Non-current</i>			
Property, plant and equipment	(327)	(309)	(636)
Tax value of losses carried forward, net of valuation allowance	18	155	173
Other assets	37	(4)	33
Others	(23)	111	88
Deferred tax assets	728	(647)	81

The Company

	Balance at 1 January 2001 RMB millions	Recognised in income statement RMB millions	Balance at 31 December 2001 RMB millions
<i>Current</i>			
Provision primarily for receivables and inventories	711	(430)	281
<i>Non-current</i>			
Property, plant and equipment	15	(45)	(30)
Others	8	45	53
Deferred tax assets	734	(430)	304

17 SHORT-TERM LOANS

The Group's and the Company's short-term loans represent:

	The Group		The Company	
	2001	2000	2001	2000
	RMB millions	RMB millions	RMB millions	RMB millions
Short-term bank loans	34,424	42,355	23,460	27,817
Short-term other loans	43	282	24	282
Loans from Sinopec Group Company and fellow subsidiaries	3,448	8,017	2,622	7,719
	37,915	50,654	26,106	35,818

The Group's and the Company's weighted average interest rate on short-term loans was 5.1% at 31 December 2001 (2000: 5.8%). The majority of the above loans are unsecured.

The Group and the Company had no overdue short-term loan at 31 December 2001 (2000: nil).

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2001

18 BILLS PAYABLE

Bills payable primarily represented the bank accepted bills for the purchase of material, goods and products. The repayment term is normally from three to six months.

19 TRADE ACCOUNTS PAYABLE

The ageing analyses of trade accounts payable are as follows:

The Group

	2001		2000	
	RMB millions	%	RMB millions	%
Within 3 months	12,494	74.4	14,828	76.4
Between 3 and 6 months	1,866	11.1	2,412	12.4
Over 6 months	2,433	14.5	2,163	11.2
	16,793	100.0	19,403	100.0

The Company

	2001		2000	
	RMB millions	%	RMB millions	%
Within 3 months	9,735	76.5	15,770	81.8
Between 3 and 6 months	1,313	10.3	2,057	10.7
Over 6 months	1,679	13.2	1,442	7.5
	12,727	100.0	19,269	100.0

Except for the balances disclosed in Note 40, there is no amount due to shareholders who hold 5% or more shareholdings of the Company included in the balance of trade accounts payable.

At 31 December 2001, the Group and the Company had no individually significant trade accounts payable aged over three years.

20 RECEIPTS IN ADVANCE

Receipts in advance received from shareholders who hold 5% or more shareholdings of the Company are disclosed in Note 40.

At 31 December 2001, the Group and the Company had no individually significant receipts in advance aged over one year.

21 TAXES PAYABLE

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Value added tax	(1,211)	(1,456)	(914)	(1,279)
Consumption tax	979	1,531	742	967
Income tax	2,809	2,706	837	929
Business tax	89	76	33	26
Other taxes	921	1,236	147	604
	3,587	4,093	845	1,247

The provision for PRC current income tax is based on a statutory rate of 33% of the assessable income of the Group and the Company as determined in accordance with the relevant income tax rules and regulations of the PRC during the years ended 31 December 2000 and 2001, except for certain subsidiaries of the Company, which are taxed at a preferential rate of 15%.

22 OTHER PAYABLES

At 31 December 2001, the Group's and the Company's other payables primarily represented payables for resources compensation fee and education surcharge.

23 OTHER CREDITORS

Except for the balances disclosed in Note 40, there is no amount due to shareholders who hold 5% or more shareholdings of the Company included in the balance of other creditors.

At 31 December 2001, the Group and the Company had no individually significant other payables aged over three years.

24 ACCRUED EXPENSES

At 31 December 2001, the Group's and the Company's accrued expenses primarily represented accrued interest expenses.

25 CURRENT PORTION OF LONG-TERM LOANS

The Group's and the Company's current portion of long-term loans represent:

	The Group		The Company	
	2001	2000	2001	2000
	RMB millions	RMB millions	RMB millions	RMB millions
Long-term bank loans				
— Renminbi loans	8,490	5,135	5,752	3,537
— Japanese Yen loans	240	410	192	346
— US Dollar loans	1,365	1,835	481	474
— Deutsche Marks loans	30	32	29	31
— Hong Kong Dollar loans	4	4	—	—
— Dutch Guilders loans	11	—	11	—
	10,140	7,416	6,465	4,388
Long-term other loans				
— Renminbi loans	372	354	68	354
— US Dollar loans	370	46	2	9
	742	400	70	363
Long-term loans from Sinopec Group Company and fellow subsidiaries				
— Renminbi loans	345	185	345	185
— US Dollar loans	69	9	69	9
	414	194	414	194
Total current portion of long-term loans	11,296	8,010	6,949	4,945

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

26 LONG-TERM LOANS

The Group's and the Company's long-term loans represent:

Interest rate and final maturity	The Group		The Company		
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions	
Third parties debts					
Long-term bank loans					
Renminbi loans	Interest rates ranging from interest free to 11.2% per annum at 31 December 2001 with maturities through 2013	32,231	26,169	21,473	16,898
Japanese Yen loans	Interest rates ranging from 0.3% to 7.3% per annum at 31 December 2001 with maturities through 2024	2,401	3,066	2,272	2,857
US Dollar loans	Interest rates ranging from interest free to 7.9% per annum at 31 December 2001 with maturities through 2031	4,300	6,746	1,884	2,290
Deutsche Marks loans	Fixed rates ranging from 6.6% to 6.8% per annum at 31 December 2001 with maturities through 2006	151	191	144	183
Dutch Guilders loans	Fixed rate at 7.9% per annum at 31 December 2001 with maturity in 2004	28	41	28	41
Hong Kong Dollar loans	Floating rate at Hong Kong Prime Rate per annum plus 0.25% with maturities through 2006	14	19	—	—
Less: Current portion		10,140	7,416	6,465	4,388
		28,985	28,816	19,336	17,881
Other long-term loans					
Renminbi loans	Interest rates ranging from interest free to 7.5% per annum at 31 December 2001 with maturities through 2015	596	554	123	539
US Dollar loans	Interest rates ranging from 1.8% to 4.6% per annum at 31 December 2001 with maturities through 2015	522	133	34	11
French Franc loans	Interest rates ranging from 1.8% to 8.1% per annum at 31 December 2001 with maturities through 2025	15	—	15	—
Less: Current portion		742	400	70	363
		391	287	102	187
Long-term loans from Sinopec Group Company and fellow subsidiaries					
Renminbi loans	Interest free with maturity in 2020	35,561	35,561	35,561	35,561
Renminbi loans	Interest rates ranging from 5.9% to 6.0% per annum at 31 December 2001 with maturities through 2006	796	1,068	790	1,062
US Dollar loans	Interest rates ranging from 3.4% to 4.4% per annum at 31 December 2001 with maturities through 2006	182	366	180	39
Less: Current portion		414	194	414	194
		36,125	36,801	36,117	36,468
		65,501	65,904	55,555	54,536

The maturity analyses of the Group's and the Company's long-term loans are as follows:

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Between one to two years	10,383	9,597	6,043	6,016
Between two to five years	13,108	12,222	7,931	7,367
After five years	42,010	44,085	41,581	41,153
Total long-term loans	65,501	65,904	55,555	54,536

At 31 December 2001, the Group and the Company had secured loans from third parties amounting to RMB 171 million (2000: RMB 2,457 million) and RMB 76 million (2000: RMB 1,637 million) respectively.

27 CONVERTIBLE BONDS

	Interest rate and final maturity	The Group	
		2001	2000
		RMB millions	RMB millions
Convertible bonds	Fixed rates ranging 2.5% per annum and redeemable in July 2004	1,500	2,770

Convertible bonds amounting to RMB 1,500 million were issued by a subsidiary on 28 July 1999. The bonds are convertible upon an initial public offering ("IPO") into ordinary shares of the subsidiary at the IPO price of the ordinary shares and at the option of the holders during the period from 28 July 2000 to 27 July 2004. Convertible bonds amounting to RMB 1,270 million issued by another subsidiary were repaid during the year.

28 OTHER LONG-TERM PAYABLES

Other long-term payables primarily represent provision for future dismantlement of oil and gas properties, the costs arising from environmental restoration and specific research and development projects.

29 SHARE CAPITAL

	The Group and the Company	
	2001	2000
	RMB millions	RMB millions
Registered, issued and fully paid:		
67,121,951,000 domestic state-owned A shares of RMB 1.00 each	67,122	67,122
16,780,488,000 H shares of RMB 1.00 each	16,780	16,780
2,800,000,000 A shares of RMB 1.00 each	2,800	—
	86,702	83,902

The Company was established on 25 February 2000 with a registered capital of 68.8 billion state-owned domestic shares with a par value of RMB 1.00 each, which were all held by Sinopec Group Company (Note 1).

Pursuant to the resolutions passed in an Extraordinary General Meeting of the Company held on 25 July 2000 and the approval from relevant authorities, the Company issued 15,102,439,000 H shares with a par value of RMB 1.00 each in its initial global offering in October 2000. The shares include 12,521,864,000 H shares and 25,805,750 American depositary shares ("ADSs", each representing 100 H shares) at prices of HK\$1.59 and US\$20.645 respectively. As part of the offering, 1,678,049,000 shares were offered in placing to Hong Kong and overseas investors.

According to Sinopec Group Company's debt-to-equity arrangement, some of the Company's shares held by Sinopec Group Company were transferred to the following state-owned bank and asset management companies. Pursuant to the notice Cai Qi [2000] No. 261 issued by MOF, the Company, having made its global offer of H shares, adjusted the price of shares to be transferred to the following entities, based on the issue price of the H shares, in connection with the debt-to-equity arrangement and the proportion of its state-owned shares. As a result, shares of the Company held by the State Development Bank of China, China Cinda Asset Management Corporation, China Orient Asset Management Corporation, China Huarong Asset Management Corporation are 8,775,570,000 shares, 8,720,650,000 shares, 1,296,410,000 shares and 586,760,000 shares respectively. Shares of the Company held by Sinopec Group Company was adjusted to 47,742,600,000 shares accordingly. Such arrangement was approved by MOF in Cai Qi [2000] No. 754 "Comments on the issues relating to the management of the state-owned equity in China Petroleum and Chemical Corporation".

In July 2001, the Company issued 2,800,000,000 domestic listed A shares with a par value of RMB 1.00 each at RMB 4.22 by way of a public offering to natural persons and institutional investors in the PRC.

All the domestic state-owned ordinary shares and H shares rank pari passu in all material respects.

KPMG Huazhen had verified the above paid-in capital. The capital verification reports, KPMG-C (2000) CV No. 0007, KPMG-C (2001) CV No. 0002 and KPMG-C (2001) CV No.0006 were issued on 22 February 2000, 27 February 2001 and 23 July 2001 respectively.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

30 CAPITAL RESERVE

The movements in capital reserve are as follows:

	The Group and the Company	
	2001 RMB millions	2000 RMB millions
Balance at 1 January	27,449	28,362
Converted into share capital	—	(10,137)
Share premium from issuance of share	9,016	10,700
Less: underwriting and issuing expenses	168	1,476
Balance at 31 December	36,297	27,449

31 SURPLUS RESERVES

Movements in statutory surplus reserve and statutory public welfare fund are as follows:

	The Group and the Company		
	Statutory surplus reserve RMB millions	Statutory public welfare fund RMB millions	Total RMB millions
Balance at 1 January 2000	—	—	—
Appropriation of net income	1,615	1,615	3,230
Balance at 31 December 2000	1,615	1,615	3,230
Balance at 1 January 2001	1,615	1,615	3,230
Appropriation of net income	1,402	1,402	2,804
Balance at 31 December 2001	3,017	3,017	6,034

The Articles of Association of the Company and the following profit appropriation plans had been approved at the Extraordinary General Meeting held on 25 July 2000:

- 10% of the net profit is transferred to the statutory surplus reserve;
- 5% to 10% of the net profit is transferred to the statutory public welfare fund;
- after the transfer to the statutory surplus reserve, a transfer to discretionary surplus reserve can be made upon the passing of a resolution at the Annual General Meeting.

32 INCOME FROM PRINCIPAL OPERATIONS

The income from principal operations represents revenue from sales of crude oil, natural gas, petroleum and chemical products net of value added tax. The Group's segmental information is set out in note 44.

For the year ended 31 December 2001, revenue from sales to top five customers are RMB 51,372 million which accounts for 17% of income from principal operations of the Group.

33 SALES TAX AND SURCHARGES

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Consumption tax	9,025	9,260	6,088	6,054
City construction tax	1,615	1,664	820	784
Education surcharge	707	708	396	430
Resources tax	406	363	106	318
Business tax	110	106	78	70
	11,863	12,101	7,488	7,656

34 FINANCIAL EXPENSES

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Interest expenses incurred	5,692	7,104	3,372	4,239
Less: Capitalised interest expenses	542	575	378	324
Financial expenses-interest expenses	5,150	6,529	2,994	3,915
Interest income	(1,183)	(820)	(824)	(443)
Foreign exchange losses	222	84	45	21
Foreign exchange gains	(593)	(950)	(356)	(503)
	3,596	4,843	1,859	2,990

35 EXPLORATION EXPENSES

Exploration expenses include geological and geophysical expenses and write off of dry hole costs.

36 INVESTMENT INCOME

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Investment income accounted for under the cost method	199	186	37	139
Investment income accounted for under the equity method	347	49	19,292	23,292
	546	235	19,329	23,431

37 NON-OPERATING EXPENSES

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Impairment losses on long lived assets	—	187	—	92
Reversal of impairment losses on long lived assets (net of depreciation effect)	—	(1,049)	—	(338)
Loss on disposal of fixed assets	323	880	165	521
Fines, penalties and compensation	87	53	83	48
Donation	62	120	23	51
Employee reduction expenses (i)	2,546	—	1,767	—
Others	490	466	315	377
	3,508	657	2,353	751

(i) In accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 2,546 million during the year ended 31 December 2001 in respect of the voluntary termination and the transfer to Sinopec Group Company totalling approximately 68,000 employees. The RMB 2,546 million expense included approximately RMB 1,245 million paid to employees that accepted offers to transfer to Sinopec Group Company. As at 31 December 2001, all payments to these employees have been made by the Group. For employees that were transferred to Sinopec Group Company, the employees were entitled to receive termination benefits from Sinopec Group Company to the extent that their employment was subsequently terminated.

38 INCOME TAX

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Provision for PRC income tax	6,445	8,845	6,455	8,420
Deferred taxation	647	(891)	430	(734)
	7,092	7,954	6,885	7,686

39 DIVIDENDS

Pursuant to a resolution passed at the Board of Director's Meeting on 28 March 2002, a final dividend of RMB 0.08 per share (2000: RMB 0.08 per share) totalling RMB 6,936 million (2000: RMB 6,712 million) was proposed for shareholders' approval at the Annual General Meeting.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

40 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(a) Related parties having the ability to exercise control over the Group

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

There was no movement in the above registered capital for the year ended 31 December 2001.

For the year ended 31 December 2001, the Company's shares held by Sinopec Group Company are set out below:

From 1 January 2001 to 19 July 2001	56.9%
From 20 July 2001 to 31 December 2001	55.1%

(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 and the Company are under common control of a parent company.

(c) The principal related party transactions carried out in the ordinary course of business are as follows:

	Note	2001 RMB millions	2000 RMB millions
Sales of goods	(i)	37,261	42,515
Purchases	(ii)	19,264	17,374
Transportation and storage	(iii)	1,471	1,631
Exploration and development services	(iv)	10,250	8,006
Production related services	(v)	6,116	6,604
Ancillary and social services	(vi)	2,000	2,493
Operating lease charges	(vii)	2,489	2,377
Agency commission income	(viii)	7	11
Intellectual property license fee paid	(ix)	10	8
Interest received	(x)	153	60
Interest paid	(xi)	534	578
Net deposits placed with related parties	(xii)	528	4,090
Net loans (repaid to) / obtained from related parties	(xiii)	(5,034)	34,656

The amounts set out in the table above in respect of the years ended 31 December 2001 and 2000 represent the relevant costs to the Group as determined by the corresponding contracts with the related parties.

At 31 December 2001, guarantees given to banks by the Group in respect of banking facilities to Sinopec Group Company and fellow subsidiaries amounted to RMB nil million (2000: RMB 55 million).

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 this has been confirmed by the independent non-executive directors.

40 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

Notes:

- (i) Sales of goods represent the sale of crude oil, intermediate chemical 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) Transportation and storage represent the cost for the use of railway, road and marine transportation services, pipelines, loading, unloading and depots.
- (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 license fee represents reimbursement paid to Sinopec Group Company for fees required to maintain the validity of certain licenses 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 balances of deposits at 31 December 2000 and 2001 were RMB 6,601 million and RMB 7,129 million respectively.
- (xi) Interest paid represents interest charges on the loans 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 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 operating results of the Group for the year ended 31 December 2001. The terms of these agreements are summarised as follows:

- (a) The Company entered into a three-year Agreement for Mutual Provision of Products and Ancillary Services ("Mutual Provision Agreement") with Sinopec Group Company 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 agrees 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 2,007 million and RMB 482 million per annum respectively. The Company and Sinopec Group Company can renegotiate the rental amount every three years for land and every year for buildings, such amounts 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 for a term of ten years under which its service stations and retail stores would exclusively sell the refined products supplied by the Group.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

40 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(g) Balances with related party

The balances with the Group's related parties at 31 December 2001 are as follows:

	The ultimate holding company		Other related companies	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Trade accounts receivables	627	440	2,876	2,840
Advance payments	151	499	981	138
Other receivables	357	2,034	7,932	7,922
Trade accounts payable	1,244	734	1,989	5,340
Receipts in advance	—	131	—	134
Other creditors	2,818	852	7,402	12,404

41 PRINCIPAL SUBSIDIARIES

The Company's principal subsidiaries are limited companies operating in the PRC and had been consolidated into the Group's financial statements for the year ended 31 December 2001. Except for Sinopec Kantons Holdings Limited, which is incorporated in Bermuda, the companies below are incorporated in the PRC. The following list contains only the particulars of subsidiaries which principally affected the results or assets of the Group.

Name of company	Registered capital/ paid-up capital RMB millions	Percentage of equity held by the Company	Principal activities
Sinopec Beijing Yanhua Petrochemical Company Limited	3,374	70.01	Manufacturing of chemical products
Sinopec Sales Company Limited	420	100.00	Marketing and distribution of refined petroleum products
Sinopec Shengli Oilfield Company Limited	29,000	100.00	Exploration and production of crude oil natural gas
Sinopec Fujian Petrochemical Company Limited	1,000	(i) 50.00	Manufacturing of plastics, intermediate petrochemical products and petroleum products
Sinopec Hubei Xinghua Company Limited	282	57.58	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Maoming Refining and Chemical Company Limited	1,064	98.79	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Qilu Petrochemical Company Limited	1,950	82.05	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Shanghai Petrochemical Company Limited	7,200	55.56	Manufacturing of synthetic fibres, resin and plastics, intermediate petrochemical products and petroleum products
Sinopec Shijiazhuang Refining Chemical Company Limited	1,154	79.73	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Kantons Holdings Limited	HK\$104	72.40	Trading of crude oil and petroleum products
Sinopec Wuhan Petroleum Group Company Limited	147	51.79	Marketing and distribution of refined petroleum products and manufacturing of intermediate petrochemical products
Sinopec Wuhan Phoenix Company Limited	519	(i) 40.72	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Yangzi Petrochemical Company Limited	2,330	84.98	Manufacturing of petrochemical products and petroleum products
Sinopec Yizheng Chemical Fibre Company Limited	4,000	(i) 42.00	Production and sale of polyester chips and polyester fibres
Sinopec Zhenhai Refining and Chemical Company Limited	2,524	71.32	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Zhongyuan Petroleum Company Limited	680	75.00	Exploration and production of crude oil and natural gas

(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.

42 COMMITMENTS

Operating lease commitments

The Group and the Company lease service stations and other equipment through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments.

At 31 December 2001, the future minimum lease payments under operating leases are as follows:

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Within one year	2,844	2,657	2,590	2,540
Between one to two years	2,736	2,656	2,565	2,540
Between two to three years	2,563	2,539	2,494	2,504
Between three to four years	2,559	2,537	2,492	2,502
Between four to five years	2,550	2,532	2,484	2,497
After five years	85,368	86,933	84,250	86,933
	98,620	99,854	96,875	99,516

Capital commitments

At 31 December 2001, the Group and the Company had capital commitments as follows:

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Authorised and contracted for	21,636	15,491	8,436	1,450
Authorised but not contracted for	18,204	37,466	12,437	18,968
	39,840	52,957	20,873	20,418

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.

Exploration and production licenses

Exploration licenses for exploration activities are registered with the Ministry of Land and Resources. The maximum term of the Group's exploration licenses is 7 years, and these may be renewed twice within 30 days prior to expiration of the original term with each renewal being for a two-year term. The Group is obligated to make progressive annual minimum exploration investment relating to the exploration blocks in respect of which the license is issued. The Ministry of Land and Resources also issues production licenses to the Group on the basis of the reserve reports approved by relevant authorities. The maximum term of a full production license is 30 years unless a special dispensation is given by the State Council. The maximum term of the production licenses issued to the Group is extended to 55 years as a special dispensation is given by the State Council. The Group's production license is renewable upon application by the Group 30 days prior to expiration. The Group is required to make payments for its exploration and production licenses and the amounts are recognised in the income statement.

The Group has to make payments of exploration license fees and the production right usage fees to the Ministry of Land and Resources annually. Payments incurred for the year ended 31 December 2001 was approximately RMB 29 million (2000: RMB 15 million).

Estimated annual payments as to exploration and production licenses in the future are as follows:

	The Group		The Company	
	2001 RMB millions	2000 RMB millions	2001 RMB millions	2000 RMB millions
Within one year	43	15	28	7
Between one to two years	39	12	26	6
Between two to three years	51	13	26	4
Between three to four years	62	16	31	4
Between four to five years	56	12	24	7
After five years	284	198	114	61
	535	266	249	89

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

43 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) At 31 December 2001, guarantees given by the Group and the Company to banks in respect of banking facilities granted to the parties below were as follows:

	The Group RMB millions	The Company RMB millions
Associated and jointly controlled entities	546	—
Third parties	322	—
	868	—

In February 2002, the Company made guarantees of RMB 6,999 million given to banks in respect of banking facilities granted to a jointly controlled entity.

Environmental contingencies

To date, the Group has not incurred any significant expenditures for environmental remediation, is currently not involved in any environmental remediation, and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include: i) the exact nature and extent of the contamination at various sites including, but not limited to refineries, oil fields, service stations, terminals and land development areas, whether operating, closed or sold; ii) the extent of required cleanup efforts; iii) varying costs of alternative remediation strategies; iv) changes in environmental remediation requirements; and v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. The Group paid normal routine pollutant discharge fee of approximately RMB 221 million for the year ended 31 December 2001 (2000: RMB 305 million).

Legal contingencies

The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

44 SEGMENTAL INFORMATION

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 Company 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 Company 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 chemical products, derivative chemical products and other chemical products to external customers.
- (v) 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 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 3). 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.

44 SEGMENTAL INFORMATION (Continued)

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

	2001 RMB millions	2000 RMB millions
Turnover		
Exploration and production		
External sales	11,095	9,846
Inter-segment sales	43,332	46,213
	54,427	56,059
Refining		
External sales	49,497	67,872
Inter-segment sales	156,782	162,153
	206,279	230,025
Marketing and distribution		
External sales	180,610	174,645
Inter-segment sales	2,460	652
	183,070	175,297
Chemicals		
External sales	48,945	56,224
Inter-segment sales	5,626	3,443
	54,571	59,667
Others		
External sales	14,200	14,345
Inter-segment sales	8,875	11,527
	23,075	25,872
Elimination of inter-segment sales	(217,075)	(223,988)
Turnover	304,347	322,932
Cost of sales, sales tax and surcharges		
Exploration and production	27,738	26,391
Refining	199,272	222,186
Marketing and distribution	167,786	157,743
Chemicals	50,580	51,491
Others	22,343	24,919
Elimination of inter-segment cost of sales	(219,721)	(221,395)
Cost of sales, sales tax and surcharges	247,998	261,335
Operating profit		
Exploration and production	28,765	27,155
Refining	7,577	7,759
Marketing and distribution	15,284	17,554
Chemicals	3,992	8,176
Others	731	953
Total operating profit	56,349	61,597