

NOTES ON THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

1 STATUS OF THE COMPANY

China Petroleum & 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 (“registered valuers”). 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 RMB 1.00 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 (hereinafter referred to as the “Acquisition”).

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Company and its subsidiaries (the “Group”) in the preparation of the financial statements are in conformity with the “Accounting Standards for Business Enterprises” and “Accounting Regulations for Business Enterprises” and other relevant regulations issued by the MOF.

(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 “Accounting Regulations for Business Enterprises” and Cai Kuai Zi [1995] No.11 “Provisional 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 in the consolidated financial statements.

(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.

(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 exchange rates 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 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 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.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2002

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Allowance for doubtful accounts

Doubtful debts are accounted for based on allowance method which are estimated periodically. Trade accounts receivable showing signs of uncollectibility are identified individually and allowance is then made based on the probability of being uncollectible. In respect of trade accounts receivable 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. In addition to the purchase cost of raw material, work in progress and finished goods include direct labour and appropriate proportion of production overheads, also computed using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs and related taxes necessary to make the sale.

Spare parts and consumables are stated at cost less any provision for obsolescence. Consumables are expensed when being consumed.

Inventories are recorded by perpetual method.

(h) Long-term equity investments

The Group's investments in the associates and the Company's investments in subsidiaries, associates and the related investment income and long-term equity investment are accounted for 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.

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.

Long-term equity investments are valued at the lower of the carrying amount and the recoverable amount. A provision for impairment of loss is made when the recoverable amount is lower than the carrying amount.

(i) Fixed assets and construction in progress

Fixed assets represent the assets held by the Group for production of products and administrative purpose with useful life over 1 year and comparatively high unit value.

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, incurred before the assets are ready for its intended use, are capitalised as construction in progress. Those costs included borrowing costs, which include foreign exchange gains or losses on specific borrowings for the construction of the fixed assets during the construction period.

Construction in progress is transferred to fixed assets when the asset is 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.

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%
Plant, 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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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. Exploratory well costs is charged to expenses 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 charged to the income statement in the period 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.

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised in the income statement in proportion to the stage of completion of the transaction based on the progress of work performed. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenues recognised only to the extent that costs incurred are expected to be recoverable.

Interest income is recognised on a time apportioned basis by reference to the principal outstanding and the rate applicable.

(n) Income tax

Income tax is the provision for income tax recognised in the income statement for the period using the tax effect accounting method. It comprises current and deferred tax.

Deferred tax is provided using the liability method, for timing differences between accounting profit before tax and the taxable income arising from the differences in the tax and accounting treatment of income and expenses or loss.

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.

(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.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2002

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

3 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 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 Yangzi Petrochemical Company Limited	15%	Hi-tech enterprise
Sinopec Zhongyuan Petroleum Company Limited	15%	Hi-tech enterprise
Petro-CyberWorks Information Technology Company Limited	15%	Hi-tech enterprise

4 CASH AT BANK AND IN HAND

	Exchange rates	The Group			The Company		
		Original currency millions	2002 RMB millions	2001 RMB millions	Original currency millions	2002 RMB millions	2001 RMB millions
Cash in hand							
Renminbi			29	79		26	31
Cash at bank							
Renminbi			11,576	12,300		5,622	7,595
US Dollars	8.2770	154	1,275	958	6	47	37
Hong Kong Dollars	1.0610	73	77	2,332	26	28	2,217
Deutsche Marks			—	6		—	—
Japanese Yen	0.0696	201	14	17		—	—
Pound sterling	13.1935	0.23	3	3		—	—
Swiss Francs			—	1		—	—
Euro	8.5783	4	36	29		—	—
			13,010	15,725		5,723	9,880
Deposits at related parties							
Renminbi			5,650	7,129		2,653	1,945
US Dollars	8.2770	6	52	—	6	52	—
Total cash at bank and in hand			18,712	22,854		8,428	11,825

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

5 BILLS RECEIVABLE

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

6 TRADE ACCOUNTS RECEIVABLE

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
Subsidiaries	—	—	4,521	2,910
Sinopec Group Company and fellow subsidiaries	2,628	3,503	1,513	2,080
Associates and jointly controlled entities	65	10	8	8
Others	10,643	10,049	5,710	6,237
	13,336	13,562	11,752	11,235
Less: Allowance for doubtful accounts	2,666	2,480	1,867	1,774
	10,670	11,082	9,885	9,461

Ageing analysis on trade accounts receivable are as follows:

	The Group					
	Amount RMB millions	2002 Allowance % RMB millions	2001 Allowance % RMB millions	Amount RMB millions	2001 Allowance % RMB millions	2001 Allowance % RMB millions
Within one year	9,298	69.7	90	1.0	9,237	68.1
Between one and two years	778	5.8	248	31.9	962	7.1
Between two and three years	461	3.5	173	37.5	714	5.3
Over three years	2,799	21.0	2,155	77.0	2,649	19.5
	13,336	100.0	2,666		13,562	100.0

	The Company					
	Amount RMB millions	2002 Allowance % RMB millions	2001 Allowance % RMB millions	Amount RMB millions	2001 Allowance % RMB millions	2001 Allowance % RMB millions
Within one year	9,167	77.9	89	1.0	8,449	75.2
Between one and two years	371	3.2	130	35.0	656	5.8
Between two and three years	312	2.7	144	46.2	442	3.9
Over three years	1,902	16.2	1,504	79.1	1,688	15.1
	11,752	100.0	1,867		11,235	100.0

Major trade accounts receivable of the Group at 31 December 2002 are set out below:

Name of entity	Balance RMB millions	Percentage of trade accounts receivable for the year %
China Petrochemical International Guangzhou Company Limited	206	1.5
Jinan Petrochemical Plant	164	1.2
Zhanjiang Dongxin Petroleum Company Limited	133	1.0
Chevrontexaco Global Trading	117	0.9
China Aviation Oil (Singapore) Pte Ltd	116	0.9

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

Name of entity	Balance RMB millions	Percentage of trade accounts receivable for 2001 %
China Petrochemical Corporation	627	4.6
Shanghai Gaoqiao Petrochemical International Trading Company	200	1.5
Jinling Petrochemical Export Company	164	1.2
Jinan Petrochemical Factory	164	1.2
Qingdao Petrochemical Factory	131	1.0

Except for the balances disclosed in Note 39, there is no amount due from shareholders who hold 5% or more voting right of the Company included in the balance of trade accounts receivable.

During the year ended 31 December 2002, 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 2002, the Group and the Company did not have individually significant trade accounts receivable that aged over three years.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2002

7 OTHER RECEIVABLES

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
Subsidiaries	—	—	9,961	8,802
Sinopec Group Company and fellow subsidiaries	11,130	8,289	9,562	6,763
Associates and jointly controlled entities	310	373	310	373
Others	7,249	12,706	5,021	9,607
	18,689	21,368	24,854	25,545
Less: Allowance for doubtful accounts	1,872	1,550	1,193	1,242
	16,817	19,818	23,661	24,303

Ageing analyses of other receivables are as follows:

	The Group					
	Amount RMB millions	2002 Allowance % RMB millions	2001 Allowance % RMB millions	Amount RMB millions	2001 Allowance % RMB millions	2001 Allowance % RMB millions
Within one year	12,156	65.0	310	2.6	10,800	50.5
Between one and two years	2,513	13.5	126	5.0	7,715	36.1
Between two and three years	2,258	12.1	211	9.3	585	2.7
Over three years	1,762	9.4	1,225	69.5	2,268	10.7
	18,689	100.0	1,872	21,368	100.0	1,550

	The Company					
	Amount RMB millions	2002 Allowance % RMB millions	2001 Allowance % RMB millions	Amount RMB millions	2001 Allowance % RMB millions	2001 Allowance % RMB millions
Within one year	19,334	77.8	21	0.1	16,538	64.7
Between one and two years	2,110	8.5	28	1.3	7,563	29.6
Between two and three years	2,123	8.5	169	8.0	226	0.9
Over three years	1,287	5.2	975	75.8	1,218	4.8
	24,854	100	1,193	25,545	100.0	1,242

Major other receivables of the Group at 31 December 2002 are set out below:

Name of entity	Particulars	Balance RMB millions	Percentage of other receivables for the year %
China Petroleum Corporation	Current Account	3,509	18.8
Baling Petrochemical Company Limited	Current Account	967	5.2
Yuelian Wanda Petrochemical Company Limited	Current Account	423	2.3
Jinhuang Real Estate Company Limited	Current Account	370	2.0
Changling Petrochemical Company Limited	Current Account	315	1.7

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

Name of entity	Particulars	Balance RMB millions	Percentage of other receivables for 2001 %
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 39, there is no amount due from shareholders who hold 5% or more voting right of the Company included in the balance of other receivables.

During the year ended 31 December 2002, the Group and the Company had no individually significant write off of other receivables.

At 31 December 2002, the Group and the Company did not have individually significant other receivables that aged over three years.

During the year ended 31 December 2002, pursuant to Cai Qi [2002] No. 625 "Reply to the adjustment on State Capital of China National Petroleum Corporation and China Petrochemical Corporation" issued by the MOF, the receivable and payable of the Group with China National Petroleum Corporation of RMB 4,014 million and RMB 505 million respectively is eliminated. The net amounts of RMB 3,509 million is borne by Sinopec Group Company.

8 ADVANCE PAYMENTS

All advance payments are due within a year.

Except for the balances disclosed in Note 39, there is no amount due from shareholders who hold 5% or more voting right of the Company included in the balance of advance payments.

9 INVENTORIES

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
Raw materials	21,333	17,777	10,426	9,954
Work in progress	6,192	5,050	3,387	3,556
Finished goods	15,086	20,442	10,248	12,925
Spare parts and consumables	2,807	2,781	1,070	1,044
	45,418	46,050	25,131	27,479
Less: Provision for diminution in value of inventories	486	602	224	292
	44,932	45,448	24,907	27,187

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	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
Balance at 1 January	602	841	292	560
Provision for the year	172	114	54	27
Written back for the year	(214)	(161)	(71)	(114)
Written off	(74)	(192)	(51)	(181)
Balance at 31 December	486	602	224	292

The cost of inventories recognised as cost and expense by the Group and the Company amounted to RMB 260,829 million (2001: RMB 251,922 million) and RMB 182,757 million (2001: RMB 191,673 million) for the year ended 31 December 2002.

10 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 2002	691	7,962	438	(181)	8,910
Addition for the year	—	2,064	293	—	2,357
Share of profits less losses from investments accounted for under the equity method	43	228	—	—	271
Dividends received	(8)	(143)	—	—	(151)
Disposal for the year	—	(160)	(53)	—	(213)
Amortisation for the year	—	—	(146)	—	(146)
Movement of provision for impairment losses	—	—	—	(3)	(3)
Balance at 31 December 2002	726	9,951	532	(184)	11,025

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 2002	35,971	54,898	385	(149)	91,105
Addition for the year	—	1,222	293	—	1,515
Share of profits less losses from investments accounted for under the equity method	2,243	8,970	—	—	11,213
Dividends received	(365)	(11,288)	—	—	(11,653)
Disposal for the year	(502)	(36)	—	—	(538)
Amortisation for the year	—	—	(141)	—	(141)
Balance at 31 December 2002	37,347	53,766	537	(149)	91,501

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2002

10 LONG-TERM EQUITY INVESTMENTS (Continued)

Provision for impairment losses are analysed as follows:

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
Balance at 1 January	181	210	149	140
Provision for the year	8	18	—	9
Written back for the year	(5)	(42)	—	—
Written off	—	(5)	—	—
Balance at 31 December	184	181	149	149

At 31 December 2002, 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. Stock investment of the Company represents investment in subsidiaries and associates. Details of the Company's principal subsidiaries are set out in Note 40.

At 31 December 2002, 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	Shares of profits accounted for under the equity method	Dividends received RMB millions	Balance at 31	Market value as at 31
					January 2002 RMB millions			December 2002 RMB millions	December 2002* RMB millions
Sinopec Shengli Oil Field Dynamic Co Ltd	Legal person shares	80	26.33%	223	393	32	(8)	417	625
Sinopec Shandong Taishan Petroleum Co Ltd	Legal person shares	186	38.68%	124	298	11	—	309	1,764
					691	43	(8)	726	

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

At 31 December 2002, 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	Addition for the year RMB millions	Share of profits/(losses) accounted for under the equity method RMB millions	Dividends received RMB millions	Balance at
				January 2002 RMB millions				31 December 2002 RMB millions
BASF-YPC Company Limited (i)	1,935	—	40%	1,231	704	—	—	1,935
Sinopec Finance Company Limited	1,205	—	40%	1,205	—	78	(5)	1,278
Shanghai Petroleum National Gas Corporation	300	—	30%	584	—	148	(60)	672
Shanghai Chemical Industry Park Development Company Limited	608	30 years	38%	560	48	23	—	631
Shanghai Secco Petrochemical Company Limited (ii)	559	50 years	50%	165	394	—	—	559
Block A Oil Field in the Western Area Chengda in Bohai Bay	435	15 years	43%	237	198	(41)	—	394
中石化長江燃料有限公司	190	20 years	50%	25	165	4	—	194
Shanghai Jinpu Packaging Material Company Limited	102	30 years	50%	78	24	18	(6)	114
湖南高速實業發展有限公司 (i)	103	—	49%	50	53	—	—	103
The East China Sea Xihu Oil and Gas Project	184	30 years	50%	—	184	(28)	—	156

No provision for impairment losses or significant 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 2002.
- (ii) Due to the fact that the project in this subsidiary is still under construction, there are no income statement for this subsidiary. 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.

11 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 2002	142,354	93,357	40,683	112,482	1,657	390,533
Addition for the year	1,623	468	1,860	326	102	4,379
Swap in from Sinopec Group Company (Note 39)	—	—	1,040	—	—	1,040
Transferred from construction in progress	17,236	6,657	6,286	11,016	559	41,754
Swap out to Sinopec Group Company (Note 39)	(1,799)	(266)	—	(144)	—	(2,209)
Disposals	(1,485)	(1,308)	(521)	(704)	(88)	(4,106)
Balance at 31 December 2002	157,929	98,908	49,348	122,976	2,230	431,391
Accumulated depreciation:						
Balance at 1 January 2002	74,697	40,385	6,788	54,757	413	177,040
Depreciation charge for the year	11,367	6,009	1,931	6,894	126	26,327
Swap out to Sinopec Group Company (Note 39)	(619)	(125)	—	(68)	—	(812)
Written back on disposal	(1,177)	(939)	(247)	(523)	(67)	(2,953)
Balance at 31 December 2002	84,268	45,330	8,472	61,060	472	199,602
Net book value:						
At 31 December 2002	73,661	53,578	40,876	61,916	1,758	231,789
At 31 December 2001	67,657	52,972	33,895	57,725	1,244	213,493

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 2002	46,748	64,392	39,671	30,309	847	181,967
Addition for the year	884	941	1,785	196	46	3,852
Swap in from Sinopec Group Company (Note 39)	—	—	1,040	—	—	1,040
Transferred from construction in progress	7,471	4,571	6,245	242	435	18,964
Swap out to Sinopec Group Company (Note 39)	(1,235)	(266)	—	(144)	—	(1,645)
Disposals	(766)	(1,057)	(504)	(76)	(70)	(2,473)
Balance at 31 December 2002	53,102	68,581	48,237	30,527	1,258	201,705
Accumulated depreciation:						
Balance at 1 January 2002	23,965	30,001	6,648	15,361	229	76,204
Depreciation charge for the year	3,672	3,762	1,856	1,664	58	11,012
Swap out to Sinopec Group Company (Note 39)	(460)	(125)	—	(68)	—	(653)
Written back on disposal	(562)	(769)	(232)	(48)	(61)	(1,672)
Balance at 31 December 2002	26,615	32,869	8,272	16,909	226	84,891
Net book value:						
At 31 December 2002	26,487	35,712	39,965	13,618	1,032	116,814
At 31 December 2001	22,783	34,391	33,023	14,948	618	105,763

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2002

11 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 2002	35,804	125,119	33,321	196,289	390,533
Addition for the year	400	52	1,160	2,767	4,379
Swap in from Sinopec Group Company (Note 39)	—	—	1,040	—	1,040
Transferred from construction in progress	1,407	16,431	5,889	18,027	41,754
Reclassification	1,077	295	(4,361)	2,989	—
Swap out to Sinopec Group Company (Note 39)	(185)	(196)	—	(1,828)	(2,209)
Disposals	(317)	(769)	(252)	(2,768)	(4,106)
Balance at 31 December 2002	38,186	140,932	36,797	215,476	431,391
Accumulated depreciation:					
Balance at 1 January 2002	13,226	69,055	5,902	88,857	177,040
Depreciation charge for the year	1,589	9,900	1,387	13,451	26,327
Reclassification	384	118	(748)	246	—
Swap out to Sinopec Group Company (Note 39)	(56)	(51)	—	(705)	(812)
Written back on disposal	(116)	(667)	(163)	(2,007)	(2,953)
Balance at 31 December 2002	15,027	78,355	6,378	99,842	199,602
Net book value:					
At 31 December 2002	23,159	62,577	30,419	115,634	231,789
At 31 December 2001	22,578	56,064	27,419	107,432	213,493

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 2002	17,221	39,869	32,397	92,480	181,967
Addition for the year	316	52	1,132	2,352	3,852
Swap in from Sinopec Group Company (Note 39)	—	—	1,040	—	1,040
Transferred from construction in progress	1,024	6,899	5,708	5,333	18,964
Reclassification	175	(380)	(4,361)	4,566	—
Swap out to Sinopec Group Company (Note 39)	(91)	(196)	—	(1,358)	(1,645)
Disposals	(206)	(272)	(251)	(1,744)	(2,473)
Balance at 31 December 2002	18,439	45,972	35,665	101,629	201,705
Accumulated depreciation:					
Balance at 1 January 2002	5,651	22,196	5,828	42,529	76,204
Depreciation charge for the year	836	3,174	1,315	5,687	11,012
Reclassification	67	(165)	(748)	846	—
Swap out to Sinopec Group Company (Note 39)	(36)	(51)	—	(566)	(653)
Written back on disposal	(89)	(217)	(163)	(1,203)	(1,672)
Balance at 31 December 2002	6,429	24,937	6,232	47,293	84,891
Net book value:					
At 31 December 2002	12,010	21,035	29,433	54,336	116,814
At 31 December 2001	11,570	17,673	26,569	49,951	105,763

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 since the year ended 31 December 1999.

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 since the year ended 31 December 2001.

At 31 December 2002, the carrying amounts of fixed assets that were pledged by the Group and the Company are RMB 146 million (2001: RMB 233 million) and RMB 20 million (2001: RMB 104 million) respectively.

11 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 2002	391

The Group's and the Company's provision for impairment losses on fixed asset were with respect to the exploration and production segment for the year ended 31 December 2002.

At 31 December 2002, the Group and the Company had no individually significant fixed assets which are temporarily idle or ready for disposal.

12 CONSTRUCTION MATERIALS

At 31 December 2002, the Group's and the Company's construction materials mainly represent the actual cost of materials such as steel and copper to be used for construction projects.

13 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 2002	3,163	6,468	8,592	7,274	509	26,006
Addition for the year	20,376	5,918	4,982	6,938	443	38,657
Dry hole costs written off	(1,771)	—	—	—	—	(1,771)
Swap out to Sinopec Group Company (Note 39)	(6)	(10)	—	—	—	(16)
Transferred to fixed assets	(17,236)	(6,657)	(6,286)	(11,016)	(559)	(41,754)
Balance at 31 December 2002	4,526	5,719	7,288	3,196	393	21,122

The interest rates at which borrowing costs were capitalised during the year by the Group was ranging from 3.1% to 6.2% p.a (2001: 3.4% to 8.0% p.a).

At 31 December 2002, major projects of the Group are as follows:

Project name	Budgeted amount RMB millions	Balance at 1 January 2002 RMB millions	Additions for the year RMB millions	Balance at 31 December 2002 RMB millions	Percentage of completion	Source of funding	Interest capitalised for the year RMB millions
450,000 tonnes PTA Project	2,055	380	508	888	43%	Bank loans & self-financing	29
Ningbo - Shanghai Pipeline Project	2,855	40	425	465	16%	Bank loans & self-financing	1
PX United Project	1,201	93	317	410	34%	Bank loans & self-financing	6
Union Equipment Reforming Project	399	18	301	319	80%	Bank loans	4
Zibo - Qingdao Gas Pipeline Project	360	—	281	281	78%	Self-financing	—

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 2002	1,893	5,046	8,346	728	468	16,481
Addition for the year	9,653	3,660	4,806	382	343	18,844
Dry hole costs written off	(951)	—	—	—	—	(951)
Swap out to Sinopec Group Company (Note 39)	(6)	(10)	—	—	—	(16)
Transferred to fixed assets	(7,471)	(4,571)	(6,245)	(242)	(435)	(18,964)
Balance at 31 December 2002	3,118	4,125	6,907	868	376	15,394

The interest rates at which borrowing costs were capitalised during the year by the Company was ranging from 3.1% to 6.2% p.a (2001: 3.4% to 8.0% p.a).

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2002

14 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 2002	296	993	3,163	100	4,552
Addition for the year	72	316	—	73	461
Disposals	(37)	(20)	—	(71)	(128)
Balance at 31 December 2002	331	1,289	3,163	102	4,885
Accumulated Amortisation:					
Balance at 1 January 2002	38	367	117	53	575
Amortisation charge for the year	29	122	117	18	286
Written back on disposal	(20)	(2)	—	(16)	(38)
Balance at 31 December 2002	47	487	234	55	823
Net book value:					
At 31 December 2002	284	802	2,929	47	4,062
At 31 December 2001	258	626	3,046	47	3,977

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 amortisation period and remaining amortisation period of exploration and production right was 27 years and 25 years respectively. The 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 2002	156	918	3,163	43	4,280
Addition for the year	46	101	—	23	170
Disposals	(31)	(12)	—	(12)	(55)
Balance at 31 December 2002	171	1,007	3,163	54	4,395
Accumulated Amortisation:					
Balance at 1 January 2002	24	358	117	28	527
Amortisation charge for the year	15	95	117	10	237
Written back on disposals	(18)	(1)	—	(9)	(28)
Balance at 31 December 2002	21	452	234	29	736
Net book value:					
At 31 December 2002	150	555	2,929	25	3,659
At 31 December 2001	132	560	3,046	15	3,753

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 amortisation period and remaining amortisation period of exploration and production right was 27 years and 25 years respectively. The amortisation periods of other intangible assets range from 4 to 10 years.

15 DEFERRED TAX ASSETS AND LIABILITIES

The Group

	Assets		Liabilities		Net balance	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
<i>Current</i>						
Provision primarily for receivables and inventories	264	423	—	—	264	423
<i>Non-current</i>						
Property, plant and equipment	47	35	(460)	(671)	(413)	(636)
Tax value of losses carried forward, net of valuation allowance	30	173	—	—	30	173
Others	16	129	(14)	(8)	2	121
Deferred tax assets/(liabilities)	357	760	(474)	(679)	(117)	81

The Company

	Assets		Liabilities		Net balance	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
<i>Current</i>						
Provision primarily for receivables and inventories	57	281	—	—	57	281
<i>Non-current</i>						
Property, plant and equipment	36	3	(54)	(33)	(18)	(30)
Others	15	53	(3)	—	12	53
Deferred tax assets/(liabilities)	108	337	(57)	(33)	51	304

16 SHORT-TERM LOANS

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

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
Short-term bank loans	22,839	34,424	12,514	23,460
Short-term other loans	19	43	15	24
Loans from Sinopec Group Company and fellow subsidiaries	4,121	3,448	2,299	2,622
	26,979	37,915	14,828	26,106

The Group's and the Company's weighted average interest rate on short-term loans was 4.3% (2001: 5.1%) and 4.2% (2001: 5.1%) respectively at 31 December 2002. The majority of the above loans are unsecured.

The Group and the Company had no overdue short-term loan at 31 December 2002 (2001: nil).

17 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.

18 TRADE ACCOUNTS PAYABLE

The ageing analysis of trade accounts payable are as follows:

The Group

	2002		2001	
	RMB millions	%	RMB millions	%
Within 3 months	11,058	57.6	12,494	74.4
Between 3 and 6 months	5,688	29.6	1,866	11.1
Over 6 months	2,466	12.8	2,433	14.5
	19,212	100.0	16,793	100.0

The Company

	2002		2001	
	RMB millions	%	RMB millions	%
Within 3 months	13,975	76.3	9,735	76.5
Between 3 and 6 months	2,588	14.2	1,313	10.3
Over 6 months	1,747	9.5	1,679	13.2
	18,310	100.0	12,727	100.0

Except for the balances disclosed in Note 39, there is no amount due to shareholders who hold 5% or more voting right of the Company included in the balance of trade accounts payable.

At 31 December 2002, the Group and the Company had no individually significant trade accounts payable aged over three years.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2002

19 RECEIPTS IN ADVANCE

Except for the balances disclosed in Note 39, there is no amount due to shareholders who hold 5% or more voting right of the Company included in the balance of receipts in advance.

At 31 December 2002, the Group and the Company had no individually significant receipts in advance aged over one year.

20 TAXES PAYABLE

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
Value added tax	(1,200)	(1,211)	(1,077)	(914)
Consumption tax	947	979	733	742
Income tax	2,776	2,809	1,307	837
Business tax	88	89	20	33
Other taxes	769	921	111	147
	3,380	3,587	1,094	845

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 2001 and 2002, except for certain subsidiaries of the Company, which are taxed at a preferential rate of 15%.

21 OTHER PAYABLES

At 31 December 2002, the Group's and the Company's other payables primarily represented payables for resources compensation fee and education surcharge.

22 OTHER CREDITORS

Except for the balances disclosed in Note 39, there is no amount due to shareholders who hold 5% or more voting right of the Company included in the balance of other creditors.

At 31 December 2002, the Group and the Company had no individually significant other payables aged over three years.

23 ACCRUED EXPENSES

At 31 December 2002, the Group's and the Company's accrued expenses primarily represented accrued interest expenses, repair and maintenance expenses, research and development expenses and other production expenses.

24 CURRENT PORTION OF LONG-TERM LOANS

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

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
Long-term bank loans				
— Renminbi loans	6,436	8,490	5,194	5,752
— Japanese Yen loans	294	240	243	192
— US Dollar loans	1,337	1,365	237	481
— Deutsche Marks loans (Note)	—	30	—	29
— Hong Kong Dollar loans	3	4	—	—
— Dutch Guilders loans (Note)	—	11	—	11
— Euro loans	50	—	47	—
	8,120	10,140	5,721	6,465
Long-term other loans				
— Renminbi loans	148	372	12	68
— US Dollar loans	152	370	110	2
	300	742	122	70
Long-term loans from Sinopec Group Company and fellow subsidiaries				
— Renminbi loans	144	345	144	345
— US Dollar loans	9	69	9	69
	153	414	153	414
Total current portion of long-term loans	8,573	11,296	5,996	6,949

Note: Loans denominated in European currencies in 2001 were converted to Euro during the year ended 31 December 2002.

25 LONG-TERM LOANS

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

Interest rate and final maturity	The Group		The Company		
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 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 2002 with maturities through 2013	36,855	32,231	25,884	21,473
Japanese Yen loans	Interest rates ranging from 0.2% to 7.3% per annum at 31 December 2002 with maturities through 2024	2,373	2,401	2,280	2,272
US Dollar loans	Interest rates ranging from interest free to 7.9% per annum at 31 December 2002 with maturities through 2031	4,294	4,300	1,323	1,884
Deutsche Marks loans	Fixed rates ranging from 6.6% to 6.8% per annum at 31 December 2001 which was converted to Euro denominated during 2002	—	151	—	144
Dutch Guilders loans	Fixed rate at 7.9% per annum at 31 December 2001 which was converted to Euro denominated during 2002	—	28	—	28
Hong Kong Dollar loans	Floating rate at Hong Kong Prime Rate per annum plus 0.25% with maturities through 2006	10	14	—	—
Euro loans	Fixed rates ranging from 6.0% to 7.9% per annum at 31 December 2002 with maturities through 2006	162	—	155	—
Less: Current portion		8,120	10,140	5,721	6,465
Long-term bank loans		35,574	28,985	23,921	19,336
Other long-term loans					
Renminbi loans	Interest rates ranging from interest free to 7.5% per annum at 31 December 2002 with maturities through 2015	277	596	61	123
US Dollar loans	Interest rates ranging from interest free to 3.4% per annum at 31 December 2002 with maturities through 2015	438	522	398	34
French Francs loans	Interest rates ranging from 1.8% to 8.1% per annum at 31 December 2001 which was converted to Euro denominated during 2002	—	15	—	15
Euro loans	Interest rates ranging from 1.8% to 8.1% per annum at 31 December 2002 with maturities through 2025	16	—	16	—
Less: Current portion		300	742	122	70
Other long-term loans		431	391	353	102
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 5.0% to 6.0% per annum at 31 December 2002 with maturities through 2007	2,272	796	2,187	790
US Dollar loans	Interest rates ranging from 2.4% to 2.8% per annum at 31 December 2002 with maturities through 2006	23	182	21	180
Less: Current portion		153	414	153	414
Long-term loans from Sinopec Group Company and fellow subsidiaries		37,703	36,125	37,616	36,117
		73,708	65,501	61,890	55,555

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2002

25 LONG-TERM LOANS (Continued)

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

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
Between one to two years	7,177	10,383	3,876	6,043
Between two to five years	25,564	13,108	17,458	7,931
After five years	40,967	42,010	40,556	41,581
Total long-term loans	73,708	65,501	61,890	55,555

At 31 December 2002, the Group and the Company had secured loans from third parties amounting to RMB 85 million (2001: RMB 171 million) and RMB 23 million (2001: RMB 76 million) respectively.

Except for the balances disclosed in Note 39, there is no amount due to shareholders who held 5% or more voting right of the Company included in the balance of long term loans.

26 DEBENTURES PAYABLE

Interest rate and final maturity	The Group		
	2002 RMB millions	2001 RMB millions	
Convertible bonds	Fixed rate at 2.2% per annum at 31 December 2002 and redeemable in July 2004	1,500	1,500

Convertible bonds amounting to RMB 1,500 million were issued by a subsidiary of the Group on 28 July 1999. The bonds are convertible upon an initial public offering ("IPO") into ordinary shares of the subsidiary from the date of IPO to 27 July 2004.

27 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.

28 SHARE CAPITAL

	The Group and the Company	
	2002 RMB millions	2001 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	2,800
	86,702	86,702

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 (see 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 depository 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.

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.

29 CAPITAL RESERVE

The movements in capital reserve are as follows:

	The Group and the Company	
	2002 RMB millions	2001 RMB millions
Balance at 1 January	36,297	27,449
Share premium from issuance of share	—	9,016
Less: Underwriting and issuing expenses	—	168
Government grants	291	—
Balance at 31 December	36,588	36,297

During the year ended 31 December 2002, the Group received subsidy on investments amounted to RMB 291 million, pursuant to Guo Jing Mao Tou Zi [2002] No. 847 "Notice on the State's Key Technology Reform on Project Fund Plan regarding the Third Batch of State Debt's Special Fund in 2002" issued by MOF. This fund is used for technology improvement projects.

30 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	Discretionary surplus reserve RMB millions	Total RMB millions
Balance at 1 January 2001	1,615	1,615	—	3,230
Appropriation of net profit	1,402	1,402	—	2,804
Balance at 31 December 2001	3,017	3,017	—	6,034
Balance at 1 January 2002	3,017	3,017	—	6,034
Appropriation of net profit	1,412	1,412	7,000	9,824
Balance at 31 December 2002	4,429	4,429	7,000	15,858

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.

31 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 43.

For the year ended 31 December 2002, revenue from sales to top five customers are RMB 51,896 million (2001: RMB 51,372 million) which accounts for 16% (2001: 17%) of income from principal operations of the Group.

32 SALES TAX AND SURCHARGES

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
Consumption tax	8,823	9,025	5,909	6,088
City construction tax	1,636	1,615	896	820
Education surcharge	782	707	420	396
Resources tax	499	406	96	106
Business tax	112	110	60	78
	11,852	11,863	7,381	7,488

33 FINANCIAL EXPENSES

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
Interest expenses incurred	4,951	5,692	3,060	3,372
Less: Capitalised interest expenses	551	542	271	378
Financial expenses-interest expenses	4,400	5,150	2,789	2,994
Interest income	(338)	(1,183)	(200)	(824)
Foreign exchange losses	312	222	235	45
Foreign exchange gains	(47)	(593)	(31)	(356)
	4,327	3,596	2,793	1,859

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2002

34 EXPLORATION EXPENSES

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

35 INVESTMENT INCOME

	The Group		The Company	
	2002	2001	2002	2001
	RMB millions	RMB millions	RMB millions	RMB millions
Investment income accounted for under the cost method	190	199	16	37
Investment income accounted for under the equity method	315	347	15,564	19,292
	505	546	15,580	19,329

36 NON-OPERATING EXPENSES

	The Group		The Company	
	2002	2001	2002	2001
	RMB millions	RMB millions	RMB millions	RMB millions
Loss on disposal of fixed assets	748	323	469	165
Fines, penalties and compensation	74	87	71	83
Donation	66	62	38	23
Employee reduction expenses (i)	244	2,546	244	1,767
Others	511	490	320	315
	1,643	3,508	1,142	2,353

(i) During the year ended 31 December 2002, in connection with the assets swap agreement between the Company and Sinopec Group Company (Note 39), the Company made payment of RMB 244 million related to approximately 11,000 employees that were transferred to Sinopec Group Company.

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.

37 INCOME TAX

	The Group		The Company	
	2002	2001	2002	2001
	RMB millions	RMB millions	RMB millions	RMB millions
Provision for PRC income tax	6,611	6,445	6,250	6,455
Deferred taxation	198	647	253	430
	6,809	7,092	6,503	6,885

38 DIVIDENDS

Pursuant to the shareholder's approval at the Annual General Meeting on 13 June 2002, the Board of Directors was authorised to declare the interim dividends for the year ended 2002. According to the resolution passed at the Director's meeting on 16 August 2002, an interim dividend of RMB 0.02 (2001: nil) per share totalling RMB 1,734 million (2001: nil) was declared.

Pursuant to a resolution passed at the Director's meeting on 28 March 2003, a final dividend of RMB 0.06 per share (2001: RMB 0.08 per share) totalling RMB 5,202 million (2001: RMB 6,936 million) was proposed for shareholders' approval at the Annual General Meeting.

Final dividend for the year ended 31 December 2002 has provided for in the financial statements.

39 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 petrochemical products, petrochemical products which include: petrochemical products made from crude oil and natural gas; production, sale and import and export of synthetic fibre and synthetic fibre monomer.
Relationship with the Group	:	Ultimate holding company
Types of legal entity	:	State-owned
Authorised representative	:	Li Yizhong
Registered capital	:	RMB 104,912 million

There is no movement in the above registered capital for the year ended 31 December 2002.

As at 31 December 2002, Sinopec Group Company held 55.1% shares of the Company and there is no change on percentage shareholdings during this reporting period.

(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	2002 RMB millions	2001 RMB millions
Sales of goods	(i)	36,343	37,261
Purchases	(ii)	26,225	19,264
Transportation and storage	(iii)	1,514	1,471
Exploration and development services	(iv)	10,310	10,250
Production related services	(v)	7,316	6,116
Ancillary and social services	(vi)	1,945	2,000
Operating lease charges	(vii)	2,716	2,489
Agency commission income	(viii)	37	7
Intellectual property license fee paid	(ix)	10	10
Interest received	(x)	104	153
Interest paid	(xi)	636	534
Net deposits (withdrawn from)/placed with related parties	(xii)	(1,427)	528
Net loans obtained from/(repaid to) related parties	(xiii)	1,990	(5,034)

The amounts set out in the table above in respect of the years ended 31 December 2002 and 2001 represent the relevant costs to the Group as determined by the corresponding contracts with the related parties.

At 31 December 2002 and 2001, there was no guarantees given to banks by the Group in respect of banking facilities to Sinopec Group Company and fellow subsidiaries.

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.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2002

39 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

Notes:

- (i) Sales of goods represent the sale of crude oil, intermediate petrochemical products and petroleum products.
- (ii) Purchases represent the purchase of material and utility supplies directly related to the Group's operations such as the procurement of raw and ancillary materials and related services, supply of water, electricity and gas.
- (iii) Transportation and storage represent the cost for the use of railway, road and marine transportation services, pipelines, loading, unloading and storage facilities.
- (iv) Exploration and development services comprise direct costs incurred in the exploration of crude oil such as geophysical, drilling, well testing and well measurement services.
- (v) Production related services represent ancillary services rendered in relation to the Group's operations such as equipment repair and general maintenance, insurance premium, technical research, communications, fire fighting, security, product quality testing and analysis, information technology, design and engineering, construction which includes the construction of oilfield ground facilities, refineries and chemical plants, manufacture of replacement parts and machinery, installation, project management and environmental protection.
- (vi) Ancillary and social services represent expenditures for social welfare and support services such as educational facilities, media communication services, sanitation, accommodation, canteens, property maintenance and management services.
- (vii) Operating lease charges represent the rental paid to Sinopec Group Company for operating leases in respect of land, buildings and service stations.
- (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 2001 and 2002 were RMB 7,129 million and RMB 5,702 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. The calculated yearly balance of average loan for the year ended 31 December 2002, which is based on monthly average balances, was RMB 40,019 million (2001: RMB 42,120 million).

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 2002. 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.

39 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(g) Balances with related parties

The balances with the Group's related parties at 31 December 2002 are as follows:

	The ultimate holding company		Other related companies	
	2002	2001	2002	2001
	RMB millions	RMB millions	RMB millions	RMB millions
Trade accounts receivable	62	627	2,566	2,876
Advance payments	6	151	578	981
Other receivables	3,509	357	7,621	7,932
Trade accounts payable	—	1,244	2,103	1,989
Receipts in advance	77	—	264	—
Other creditors	18	2,818	9,608	7,402
Short-term loans	—	—	4,121	3,448
Long-term loans (Note)	—	—	37,856	36,539

Note: The Sinopec Group Company had borrowed an interest free loan for 20 years amounted to RMB 35,561 million to the Group through Sinopec Finance Company Limited which was included in long-term loans.

On 19 December 2002, the Company and Sinopec Group Company entered into an asset swap agreement whereby the Company transferred to Sinopec Group Company certain individual assets and liabilities, consisting principally of, water plants, inspection, maintenance, geology and geophysical assets and related liabilities. The carrying amount of the net assets transferred to Sinopec Group Company approximated the net appraised amount of RMB 1,021 million. In return, Sinopec Group Company transferred to the Company certain gas stations and oil depot assets. The appraised amount of such assets transferred to the Company was RMB 1,040 million. The difference between the carrying and appraised amounts of the assets exchanged amounted to RMB 19 million was paid in cash by the Company. This asset swap agreement was effective from 31 December 2002 and reflected in the financial statements for the year ended 31 December 2002.

40 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 2002. 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
China Petrochemical International Company Limited	1,400	100.00	Trading of crude oil and petrochemical products
Sinopec Beijing Yanhua Petrochemical Company Limited	3,374	70.01	Manufacturing of chemical products
Sinopec Sales Company Limited	1,700	100.00	Marketing and distribution of refined petroleum products
Sinopec Shengli Oilfield Company Limited	30,028	100.00	Exploration and production of crude oil and natural gas
Sinopec Fujian Petrochemical Company Limited	2,253	(i) 50.00	Manufacturing of plastics, intermediate petrochemical products and petroleum products
Sinopec Maoming Refining and Chemical Company Limited	1,064 and RMB 1,500 convertible bonds	99.81	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	(i) 46.25	Marketing and distribution of refined petroleum products
Sinopec Wuhan Phoenix Company Limited	519	(i) 40.72	Manufacturing of petrochemical products and petroleum products
Sinopec Yangzi Petrochemical Company Limited	2,330	84.98	Manufacturing of intermediate 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	816	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.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2002

41 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 2002, the future minimum lease payments under operating leases are as follows:

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
Within one year	2,726	2,844	2,629	2,590
Between one to two years	2,666	2,736	2,585	2,565
Between two to three years	2,647	2,563	2,568	2,494
Between three to four years	2,635	2,559	2,557	2,492
Between four to five years	2,609	2,550	2,531	2,484
After five years	83,718	85,368	82,231	84,250
	97,001	98,620	95,101	96,875

Capital commitments

At 31 December 2002, the Group and the Company had capital commitments as follows:

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
Authorised and contracted for	30,245	21,636	15,218	8,436
Authorised but not contracted for	41,015	18,204	27,115	12,437
	71,260	39,840	42,333	20,873

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 2002 was approximately RMB 65 million (2001: RMB 29 million).

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

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
Within one year	55	43	37	28
Between one to two years	76	39	45	26
Between two to three years	66	51	35	26
Between three to four years	63	62	28	31
Between four to five years	43	56	12	24
After five years	263	284	109	114
	566	535	266	249

42 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 2002, 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		The Company	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
Associated and jointly controlled entities	7,492	546	7,017	—
Third parties	30	322	—	—
	7,522	868	7,017	—

The Company monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognise any such losses under guarantees when those losses are estimable. At 31 December 2001 and 2002, it is not probable that the Company will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Company's obligation under the guarantees arrangement.

In March 2003, the Company made guarantees of RMB 4,680 million given to banks in respect of banking facilities granted to an associate.

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 287 million for the year ended 31 December 2002 (2001: RMB 221 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.

43 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 petrochemical products, derivative petrochemical 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 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.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2002

43 SEGMENTAL INFORMATION (Continued)

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

	2002 RMB millions	2001 RMB millions
Turnover		
Exploration and production		
External sales	10,920	11,095
Inter-segment sales	39,407	43,332
	50,327	54,427
Refining		
External sales	47,555	49,497
Inter-segment sales	161,340	156,782
	208,895	206,279
Marketing and distribution		
External sales	184,378	180,610
Inter-segment sales	2,329	2,460
	186,707	183,070
Chemicals		
External sales	58,401	48,945
Inter-segment sales	7,204	5,626
	65,605	54,571
Others		
External sales	22,930	14,200
Inter-segment sales	19,845	8,875
	42,775	23,075
Elimination of inter-segment sales	(230,125)	(217,075)
Turnover	324,184	304,347
Cost of sales, sales tax and surcharges		
Exploration and production	28,788	27,738
Refining	198,115	199,272
Marketing and distribution	163,701	167,786
Chemicals	60,429	50,580
Others	42,378	22,343
Elimination of inter-segment cost of sales	(230,377)	(219,721)
Cost of sales, sales tax and surcharges	263,034	247,998
Operating profit		
Exploration and production	21,973	28,765
Refining	10,598	7,577
Marketing and distribution	23,006	15,284
Chemicals	5,176	3,992
Others	397	731
Total operating profit	61,150	56,349

44 POST BALANCE SHEET EVENTS

Except for disclosed in Note 42, the Company made guarantees to banks in respect of banking facilities granted to an associate in March 2003, the Group and the Company do not have other post balance sheet event.

45 OTHER SIGNIFICANT EVENTS

The Group does not have any other significant event required to disclose as at the approval date of this financial statements.