

NOTES ON THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

1 PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION

Principal activities

China Petroleum & Chemical Corporation (“the Company”) is an oil and energy company that, through its subsidiaries (hereinafter collectively referred to as “the Group”), engages in fully integrated oil and gas and chemical operations in the People’s Republic of China (“the PRC”). Oil and gas operations consist of exploring for, developing and producing crude oil and natural gas; transporting crude oil, natural gas and products by pipelines; refining crude oil into finished petroleum products; and marketing crude oil, natural gas and refined petroleum products. Chemical operations include the manufacture and marketing of a wide range of chemicals for industrial uses.

Organisation

The Company was established in the PRC on 25 February 2000 as a joint stock limited company as part of the reorganisation (“the Reorganisation”) of China Petrochemical Corporation (“Sinopec Group Company”), the ultimate holding company of the Group and a ministry-level enterprise under the direct supervision of the State Council of the PRC. Prior to the incorporation of the Company, the oil and gas and chemical operations of the Group were carried on by oil administration bureaux, petrochemical and refining production enterprises and sales and marketing companies of Sinopec Group Company.

As part of the Reorganisation, certain of Sinopec Group Company’s core oil and gas and chemical operations and businesses together with the related assets and liabilities that were to be transferred to the Company were segregated such that the operations and businesses were separately managed beginning 31 December 1999. On 25 February 2000, in consideration for Sinopec Group Company transferring such oil and gas and chemical operations and businesses and the related assets and liabilities to the Company, the Company issued 68.8 billion domestic state-owned ordinary shares with a par value of RMB 1.00 each to Sinopec Group Company. The shares issued to Sinopec Group Company on 25 February 2000 represented the entire registered and issued share capital of the Company at that date. The oil and gas and chemical operations and businesses transferred to the Company related to (i) the exploration, development and production of crude oil and natural gas, (ii) the refining, transportation, storage and marketing of crude oil and petroleum products, and (iii) the production and sale of chemicals (collectively the “Predecessor Operations”).

Basis of presentation

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”).

As the Group and Sinopec National Star are under the common control of Sinopec Group Company, the Acquisition is considered a “combination of entities under common control” which is accounted in a manner similar to a pooling-of-interests (“as-if pooling-of-interests accounting”). Accordingly, the assets and liabilities of Sinopec National Star acquired have been accounted for at historical cost and the financial statements of the Group for periods prior to the combination have been restated to include the results of operations of Sinopec National Star on a combined basis. The consideration paid by the Group was treated as an equity transaction.

The accompanying financial statements have been prepared in accordance with IFRS promulgated by the International Accounting Standards Board. IFRS includes International Accounting Standards (“IAS”) and related interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accompanying financial statements are prepared on the historical cost basis as modified by the revaluation of certain property, plant and equipment (Note 17). The accounting policies described in Note 2 have been consistently applied by the Group. As described in note (e) to the statements of changes in shareholders’ funds, land use rights are carried at cost effective 1 January 2002. The effect of this change resulted in a decrease in the revaluation reserve and an increase in other reserves relating to the recognition of the deferred tax asset as at 1 January 2002. The effect of this change did not have a material impact on the Group’s financial condition and results of operations in prior years.

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

2 PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. 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 results of subsidiaries are included in the consolidated income statement from the date that control effectively commences until the date that control effectively ceases, and the share attributable to minority interests is deducted from or added to profit from ordinary activities after taxation. All significant inter-company balances and transactions and any unrealised gains arising from intercompany transactions are eliminated on consolidation.

The particulars of the Group’s principal subsidiaries are set out in Note 34.

(b) Translation of foreign currencies

The functional and reporting currency of the Group is 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 capitalised as construction in progress, are recognised as income or expense in the income statement.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Cash and cash equivalents

Cash equivalents consist of time deposits with financial institutions with an initial term of less than three months when purchased. Cash equivalents are stated at cost, which approximates fair value.

(d) Trade accounts receivable

Trade accounts receivable are stated at cost less allowance for doubtful accounts. An allowance for doubtful accounts is provided based upon the evaluation of the recoverability of these accounts at the balance sheet date.

(e) Inventories

Inventories, other than spare parts and consumables, are stated at the lower of cost and net realisable value. Cost includes the cost of purchase computed using the weighted average method and, in the case of work in progress and finished goods, direct labour and an appropriate proportion of production overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

(f) Property, plant and equipment

Property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Subsequent to the revaluation (Note 17), which was based on depreciated replacement costs, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluations are performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Expenditure incurred after the asset has been put into operation is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is charged to the income statement in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of property, plant and equipment, other than oil and gas properties, are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the income statement on the date of retirement or disposal. On disposal of a revalued asset, the related revaluation surplus is transferred from the revaluation reserve to retained earnings.

Depreciation is provided to write off the cost/revalued amount of each asset, other than oil and gas properties, over its estimated useful life on a straight-line basis, after taking into account its estimated residual value, as follows:

Buildings	15 to 45 years
Plant, machinery, equipment and others	4 to 18 years
Oil depots, storage tanks and service station equipment	8 to 14 years

(g) Oil and gas properties

The Group uses the successful efforts method of accounting for its oil and gas producing activities. Under this method, 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. Exploratory wells that find oil and gas reserves in any area requiring major capital expenditure are expensed unless the well has found a sufficient quantity of reserves to justify its completion as a producing well if the required capital expenditure is made, and drilling of the additional exploratory wells is under way or firmly planned for the near future. 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, other dry hole costs and annual lease rentals, are expensed as incurred. Capitalised costs relating to proved properties are amortised at the field level on a unit-of-production method. The amortisation rates are determined based on oil and gas reserves estimated to be recoverable from existing facilities over the shorter of the economic lives of crude oil and natural gas reservoirs and the terms of the relevant production licenses.

Gains and losses on the disposal of proved oil and gas properties are not recognised unless the disposal encompasses an entire property. The proceeds on such disposals are credited to the carrying amounts of oil and gas properties.

(h) Lease prepayments

Lease prepayments represent land use rights paid to the PRC's land bureau. Land use rights are carried at cost and amortised on a straight-line basis over the respective periods of the rights. At 31 December 2002, lease prepayments which comprise of land use rights have been presented in a separate balance sheet caption. Accordingly, the comparative amount at 31 December 2001 which was previously included in property, plant and equipment was reclassified to conform with the current year's presentation.

(i) Construction in progress

Construction in progress represents buildings, oil and gas properties, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the periods of construction.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2002

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Interests in subsidiaries

In the Company's stand-alone balance sheet, interests in subsidiaries are accounted for using the equity method.

(k) Investments

Investments in unlisted equity securities are stated at cost less provision for impairment losses. A provision is made where, in the opinion of management, the carrying amount of the investments exceeds its recoverable amount.

(l) Interests in associates and jointly controlled entities

An associate is a company, not being a subsidiary, in which the Group exercises significant influence over its management. A jointly controlled entity is an entity over which the Group can exercise joint control with other venturers. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies. Joint control is the contractually agreed sharing of control over an economic activity.

Investments in associates and jointly controlled entities are accounted for using the equity method in the Company's and the Group's financial statements, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

(m) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(n) 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. Revenue from the rendering of services is recognised in the income statement upon performance of the services. 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.

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

(o) Borrowing costs

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 expenditure

Repairs and maintenance expenditure, including cost of major overhaul, is 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.

Liabilities related to future remediation costs are recorded when environmental assessments and/or cleanups are probable and the costs can be reasonably estimated. As facts concerning environmental contingencies become known to the Group, the Group reassesses its position both with respect to accrued liabilities and other potential exposures.

(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. Further information is set out in Note 32.

(u) Impairment loss

The carrying amounts of long-lived assets are reviewed 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 unless the asset is carried at revalued amount for which an impairment loss is recognised directly against any related revaluation reserve to the extent that the impairment loss does not exceed the amount held in the revaluation reserve for that same asset.

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. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down or write-off cease to exist, is recognised as income unless the asset is carried at revalued amount. Reversal of an impairment loss on a revalued asset is credited to the revaluation reserve except for impairment loss which was previously recognised as an expense in the income statement; a reversal of such impairment loss is recognised as income. The reversal is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(v) Income tax

Income tax comprises current and deferred tax. Current tax is calculated on taxable income by applying the applicable tax rates. 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. Deferred tax is calculated on the basis of the enacted tax rates that are expected to apply in the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged or credited to the income statement.

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 to the extent appropriate, and is not available for set-off against the taxable profit of another legal tax unit. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(w) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(x) Segmental reporting

A business segment is a distinguishable component of the Group that is engaged in providing products or services and is subject to risks and rewards that are different from those of other segments.

3 TURNOVER

Turnover represents revenue from the sales of crude oil, natural gas, petroleum and chemical products, net of value-added tax.

4 OTHER OPERATING REVENUES

	The Group	
	2002	2001
	RMB millions	RMB millions
Sale of materials, service and others	15,515	13,948
Rental income	343	176
	15,858	14,124

5 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The following items are included in selling, general and administrative expenses:

	The Group	
	2002	2001
	RMB millions	RMB millions
Research and development costs	1,514	1,290
Operating lease charges	3,192	2,832
Auditors' remuneration	82	89

6 PERSONNEL EXPENSES

	The Group	
	2002	2001
	RMB millions	RMB millions
Wages and salaries	9,871	9,402
Staff welfare	1,375	1,311
Contributions to retirement schemes	1,549	1,358
Social security contributions	830	818
	13,625	12,889

7 EMPLOYEE REDUCTION EXPENSES

During the year ended 31 December 2002, in connection with the assets swap agreement between the Company and Sinopec Group Company (Note 31), the Company made payments of RMB 244 million relating 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.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2002

8 TAXES OTHER THAN INCOME TAX

	The Group	
	2002	2001
	RMB millions	RMB millions
Consumption tax	8,823	9,025
City construction tax	1,636	1,615
Education surcharge	782	707
Resources tax	499	406
Business tax	112	110
Others	—	24
	11,852	11,887

Consumption tax is levied on producers of gasoline and diesel based on a tariff rate applied to the volume of sales. City construction tax is levied on an entity based on its total amount of value-added tax, consumption tax and business tax.

9 OTHER OPERATING EXPENSES, NET

	The Group	
	2002	2001
	RMB millions	RMB millions
Fines, penalties and compensations	71	80
Donations	66	62
Loss on disposal of property, plant and equipment, net	721	67
Others	208	(16)
	1,066	193

10 INTEREST EXPENSE

	The Group	
	2002	2001
	RMB millions	RMB millions
Interest expense incurred	4,951	5,692
Less: Interest expense capitalised*	(933)	(986)
Interest expense	4,018	4,706
* Interest rates per annum at which borrowing costs were capitalised for construction in progress	3.1% to 6.2%	3.4% to 8.0%

11 TAXATION

Taxation in the consolidated income statement represents:

	The Group	
	2002	2001
	RMB millions	RMB millions
Provision for PRC income tax		
– the Group	6,566	6,414
– associates and jointly controlled entities	43	23
Deferred taxation (Note 25)	1,026	1,592
	7,635	8,029

A reconciliation of the expected tax with the actual tax expense is as follows:

	The Group	
	2002	2001
	RMB millions	RMB millions
Profit from ordinary activities before taxation	24,832	24,667
Expected PRC income tax expense at a statutory tax rate of 33%	8,195	8,140
Non-deductible expenses	208	398
Non-taxable income	(441)	(261)
Differential tax rate on subsidiaries' income (Note i)	(491)	(390)
Tax losses not recognised for deferred tax	164	142
	7,635	8,029

Note:

- (i) The provision for PRC current income tax is based on a statutory rate of 33% of the assessable income of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain subsidiaries of the Company, which are taxed at a preferential rate of 15%.

12 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Directors' and supervisors' emoluments are as follows:

	2002 RMB'000	2001 RMB'000
Fees	64	64
Salaries and other emoluments	1,429	1,267
Retirement scheme contributions	128	104
	1,621	1,435

Included in the directors' and supervisors' emoluments were fees of RMB 64,000 (2001: RMB 64,000) paid to the independent non-executive directors and an independent supervisor during the year ended 31 December 2002.

An analysis of directors' and supervisors' emoluments by number of directors and supervisors and emolument range is as follows:

	2002 Number	2001 Number
Nil to HK\$ 1,000,000	20	20

13 SENIOR MANAGEMENT'S EMOLUMENTS

Details of emoluments paid to the five highest paid individuals (none of them is a director or a supervisor) of the Group during the year are as follows:

	2002 RMB'000	2001 RMB'000
Salaries and other emoluments	1,250	1,362
Retirement scheme contributions	121	51
	1,371	1,413

An analysis of emoluments paid to the five highest paid individuals by number of individuals and emolument range is as follows:

	2002 Number	2001 Number
Nil to HK\$ 1,000,000	5	5

14 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of RMB 16,080 million (2001: RMB 16,025 million) which has been dealt with in the financial statements of the Company.

15 BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2002 is based on the profit attributable to shareholders of RMB 16,080 million and the weighted average number of shares of 86,702,439,000 during the year.

The calculation of basic earnings per share for the year ended 31 December 2001 is based on the profit attributable to shareholders of RMB 16,025 million and the weighted average number of shares of 85,168,192,425 during the year. The weighted average number of shares for the year ended 31 December 2001 reflects the issuance of 2,800,000,000 shares in July 2001 in connection with the Company's public offering of domestically listed ordinary shares in Shanghai Stock Exchange (Note 29).

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during the years presented.

16 DIVIDENDS

Dividends attributable to the year represent:

	2002 RMB millions	2001 RMB millions
Dividends declared and paid during the year of RMB 0.02 per share (2001: RMB nil per share)	1,734	—
Dividends proposed after the balance sheet date of RMB 0.06 per share (2001: RMB 0.08 per share)	5,202	6,936
	6,936	6,936

Pursuant to the shareholders' 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 31 December 2002. According to the resolution passed at the Directors' meeting on 16 August 2002, an interim dividend of RMB 0.02 (2001: RMB nil) per share totalling RMB 1,734 million (2001: RMB nil) was declared.

Pursuant to a resolution passed at the Directors' meeting on 28 March 2003, a final dividend of RMB 0.06 (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 of RMB 5,202 million (2001: RMB 6,936 million) proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2002

16 DIVIDENDS (Continued)

Dividends attributable to the previous financial year, approved and paid during the year represent:

	2002 RMB millions	2001 RMB millions
Final dividends in respect of the previous financial year, approved and paid during the year, of RMB 0.08 per share (2001: RMB 0.08 per share)	6,936	6,712

17 PROPERTY, PLANT AND EQUIPMENT

The Group - by segment:

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals millions	Corporate and others RMB millions	Total RMB millions
Cost/valuation:						
Balance at 1 January 2002	142,354	93,003	40,683	110,429	1,657	388,126
Additions	1,623	453	1,860	306	102	4,344
Transferred from Sinopec Group Company (Note 31)	—	—	1,040	—	—	1,040
Transferred from construction in progress	17,236	6,825	6,416	11,162	559	42,198
Transferred to Sinopec Group Company (Note 31)	(1,799)	(266)	—	(144)	—	(2,209)
Disposals	(1,485)	(1,308)	(521)	(704)	(88)	(4,106)
Balance at 31 December 2002	157,929	98,707	49,478	121,049	2,230	429,393
Accumulated depreciation:						
Balance at 1 January 2002	68,318	40,338	6,788	54,512	413	170,369
Depreciation charge for the year	9,024	6,002	1,935	6,880	126	23,967
Transferred to Sinopec Group Company (Note 31)	(619)	(125)	—	(68)	—	(812)
Written back on disposals	(1,177)	(939)	(247)	(523)	(67)	(2,953)
Balance at 31 December 2002	75,546	45,276	8,476	60,801	472	190,571
Net book value:						
At 31 December 2002	82,383	53,431	41,002	60,248	1,758	238,822
At 31 December 2001	74,036	52,665	33,895	55,917	1,244	217,757

The Company - by segment:

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals millions	Corporate and others RMB millions	Total RMB millions
Cost/valuation:						
Balance at 1 January 2002	46,748	64,392	39,671	30,309	847	181,967
Additions	884	941	1,785	196	46	3,852
Transferred from Sinopec Group Company (Note 31)	—	—	1,040	—	—	1,040
Transferred from construction in progress	7,471	4,704	6,375	251	435	19,236
Transferred to Sinopec Group Company (Note 31)	(1,235)	(266)	—	(144)	—	(1,645)
Disposals	(766)	(1,057)	(504)	(76)	(70)	(2,473)
Balance at 31 December 2002	53,102	68,714	48,367	30,536	1,258	201,977
Accumulated depreciation:						
Balance at 1 January 2002	22,688	30,001	6,648	15,361	229	74,927
Depreciation charge for the year	3,454	3,772	1,860	1,669	58	10,813
Transferred to Sinopec Group Company (Note 31)	(460)	(125)	—	(68)	—	(653)
Written back on disposals	(562)	(769)	(232)	(48)	(61)	(1,672)
Balance at 31 December 2002	25,120	32,879	8,276	16,914	226	83,415
Net book value:						
At 31 December 2002	27,982	35,835	40,091	13,622	1,032	118,562
At 31 December 2001	24,060	34,391	33,023	14,948	618	107,040

17 PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group - by asset class:

	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	33,397	125,119	33,321	196,289	388,126
Additions	365	52	1,160	2,767	4,344
Transferred from Sinopec Group Company (Note 31)	—	—	1,040	—	1,040
Transferred from construction in progress	1,407	16,431	6,019	18,341	42,198
Reclassification	1,077	295	(4,361)	2,989	—
Transferred to Sinopec Group Company (Note 31)	(185)	(196)	—	(1,828)	(2,209)
Disposals	(317)	(769)	(252)	(2,768)	(4,106)
Balance at 31 December 2002	35,744	140,932	36,927	215,790	429,393
Accumulated depreciation:					
Balance at 1 January 2002	12,934	62,676	5,902	88,857	170,369
Depreciation charge for the year	1,539	7,557	1,391	13,480	23,967
Reclassification	384	118	(748)	246	—
Transferred to Sinopec Group Company (Note 31)	(56)	(51)	—	(705)	(812)
Written back on disposals	(116)	(667)	(163)	(2,007)	(2,953)
Balance at 31 December 2002	14,685	69,633	6,382	99,871	190,571
Net book value:					
At 31 December 2002	21,059	71,299	30,545	115,919	238,822
At 31 December 2001	20,463	62,443	27,419	107,432	217,757

The Company - by asset class:

	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
Additions	316	52	1,132	2,352	3,852
Transferred from Sinopec Group Company (Note 31)	—	—	1,040	—	1,040
Transferred from construction in progress	1,024	6,899	5,839	5,474	19,236
Reclassification	175	(380)	(4,361)	4,566	—
Transferred to Sinopec Group Company (Note 31)	(91)	(196)	—	(1,358)	(1,645)
Disposals	(206)	(272)	(251)	(1,744)	(2,473)
Balance at 31 December 2002	18,439	45,972	35,796	101,770	201,977
Accumulated depreciation:					
Balance at 1 January 2002	5,651	20,919	5,828	42,529	74,927
Depreciation charge for the year	836	2,955	1,319	5,703	10,813
Reclassification	67	(165)	(748)	846	—
Transferred to Sinopec Group Company (Note 31)	(36)	(51)	—	(566)	(653)
Written back on disposals	(89)	(217)	(163)	(1,203)	(1,672)
Balance at 31 December 2002	6,429	23,441	6,236	47,309	83,415
Net book value:					
At 31 December 2002	12,010	22,531	29,560	54,461	118,562
At 31 December 2001	11,570	18,950	26,569	49,951	107,040

As required by the relevant PRC regulations with respect to the Reorganisation, the property, plant and equipment of the Group at 30 September 1999 were valued for each asset class by China United Assets Appraisal Corporation, Beijing Zhong Zheng Appraisal Company, CIECC Assets Appraisal Corporation and Zhong Fa International Properties Valuation Corporation, independent valuers registered in the PRC, on a depreciated replacement cost basis. The value of property, plant and equipment was determined at RMB 159,788 million. The surplus on revaluation of RMB 32,320 million, net of amounts allocated to minority interests, was incorporated in the financial statements of the Group at 31 December 1999. In connection with the Acquisition, the property, plant and equipment of Sinopec National Star were revalued at 31 December 2000, by a firm of independent valuers and approved by the Ministry of Finance. The value of property, plant and equipment of Sinopec National Star pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB 4,373 million, resulting in a surplus on revaluation of RMB 1,136 million, net of amounts allocated to minority interests.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2002

18 CONSTRUCTION IN PROGRESS

The Group:

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals millions	Corporate and others RMB millions	Total RMB millions
Balance at 1 January 2002	3,163	6,636	8,722	7,420	509	26,450
Additions	20,376	6,080	5,122	7,018	443	39,039
Dry hole costs written off	(1,771)	—	—	—	—	(1,771)
Amount transferred to Sinopec Group Company (Note 31)	(6)	(10)	—	—	—	(16)
Transferred to fixed assets	(17,236)	(6,825)	(6,416)	(11,162)	(559)	(42,198)
Balance at 31 December 2002	4,526	5,881	7,428	3,276	393	21,504

The Company:

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals millions	Corporate and others RMB millions	Total RMB millions
Balance at 1 January 2002	1,893	5,179	8,476	737	468	16,753
Additions	9,653	3,772	4,946	431	343	19,145
Dry hole costs written off	(951)	—	—	—	—	(951)
Amount transferred to Sinopec Group Company (Note 31)	(6)	(10)	—	—	—	(16)
Transferred to fixed assets	(7,471)	(4,704)	(6,375)	(251)	(435)	(19,236)
Balance at 31 December 2002	3,118	4,237	7,047	917	376	15,695

19 INTERESTS IN SUBSIDIARIES

	The Company	
	2002 RMB millions	2001 RMB millions
Share of net assets	89,332	89,608

Details of the Company's principal subsidiaries at 31 December 2002 are set out in Note 34.

20 INVESTMENTS

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
Unlisted investments, at cost	2,738	3,463	635	611
Less: Provision for impairment losses	(184)	(181)	(149)	(149)
	2,554	3,282	486	462

Unlisted investments represent the Group's interests in PRC domiciled enterprises which are mainly engaged in non-oil and gas activities and operations. The Group has no investments in marketable securities.

21 INTERESTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

	The Group		The Company	
	2002	2001	2002	2001
	RMB millions	RMB millions	RMB millions	RMB millions
Share of net assets	7,917	5,172	5,679	4,155

The Group's investments in associates and jointly controlled entities are with companies primarily engaged in the oil and gas and chemical operations in the PRC. These investments are accounted for under equity method and individually and in the aggregate not material to the Group's financial condition or results of operations for all periods presented. The principal investments in associates and jointly controlled entities, all of which are incorporated in the PRC, are as follows:

Name of company	Form of business structure	Particulars of issued and paid up capital	Percentage of equity held by the Company %	Percentage of equity held by the Company's subsidiaries %	Principal activities
Shengli Oil Field Dynamic Company Limited ("Dynamic")*	Incorporated	303,356,340 ordinary shares of RMB 1.00 each	26.33	—	Exploration of crude oil and distribution of petrochemical products
Sinopec Shandong Taishan Petroleum Company Limited ("Taishan")*	Incorporated	480,793,320 ordinary shares of RMB 1.00 each	38.68	—	Trading of petroleum products and decoration of service gas stations
Sinopec Finance Company Limited	Incorporated	Registered capital RMB 2,500,000,000	32.00	8.22	Provision of non-banking financial services
Shanghai Petroleum National Gas Corporation	Incorporated	Registered capital RMB 900,000,000	30.00	—	Exploration and production of crude oil and natural gas
BASF-YPC Company Limited	Incorporated	Registered capital RMB 8,793,000,000	30.00	10.00	Manufacturing and distribution of petrochemical products
Shanghai Secco Petrochemical Company Limited	Incorporated	Registered capital USD 901,440,964	30.00	20.00	Manufacturing and distribution of petrochemical products
Shanghai Chemical Industry Park Development Company Limited	Incorporated	Registered capital RMB 2,372,439,000	—	38.26	Planning, development and operation of the Chemical Industry Park in Shanghai, the PRC

* Shares of Dynamic and Taishan are listed on the Shenzhen Stock Exchange. Shares held by the Company are domestic state-owned A shares which are not admitted for trading in any stock exchange in the PRC. The market value of the Group's and the Company's investments in Dynamic and Taishan based on the quoted market price are RMB 625 million (2001: RMB 1,074 million) and RMB 1,764 million (2001: RMB 1,465 million) respectively at 31 December 2002.

22 TRADE ACCOUNTS AND BILLS RECEIVABLES

	The Group		The Company	
	2002	2001	2002	2001
	RMB millions	RMB millions	RMB millions	RMB millions
Third parties	10,643	10,049	5,710	6,237
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
	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
Bills receivable	4,684	3,542	1,478	1,464
	15,354	14,624	11,363	10,925

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

	The Group		The Company	
	2002	2001	2002	2001
	RMB millions	RMB millions	RMB millions	RMB millions
Within one year	13,892	12,766	10,556	9,906
Between one and two years	530	708	241	525
Between two and three years	288	368	168	230
Over three years	644	782	398	264
	15,354	14,624	11,363	10,925

Sales are generally on a cash term. Credit are generally only available for major customers with well-established trading records. Amounts due from Sinopec Group Company and fellow subsidiaries are repayable under the same terms.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2002

23 INVENTORIES

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
Crude oil and other raw materials	21,295	17,749	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	4,210	3,555	1,353	1,184
	46,783	46,796	25,414	27,619
Less: Allowance for diminution in value of inventories	(486)	(602)	(224)	(292)
	46,297	46,194	25,190	27,327

At 31 December 2002, the carrying amount of the Group's and the Company's inventories carried at net realisable value amounted to RMB 1,624 million (2001: RMB 1,924 million) and RMB 966 million (2001: RMB 1,120 million), respectively.

The cost of inventories recognised as an expense in the consolidated income statement amounted to RMB 258,594 million for the year ended 31 December 2002 (2001: RMB 249,700 million).

24 PREPAID EXPENSES AND OTHER CURRENT ASSETS

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
Advances to third parties	3,500	6,618	1,868	5,328
Amounts due from Sinopec Group Company and fellow subsidiaries	11,714	9,421	10,085	7,400
Amounts due from subsidiaries	—	—	10,419	8,802
Other receivables	1,645	3,406	875	2,309
Purchase deposits	1,610	2,426	1,216	1,495
Prepayments in connection with construction work and equipment purchases	1,196	1,543	1,077	1,072
Prepaid value-added tax and customs duty	1,511	2,284	749	1,651
Amounts due from associates and jointly controlled entities	345	373	310	373
Prepaid rental	—	52	—	23
	21,521	26,123	26,599	28,453

25 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and deferred tax liabilities are attributable to the items detailed in the table below:

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>						
Provisions, primarily for receivables and inventories	275	432	—	—	275	432
<i>Non-current</i>						
Property, plant and equipment	47	35	(627)	(788)	(580)	(753)
Accelerated depreciation	—	—	(2,958)	(2,185)	(2,958)	(2,185)
Tax value of losses carried forward, net of valuation allowance	30	173	—	—	30	173
Land use rights (Note)	364	—	—	—	364	—
Others	16	129	(14)	(8)	2	121
Deferred tax assets/(liabilities)	732	769	(3,599)	(2,981)	(2,867)	(2,212)

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>						
Provisions, primarily for receivables and inventories	57	281	—	—	57	281
<i>Non-current</i>						
Property, plant and equipment	36	3	(240)	(119)	(204)	(116)
Accelerated depreciation	—	—	(799)	(554)	(799)	(554)
Others	15	53	(3)	—	12	53
Deferred tax assets/(liabilities)	108	337	(1,042)	(673)	(934)	(336)

25 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

A valuation allowance on deferred tax assets is recorded if it is more likely than not that some portion or all of the deferred tax assets will not be realised through the recovery of taxes previously paid and/or future taxable income. The allowance is subject to ongoing adjustments based on changes in circumstances that affect the Group's assessment of the realisability of the deferred tax assets. The Group has reviewed its deferred tax assets at the balance sheet date. Based on this review, valuation allowances of RMB 164 million was provided for the year ended 31 December 2002 (2001: RMB 142 million) in respect of the tax value of losses. The Group determined the valuation allowance relating to the tax value of losses based on management's assessment of the probability that taxable profit will be available against which the tax losses can be utilised. In assessing the probability, both positive and negative evidence was considered, including whether it is more likely than not that the operations will have taxable profits before the tax losses expire, whether the operations have sufficient taxable temporary differences relating to the same tax authority and whether the tax losses result from identifiable causes which are unlikely to recur. Based on this assessment, a valuation allowance was 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. No valuation allowance was established for the other deferred tax assets as management believes that the amount of these deferred tax assets at 31 December 2002 and 2001 is more likely than not to be realised.

Movements in the deferred tax assets and liabilities are as follows:

The Group

	Balance at 1 January 2002 RMB millions	Recognised in other reserves RMB millions	Recognised in income statement RMB millions	Balance at 31 December 2002 RMB millions
<i>Current</i>				
Provisions, primarily for receivables and inventories	432	—	(157)	275
<i>Non-current</i>				
Property, plant and equipment	(753)	—	173	(580)
Accelerated depreciation	(2,185)	—	(773)	(2,958)
Tax value of losses carried forward, net of valuation allowance	173	—	(143)	30
Land use rights (Note)	—	371	(7)	364
Others	121	—	(119)	2
Net deferred tax liabilities	(2,212)	371	(1,026)	(2,867)

The Company

	Balance at 1 January 2002 RMB millions	Recognised in income statement RMB millions	Balance at 31 December 2002 RMB millions
<i>Current</i>			
Provisions, primarily for receivables and inventories	281	(224)	57
<i>Non-current</i>			
Property, plant and equipment	(116)	(88)	(204)
Accelerated depreciation	(554)	(245)	(799)
Others	53	(41)	12
Net deferred tax liabilities	(336)	(598)	(934)

Note: As described in note (e) to the statements of changes in shareholders' funds, land use rights are carried at cost effective 1 January 2002. The effect of this change resulted in a decrease in the revaluation reserve and an increase in other reserves relating to the recognition of the deferred tax asset as at 1 January 2002.

26 SHORT-TERM AND LONG-TERM DEBTS AND LOANS FROM SINOPEC GROUP COMPANY AND FELLOW SUBSIDIARIES

Short-term debts represent:

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
Third parties' debts				
Short-term bank loans	22,839	34,424	12,514	23,460
Short-term other loans	19	43	15	24
	22,858	34,467	12,529	23,484
Current portion of long-term bank loans	8,120	10,140	5,721	6,465
Current portion of long-term other loans	300	742	122	70
	8,420	10,882	5,843	6,535
	31,278	45,349	18,372	30,019
Loans from Sinopec Group Company and fellow subsidiaries				
Short-term loans	4,121	3,448	2,299	2,622
Current portion of long-term loans	153	414	153	414
	4,274	3,862	2,452	3,036
	35,552	49,211	20,824	33,055

The Group's and the Company's weighted average interest rate on short-term loans were 4.3% (2001: 5.1%) and 4.2% (2001: 5.1%) respectively.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2002

26 SHORT-TERM AND LONG-TERM DEBTS AND LOANS FROM SINOPEC GROUP COMPANY AND FELLOW SUBSIDIARIES (Continued)

Long-term debts comprise:

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 denominated	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 denominated	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 denominated	Interest rates ranging from interest free to 7.9% per annum at 31 December 2001 with maturities through 2031	4,294	4,300	1,323	1,884
Deutsche Marks denominated	Fixed rates ranging from 6.6% to 6.8% per annum at 31 December 2001 which was converted to Euro denominated during the year ended 31 December 2002	—	151	—	144
Dutch Guilders denominated	Fixed rate at 7.9% per annum at 31 December 2001 which was converted to Euro denominated during the year ended 31 December 2002	—	28	—	28
Hong Kong Dollar denominated	Floating rate at Hong Kong Prime Rate per annum plus 0.25% with maturities through 2006	10	14	—	—
Euro denominated	Fixed rates ranging from 6.0% to 7.9% per annum at 31 December 2002 with maturities through 2006	162	—	155	—
		43,694	39,125	29,642	25,801
Long-term other loans					
Renminbi denominated	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 denominated	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 denominated	Interest rates ranging from 1.8% to 8.1% per annum at 31 December 2001 which was converted to Euro denominated during the year ended 31 December 2002	—	15	—	15
Euro denominated	Interest rates ranging from 1.8% to 8.1% per annum at 31 December 2002 with maturities through 2025	16	—	16	—
		731	1,133	475	172
Convertible bonds	Fixed rate at 2.2% per annum at 31 December 2002 and redeemable in July 2004 (a)	1,500	1,500	—	—
Total third parties' long-term debts		45,925	41,758	30,117	25,973
Less: Current portion		(8,420)	(10,882)	(5,843)	(6,535)
		37,505	30,876	24,274	19,438
Long-term loans from Sinopec Group Company and fellow subsidiaries					
Renminbi denominated	Interest free with maturity in 2020	35,561	35,561	35,561	35,561
Renminbi denominated	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 denominated	Interest rates ranging from 2.4% to 2.8% per annum at 31 December 2002 with maturities through 2006	23	182	21	180
		37,856	36,539	37,769	36,531
Less: Current portion		(153)	(414)	(153)	(414)
		37,703	36,125	37,616	36,117
		75,208	67,001	61,890	55,555

26 SHORT-TERM AND LONG-TERM DEBTS AND LOANS FROM SINOPEC GROUP COMPANY AND FELLOW SUBSIDIARIES (Continued)

(a) 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 option of the holders during the period from 28 July 2000 to 27 July 2004.

Third parties' loans of RMB 85 million of the Group at 31 December 2002 (2001: RMB 171 million) were secured by certain of the Group's property, plant and equipment. The net book value of property, plant and equipment of the Group pledged as security amounted to RMB 146 million at 31 December 2002 (2001: RMB 233 million).

Third parties' loans of RMB 23 million of the Company at 31 December 2002 (2001: RMB 76 million) were secured by certain of the Company's property, plant and equipment. The net book value of property, plant and equipment of the Company pledged as security amounted to RMB 20 million at 31 December 2002 (2001: RMB 104 million).

The aggregate maturities of long-term debts and loans from Sinopec Group Company and fellow subsidiaries are as follows:

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
Within one year	8,573	11,296	5,996	6,949
Between one to two years	8,677	10,383	3,876	6,043
Between two to five years	25,564	14,608	17,458	7,931
After five years	40,967	42,010	40,556	41,581
	83,781	78,297	67,886	62,504

27 TRADE ACCOUNTS AND BILLS PAYABLES

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
Third parties	17,109	13,556	6,457	5,513
Subsidiaries	—	—	11,120	5,856
Sinopec Group Company and fellow subsidiaries	2,103	3,233	733	1,354
Associates and jointly controlled entities	—	4	—	4
	19,212	16,793	18,310	12,727
Bills payable	30,139	26,022	23,055	19,291
	49,351	42,815	41,365	32,018

Amounts due to Sinopec Group Company and fellow subsidiaries are repayable in accordance with normal commercial terms.

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

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
Due within 1 month or on demand	13,673	24,820	16,513	15,578
Due after 1 month but within 6 months	34,709	17,242	24,132	15,903
Due after 6 months	969	753	720	537
	49,351	42,815	41,365	32,018

28 ACCRUED EXPENSES AND OTHER PAYABLES

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	2002 RMB millions	2001 RMB millions
Amounts due to Sinopec Group Company and fellow subsidiaries	9,967	10,220	5,542	6,757
Amounts due to subsidiaries	—	—	4,571	9,700
Accrued expenditure	9,066	8,477	4,374	4,331
Taxes other than income tax	2,115	3,062	537	1,659
Receipts in advance	3,427	2,884	1,867	1,596
Advances from third parties	1,223	2,005	1,203	1,442
Others	3,957	3,228	3,000	2,067
	29,755	29,876	21,094	27,552

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2002

29 SHARE CAPITAL

	The Group and the Company	
	2002	2001
	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 overseas listed H shares of RMB 1.00 each	16,780	16,780
2,800,000,000 domestic listed 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 domestic state-owned shares with a par value of RMB 1.00 each. Such shares were issued to Sinopec Group Company in consideration for the assets and liabilities of the Predecessor Operations transferred to the Company (Note 1).

Pursuant to the resolutions passed at an Extraordinary General Meeting held on 25 July 2000 and approvals from relevant government authorities, the Company is authorised to increase its share capital to a maximum of 88.3 billion shares with a par value of RMB 1.00 each and offer not more than 19.5 billion shares with a par value of RMB 1.00 each to investors outside the PRC. Sinopec Group Company is authorised to offer not more than 3.5 billion shares of its shareholdings in the Company to investors outside the PRC. The shares sold by Sinopec Group Company to investors outside the PRC would be converted into H shares.

In October 2000, the Company issued 15,102,439,000 H shares with a par value of RMB 1.00 each, representing 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 per H share and US\$ 20.645 per ADS, respectively, by way of a global initial public offering to Hong Kong and overseas investors. As part of the global initial public offering, 1,678,049,000 domestic state-owned ordinary shares of RMB 1.00 each owned by Sinopec Group Company were converted into H shares and sold to Hong Kong and overseas investors.

In July 2001, the Company issued 2.8 billion 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 A shares and H shares rank pari passu in all material respects.

30 COMMITMENTS AND CONTINGENT LIABILITIES

Operating lease commitments

The Group and the Company leases 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 and 2001, the future minimum lease payments under operating leases are as follows:

	The Group		The Company	
	2002	2001	2002	2001
	RMB millions	RMB millions	RMB millions	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
Thereafter	83,718	85,368	82,231	84,250
	97,001	98,620	95,101	96,875

Capital commitments

At 31 December 2002 and 2001, the Group and the Company had capital commitments as follows:

	The Group		The Company	
	2002	2001	2002	2001
	RMB millions	RMB millions	RMB millions	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.

30 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

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 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 production licenses issued to the Group is 55 years as a special dispensation was given to the Company 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 of exploration license fees and production right usage fees to the Ministry of Land and Resources annually which are expensed as incurred. Payments incurred were approximately RMB 65 million for the year ended 31 December 2002 (2001: RMB 29 million).

Estimated future annual payments 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
Thereafter	263	284	109	114
Total payments	566	535	266	249

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 and 2001, guarantees given 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
Associates 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 fees of approximately RMB 287 million for the year ended 31 December 2002 (2001: RMB 221 million).

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2002

30 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

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.

31 RELATED PARTY TRANSACTIONS

Companies are considered to be related if one company has the ability, directly or indirectly, to control the other company or exercise significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control or common significant influence.

The Group is part of a larger group of companies under Sinopec Group Company and has significant transactions and relationships with the Sinopec Group Company and fellow subsidiaries. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties. Sinopec Group Company itself is owned by the PRC government. There are also many other enterprises directly or indirectly owned or controlled by the PRC government ("state-owned enterprises"). Under IFRS, state-owned enterprises, other than Sinopec Group Company and fellow subsidiaries, are not considered related parties. Related parties refer to enterprises over which Sinopec Group Company is able to exercise significant influence.

The Group conducts business with state-owned enterprises. Furthermore, the PRC government itself represents a significant customer of the Group both directly through its numerous authorities and indirectly through its numerous affiliates and other organisations. Sales of certain products to PRC government authorities and affiliates and other state-owned enterprises may be at regulated prices, which differ from market prices. The Group considers that these sales are activities in the ordinary course of business in the PRC and has not disclosed such sales as related party transactions.

The principal related party transactions with Sinopec Group Company, which were 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 licence 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 were 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:

- (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.

31 RELATED PARTY TRANSACTIONS (Continued)

- (v) Production related services represent ancillary services rendered in relation to the Group's operations such as equipment repair and general maintenance, insurance premium, technical research, communications, fire fighting, security, product quality testing and analysis, information technology, design and engineering, construction which includes the construction of oilfield ground facilities, refineries and chemical plants, manufacture of replacement parts and machinery, installation, project management and environmental protection.
- (vi) Ancillary and social services represent expenditures for social welfare and support services such as educational facilities, media communication services, sanitation, accommodation, canteens, property maintenance and management services.
- (vii) Operating lease charges represent the rental paid to Sinopec Group Company for operating leases in respect of land and buildings 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 licence fee represents reimbursement paid to Sinopec Group Company for fees required to maintain the validity of certain licences, for trademarks, patents, technology and computer software.
- (x) Interest received represents interest received from deposits placed with related companies. The applicable interest rate is determined in accordance with the prevailing saving deposit rate. The balance of deposits at 31 December 2002 was RMB 5,702 million (2001: RMB 7,129 million).
- (xi) Interest paid represents interest charges on the loans and advances obtained from Sinopec Group Company and Sinopec Finance Company Limited, a finance company controlled by Sinopec Group Company.
- (xii) Deposits were withdrawn from/placed with Sinopec Finance Company Limited.
- (xiii) The Group obtained/repaid loans and advances from/to Sinopec Group Company and Sinopec Finance Company Limited.

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

- (a) The Company has entered into a three year non-exclusive Agreement for Mutual Provision of Products and Ancillary Services ("Mutual Provision Agreement") with Sinopec Group Company effective from 1 January 2000 in which Sinopec Group Company has agreed to provide the Group with certain ancillary production services, construction services, information advisory services, supply services and other services and products. While each of Sinopec Group Company and the Company is permitted to terminate the Mutual Provision Agreement upon at least six months notice, Sinopec Group Company has agreed not to terminate the agreement if the Group is unable to obtain comparable services from a third party. The pricing policy for these services and products provided by Sinopec Group Company to the Group is as follows:
 - the government-prescribed price;
 - where there is no government-prescribed price, the government-guidance price;
 - where there is neither a government-prescribed price nor a government-guidance price, the market price; or
 - where none of the above is applicable, the price to be agreed between the parties, which shall be based on a reasonable cost incurred in providing such services plus a profit margin not exceeding 6%.
- (b) The Company has entered into a three year non-exclusive Agreement for Provision of Cultural and Educational, Health Care and Community Services with Sinopec Group Company effective from 1 January 2000 in which Sinopec Group Company has agreed to provide the Group with certain cultural, educational, health care and community services on the same pricing terms and termination conditions as agreed to in the above Mutual Provision Agreement.
- (c) The Company has entered into lease agreements with Sinopec Group Company effective from 1 January 2000 to lease certain land and buildings for terms the shorter of the period of the existing land use rights and 50 years for land and 20 years for buildings at a rental of approximately RMB 2,007 million and RMB 482 million, respectively, per annum. The Company and Sinopec Group Company can renegotiate the rental amount every three years for land and every year for buildings, such amount not to exceed the market price as determined by an independent third party. The Group has the option to terminate these leases upon six months notice to Sinopec Group Company.
- (d) The Company has entered into agreements with Sinopec Group Company effective from 1 January 2000 under which the Group has been granted the right to use certain trademarks, patents, technology and computer software developed by Sinopec Group Company for a term of ten years. The Group will reimburse Sinopec Group Company for fees required to maintain the validity of these licenses.
- (e) The Company has entered into agency agreements for a period of three years effective from 1 January 2000 with certain entities owned by Sinopec Group Company under which the Group acts as a sole agent in respect of the sale of all the products of these entities. In exchange for the Group's sales agency services, Sinopec Group Company has agreed to pay the Group a commission of between 0.2% and 1.0% of actual sales receipts depending on the products and to reimburse the Group for reasonable costs incurred in the capacity as its sales agent.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2002

31 RELATED PARTY TRANSACTIONS (Continued)

- (f) The Company has entered into a service stations franchise agreement with Sinopec Group Company effective from 1 January 2000 for a term of 10 years under which its service stations and retail stores would exclusively sell the refined products supplied by the Group.

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 carrying and appraised amounts of such assets transferred to the Company were RMB 462 million and RMB 1,040 million, respectively. The difference between the appraised amounts of the assets exchanged of RMB 19 million was paid in cash by the Company.

32 EMPLOYEE BENEFITS PLAN

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The Group is required to make contributions to the retirement plans at rates ranging from 16.0% to 30.0% of the salaries, bonuses and certain allowances of its staff. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the year ended 31 December 2002 were RMB 1,549 million (2001: RMB 1,358 million).

33 SEGMENTAL REPORTING

The Group has five operating segments as follows:

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

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

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

33 SEGMENTAL REPORTING (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
Corporate and 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
Other operating revenues		
Exploration and production	7,305	6,168
Refining	3,060	2,761
Marketing and distribution	342	201
Chemicals	3,979	4,361
Corporate and others	1,172	633
Other operating revenues	15,858	14,124
Turnover and other operating revenues	340,042	318,471

	2002 RMB millions	2001 RMB millions
Result		
Operating profit		
By segment		
— Exploration and production	14,787	23,185
— Refining	5,922	2,106
— Marketing and distribution	8,401	2,443
— Chemicals	72	(758)
— Corporate and others	(905)	324
Total operating profit	28,277	27,300
Share of profits less losses from associates and jointly controlled entities		
— Exploration and production	152	258
— Refining	1	10
— Marketing and distribution	63	71
— Chemicals	15	(23)
— Corporate and others	79	4
Aggregate share of profits less losses from associates and jointly controlled entities	310	320
Finance costs		
Interest expense	(4,018)	(4,706)
Interest income	338	1,183
Foreign exchange losses	(312)	(222)
Foreign exchange gains	47	593
Net finance costs	(3,945)	(3,152)
Investment income	190	199
Profit from ordinary activities before taxation	24,832	24,667
Taxation	(7,635)	(8,029)
Profit from ordinary activities after taxation	17,197	16,638
Minority interests	(1,117)	(613)
Profit attributable to shareholders	16,080	16,025

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2002

33 SEGMENTAL REPORTING (Continued)

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

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

	2002 RMB millions	2001 RMB millions
Assets		
Segment assets		
— Exploration and production	90,983	80,063
— Refining	89,667	88,488
— Marketing and distribution	71,516	72,014
— Chemicals	78,246	78,277
— Corporate and others	15,356	13,506
Total segment assets	345,768	332,348
Interests in associates and jointly controlled entities		
— Exploration and production	1,583	1,032
— Refining	147	120
— Marketing and distribution	1,435	1,168
— Chemicals	3,505	1,691
— Corporate and others	1,247	1,161
Aggregate interests in associates and jointly controlled entities	7,917	5,172
Unallocated assets	22,196	29,189
Total assets	375,881	366,709
Liabilities		
Segment liabilities		
— Exploration and production	16,126	13,419
— Refining	22,331	23,985
— Marketing and distribution	19,472	18,700
— Chemicals	12,884	8,831
— Corporate and others	8,293	7,760
Total segment liabilities	79,106	72,695
Unallocated liabilities	118,370	122,804
Total liabilities	197,476	195,499

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

	2002 RMB millions	2001 RMB millions
Capital expenditure		
Exploration and production	20,228	20,276
Refining	6,533	8,992
Marketing and distribution	6,982	17,256
Chemicals	7,324	11,947
Corporate and others	545	358
	41,612	58,829
Depreciation, depletion and amortisation		
Exploration and production	9,033	8,081
Refining	6,039	5,901
Marketing and distribution	1,968	1,661
Chemicals	7,113	6,686
Corporate and others	129	101
	24,282	22,430

34 PRINCIPAL SUBSIDIARIES

At 31 December 2002, the following list contains the particulars of subsidiaries which principally affected the results or assets of the Group.

Name of company	Particulars of issued capital and debt securities (millions)	Type of legal entity	Percentage held by the Company %	Percentage of equity held by Subsidiary %	Principal activities
China Petrochemical International Company Limited	RMB1,400	Limited company	100.00	—	Trading of crude oil and petrochemical products
Sinopec Beijing Yanhua Petrochemical Company Limited	RMB 3,374	Limited company	70.01	—	Manufacturing of chemical products
Sinopec Sales Company Limited	RMB 1,700	Limited company	100.00	—	Marketing and distribution of refined petroleum products
Sinopec Shengli Oilfield Company Limited	RMB 30,028	Limited company	100.00	—	Exploration and production of crude oil and natural gas
Sinopec Fujian Petrochemical Company Limited (i)	RMB 2,253	Limited company	50.00	—	Manufacturing of plastics, intermediate petrochemical products and petroleum products
Sinopec Maoming Refining and Chemical Company Limited	RMB 1,064 and RMB 1,500 convertible bonds	Limited company	99.81	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Qilu Petrochemical Company Limited	RMB 1,950	Limited company	82.05	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Shanghai Petrochemical Company Limited	RMB 7,200	Limited company	55.56	—	Manufacturing of synthetic fibres, resin and plastics, intermediate petrochemical products and petroleum products
Sinopec Shijiazhuang Refining-Chemical Company Limited	RMB 1,154	Limited company	79.73	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Kantons Holdings Limited	HK\$ 104	Limited company	—	72.40	Trading of crude oil and petroleum products
Sinopec Wuhan Petroleum Group Company Limited (i)	RMB 147	Limited company	46.25	—	Marketing and distribution of refined petroleum products
Sinopec Wuhan Phoenix Company Limited (i)	RMB 519	Limited company	40.72	—	Manufacturing of petrochemical products and petroleum products
Sinopec Yangzi Petrochemical Company Limited	RMB 2,330	Limited company	84.98	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Yizheng Chemical Fibre Company Limited (i)	RMB 4,000	Limited company	42.00	—	Production and sale of polyester chips and polyester fibres
Sinopec Zhenhai Refining and Chemical Company Limited	RMB 2,524	Limited company	71.32	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Zhongyuan Petroleum Company Limited	RMB 816	Limited company	75.00	—	Exploration and production of crude oil and natural gas

Except for Sinopec Kantons Holdings Limited, which is incorporated in Bermuda, all of the above principal subsidiaries are incorporated in the PRC.

(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

35 FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, time deposits with financial institutions, investments, trade accounts receivable, bills receivable, amounts due from Sinopec Group Company and fellow subsidiaries, loans to third parties, due from associates and jointly controlled entities, and other receivables. Financial liabilities of the Group include bank and other loans, loans from Sinopec Group Company and fellow subsidiaries, trade accounts payable, bills payable, amounts due to Sinopec Group Company and fellow subsidiaries, receipts in advance, and advances from third parties. The Group has no derivative instruments that are designated and qualified as hedging instruments at 31 December 2002 and 2001.

Credit risk

The carrying amounts of cash and cash equivalents, time deposits with financial institutions, trade accounts and bills receivables, and other current assets, except for prepayments and deposits, represent the Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Group's trade accounts receivable relate to sales of petroleum and chemical products to related parties and third parties operating in the petroleum and chemical industries. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade accounts receivable. The Group maintains an allowance for doubtful accounts and actual losses have been within management's expectations. No single customer accounted for greater than 10% of total revenues.

No other financial assets carry a significant exposure to credit risk.

Currency risk

Substantially all of the revenue-generating operations of the Group are transacted in Renminbi, which is not fully convertible into foreign currencies. On 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the People's Bank of China. However, the unification of the exchange rate does not imply convertibility of Renminbi into United States dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the People's Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

Interest rate risk

The interest rates and terms of repayment of short-term and long-term debts of the Group are disclosed in Note 26.

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 and IAS 39. Fair value estimates, methods and assumptions, set forth below for the Group's financial instruments, are made to comply with the requirements of IAS 32 and IAS 39 and should be read in conjunction with the Group's consolidated financial statements and related notes. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Group has not developed an internal valuation model necessary to make the estimate of the fair value of loans from Sinopec Group Company and fellow subsidiaries as it is not considered practicable to estimate their fair value because the cost of obtaining discount and borrowing rates for comparable borrowings would be excessive based on the Reorganisation of the Group, its existing capital structure, and the terms of the borrowings.

The following table presents the carrying amount and fair value of the Group's long-term indebtedness other than loans from Sinopec Group Company and fellow subsidiaries at 31 December 2002 and 2001:

	2002	2001
	RMB millions	RMB millions
Carrying amount	45,925	41,758
Fair value	46,370	41,996

The fair value of long-term indebtedness is estimated by discounting future cash flows thereon using current market interest rates offered to the Group for debts with substantially the same characteristics and maturities.

Investments in unlisted equity securities have no quoted market prices in the PRC. Accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

The fair values of all other financial instruments approximate their carrying amounts due to the nature or short-term maturity of these instruments.

36 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Group at 31 December 2002 to be Sinopec Group Company, a state-owned enterprise established in the PRC.