

NOTES ON THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

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 Reorganisation.

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.

Pursuant to the resolution passed at the Board of Directors’ meeting held on 28 October 2003, the Company acquired the principal assets and liabilities related to the 380 Kiloton ethylene production and distribution equipments from Sinopec Group Maoming Petrochemical Company (“Sinopec Maoming”), for a consideration of RMB 3.3 billion (hereinafter referred to as the “Acquisition of Ethylene Assets”).

Pursuant to the resolution passed at the Board of Directors’ meeting held on 29 December 2003, the Company acquired the entire operating assets and liabilities of Tahe Oilfield Petrochemical Factory (“Tahe Petrochemical”) and Xi’an Petrochemical Main Factory (“Xi’an Petrochemical”) from Sinopec Group Company, for considerations of RMB 0.14 billion and RMB 0.22 billion, respectively (hereinafter referred to as the “Acquisition of Refining Assets”).

2 CHANGE IN ACCOUNTING POLICY

The Company and its subsidiaries (the “Group”) changed its accounting policy to conform with the revised “Accounting standard for business enterprises — Events occurring after the balance sheet date” (hereinafter referred to as the “Revised Standard”). According to the original “Accounting standard for business enterprises — Events occurring after the balance sheet date”, the appropriation of profit for the current year approved by the Board of Directors after the balance sheet date was an adjusting event. Pursuant to the revised “Accounting standard for business enterprises — Events occurring after the balance sheet date”(Cai Kuai [2003] No. 12) issued by the Ministry of Finance on 14 April 2003, cash dividends for the current period declared and approved by the Board of Directors after the balance sheet date, but before the financial statements are authorised for issue, should be presented separately under shareholders’ funds on the balance sheet. The Company has adopted the Revised Standard to account for cash dividends retrospectively.

As a result of the above change in accounting policy, the Company’s opening balance of undistributed profits at the beginning of the year 2003 has been increased by RMB 5,202 million. The cumulative effect of the change in accounting policy for prior years is set out below:

	Before adjustments RMB millions	Adjustments RMB millions	After adjustments RMB millions
Undistributed profits at 1 January 2002	10,006	6,936	16,942
Undistributed profits at 31 December 2002	7,367	5,202	12,569
Dividend payable at 31 December 2002	5,202	(5,202)	—

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by 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.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 used 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.

(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.

(f) Allowance for doubtful accounts

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 accounts.

(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. Inventories are measured at their actual cost upon acquisition. The cost of inventories is calculated 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 investment income and long-term equity investments related to the Group's investments in the associates and the Company's investments in subsidiaries, associates and jointly controlled entities are accounted for using the equity method. Equity investment difference, which is the difference between the initial investment cost and the Company's share of investors' equity of the investee enterprise, is accounted for as follows:

Any excess of the initial investment cost over the share of shareholders' funds of the investee is amortised on a straight-line basis. The amortisation period is determined according to the investment period as stipulated in the relevant agreement, or 10 years if the investment period is not specified in the agreement. The amortisation is recognised as investment loss in the income statement in the relevant period.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Long-term equity investments (Continued)

Any shortfall of the initial investment cost over the share of shareholders' funds of the investee is recognised in "capital reserve – reserve for equity investment". Such shortfall is amortised on a straight-line basis over 10 years if the investment was acquired before the issuance of Cai Kuai [2003] No.10 "Questions and answers on implementing Accounting Regulations for Business Enterprises and related accounting standards (II)" on 7 April 2003.

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 venturers.

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. Investment income is recognised when an investee enterprise declares a cash dividend or distributes profits.

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 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%-6.5%
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 stations	25 years	3%-5%	3.8%-3.9%

No depreciation is provided in respect of construction in progress.

(j) Oil and gas properties

Costs of development wells and the related support equipment are capitalised. The cost of exploratory wells is initially capitalised as construction in progress pending determination of whether the well has found proved reserves. Exploratory well costs are 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) Pre-operating expenditures

Except for the acquisition and constructions of fixed assets, all expenses incurred during the start-up period are aggregated in long-term deferred expenses and then fully charged to the income statement in the month operations commence.

(m) 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.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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. 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.

(o) 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.

(p) Borrowing costs

Borrowing costs incurred on specific borrowings for the construction of fixed assets are capitalised into the cost of the fixed assets during the construction period which brings the assets to their intended uses.

Except for the above, other borrowing costs are recognised as financial expenses in the income statement when incurred.

(q) Repairs and maintenance expenses

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

(r) Environmental expenditures

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

(s) Research and development costs

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

(t) Operating leases

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

(u) Dividends

Dividends appropriated to shareholders are recognised in the profit appropriation statement when approved. Dividends proposed or approved after the balance sheet date but before the date on which the financial statements are authorised for issue are separately disclosed under shareholders' funds on the balance sheet.

(v) Retirement benefits

The contributions payable under the Group's retirement plans are charged to the income statement when the contribution becomes due in accordance with the terms of the plan.

(w) 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.

(x) 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.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

4 TAXATION

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

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

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

Resources tax is levied on crude oil and natural gas at rates ranging from RMB 8 per tonne to RMB 30 per tonne and RMB 2 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	Preferential 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

5 CASH AT BANK AND IN HAND

The Group

	2003			2002		
	Original	Exchange	RMB	Original	Exchange	RMB
	currency			currency		
millions	rates	millions	millions	rates	millions	
Cash in hand						
Renmibi			101			29
Cash at bank						
Renmibi			11,959			11,576
US Dollars	118	8.2767	973	154	8.2770	1,275
Hong Kong Dollars	70	1.0657	75	73	1.0610	77
Japanese Yen	207	0.0773	16	201	0.0696	14
Pound sterling			—	0.23	13.1935	3
Euro	2	10.3380	17	4	8.5783	36
			13,141			13,010
Deposits at relates parties						
Renmibi			4,210			5,650
US Dollars	7	8.2767	54	6	8.2770	52
Total Cash at bank and in hand			17,405			18,712

The Company

	2003			2002		
	Original	Exchange	RMB	Original	Exchange	RMB
	currency			currency		
millions	rates	millions	millions	rates	millions	
Cash in hand						
Renmibi			64			26
Cash at bank						
Renmibi			4,752			5,622
US Dollars	6	8.2767	53	6	8.2770	47
Hong Kong Dollars	26	1.0657	28	26	1.0610	28
Japanese Yen	7	0.0773	1			—
			4,898			5,723
Deposits at relates parties						
Renmibi			1,629			2,653
US Dollars	7	8.2767	54	6	8.2770	52
Total Cash at bank and in hand			6,581			8,428

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

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

6 BILLS RECEIVABLE

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

7 TRADE ACCOUNTS RECEIVABLE

	The Group		The Company	
	2003 RMB millions	2002 RMB millions	2003 RMB millions	2002 RMB millions
Subsidiaries	—	—	2,920	4,521
Sinopec Group Company and fellow subsidiaries	3,044	2,628	1,623	1,513
Associates	81	65	23	8
Others	9,344	10,643	4,813	5,710
	12,469	13,336	9,379	11,752
Less: Allowance for doubtful accounts	3,185	2,666	2,299	1,867
	9,284	10,670	7,080	9,885

Allowance for doubtful accounts are analysed as follows:

	The Group		The Company	
	2003 RMB millions	2002 RMB millions	2003 RMB millions	2002 RMB millions
Balance at 1 January	2,666	2,480	1,867	1,774
Provision for the year	910	554	763	333
Written back for the year	(46)	(160)	(20)	(117)
Written off	(345)	(208)	(311)	(123)
Balance at 31 December	3,185	2,666	2,299	1,867

Ageing analyses on trade accounts receivable are as follows:

	The Group			
	2003 Amount RMB millions	2003 Allowance % RMB millions	2002 Amount RMB millions	2002 Allowance % RMB millions
Within one year	8,229	66.0	9,298	69.7
Between one and two years	770	6.2	778	5.8
Between two and three years	497	4.0	461	3.5
Over three years	2,973	23.8	2,799	21.0
	12,469	100.0	13,336	100.0

	The Company			
	2003 Amount RMB millions	2003 Allowance % RMB millions	2002 Amount RMB millions	2002 Allowance % RMB millions
Within one year	6,466	68.9	9,167	77.9
Between one and two years	373	4.0	371	3.2
Between two and three years	350	3.7	312	2.7
Over three years	2,190	23.4	1,902	16.2
	9,379	100.0	11,752	100.0

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

7 TRADE ACCOUNTS RECEIVABLE (Continued)

Major trade accounts receivable of the Group at 31 December 2003 are set out below:

Name of entity	Balance RMB millions	Percentage of trade accounts receivable %
Hinchest (HK) Limited	256	2.1
Trafigura Pte Limited	179	1.4
Pertamina Divisi Perbendaharaa	145	1.2
Jinan Petrochemical Plant	141	1.1
COSMO Oil	124	1.0

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 %
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

Except for the balances disclosed in Note 40, 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 2003, the Group and the Company had no individually significant trade accounts receivable been fully or substantially provided for.

During the year ended 31 December 2003, the Group and the Company had no individually significant write back or write off of doubtful debts which had been fully or substantially provided in prior years.

At 31 December 2003 and 2002, the Group and the Company had no individually significant trade accounts receivable that aged over three years.

8 OTHER RECEIVABLES

	The Group		The Company	
	2003 RMB millions	2002 RMB millions	2003 RMB millions	2002 RMB millions
Subsidiaries	—	—	12,434	9,961
Sinopec Group Company and fellow subsidiaries	8,894	11,130	8,104	9,562
Associates	331	310	331	310
Others	8,580	7,249	5,959	5,021
	17,805	18,689	26,828	24,854
Less: Allowance for doubtful accounts	2,348	1,872	1,967	1,193
	15,457	16,817	24,861	23,661

Allowance for doubtful accounts are analysed as follows:

	The Group		The Company	
	2003 RMB millions	2002 RMB millions	2003 RMB millions	2002 RMB millions
Balance at 1 January	1,872	1,550	1,193	1,242
Provision for the year	1,098	558	1,258	121
Written back for the year	(61)	(128)	(45)	(102)
Written off	(561)	(108)	(439)	(68)
Balance at 31 December	2,348	1,872	1,967	1,193

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

8 OTHER RECEIVABLES (Continued)

Ageing analyses of other receivables are as follows:

	The Group							
	Amount RMB millions	2003 Allowance % RMB millions	2003 Allowance % RMB millions	2003 Allowance % RMB millions	Amount RMB millions	2002 Allowance % RMB millions	2002 Allowance % RMB millions	2002 Allowance % RMB millions
Within one year	8,191	46.0	14	0.2	12,156	65.0	310	2.6
Between one and two years	4,256	23.9	321	7.5	2,513	13.5	126	5.0
Between two and three years	1,367	7.7	65	4.8	2,258	12.1	211	9.3
Over three years	3,991	22.4	1,948	48.8	1,762	9.4	1,225	69.5
	17,805	100.0	2,348		18,689	100.0	1,872	

	The Company							
	Amount RMB millions	2003 Allowance % RMB millions	2003 Allowance % RMB millions	2003 Allowance % RMB millions	Amount RMB millions	2002 Allowance % RMB millions	2002 Allowance % RMB millions	2002 Allowance % RMB millions
Within one year	18,585	69.3	257	1.4	19,334	77.8	21	0.1
Between one and two years	3,777	14.1	21	0.6	2,110	8.5	28	1.3
Between two and three years	1,062	3.9	35	3.3	2,123	8.5	169	8.0
Over three years	3,404	12.7	1,654	48.6	1,287	5.2	975	75.8
	26,828	100.0	1,967		24,854	100.0	1,193	

Major other receivables of the Group at 31 December 2003 are set out below:

Name of entity	Particulars	Balance RMB millions	Percentage of other receivables %
China Petrochemical Corporation	Current Account	3,201	18.0
Baling Petrochemical Company Limited	Current Account	967	5.4
Jinhuang Real Estate Company Limited	Current Account	367	2.1
Changling Petrochemical Company Limited	Current Account	300	1.7
Guangzhou Petrochemical Plant	Current Account	141	0.8

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 %
China Petrochemical 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

Except for the balances disclosed in Note 40, 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 2003, the Group and the Company had no individually significant other receivables been fully or substantially provided for.

During the year ended 31 December 2003, the Group and the Company had no individually significant write back or write off of other receivables.

At 31 December 2003 and 2002, the Group and the Company had no individually significant other receivables that aged over three years.

9 ADVANCE PAYMENTS

All advance payments are due within one year.

Except for the balances disclosed in Note 40, there is no amount due from shareholders who hold 5% or more voting right of the Company included in the balance of advance payments.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

10 INVENTORIES

	The Group		The Company	
	2003 RMB millions	2002 RMB millions	2003 RMB millions	2002 RMB millions
Raw materials	23,570	21,333	10,200	10,426
Work in progress	6,805	6,192	3,308	3,387
Finished goods	12,268	15,086	8,741	10,248
Spare parts and consumables	2,791	2,807	770	1,070
	45,434	45,418	23,019	25,131
Less: Provision for diminution in value of inventories	519	486	226	224
	44,915	44,932	22,793	24,907

All the above inventories are purchased or self-manufactured.

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	
	2003 RMB millions	2002 RMB millions	2003 RMB millions	2002 RMB millions
Balance at 1 January	486	602	224	292
Provision for the year	196	172	72	54
Written back for the year	(82)	(214)	(42)	(71)
Written off	(81)	(74)	(28)	(51)
Balance at 31 December	519	486	226	224

The cost of inventories recognised as cost and expense by the Group and the Company amounted to RMB 335,588 million (2002: RMB 260,829 million) and RMB 235,664 million (2002: RMB 182,757 million) for the year ended 31 December 2003.

11 LONG-TERM EQUITY INVESTMENTS

The Group

	Listed stock investment RMB millions	Unlisted stock and other equity investment RMB millions	Equity investment differences RMB millions	Provision for impairment losses RMB millions	Total
					RMB millions
Balance at 1 January 2003	726	9,951	532	(184)	11,025
Addition for the year	—	473	60	—	533
Share of profits less losses from investments accounted for under the equity method	39	290	—	—	329
Dividends receivable/received	(29)	(188)	—	—	(217)
Disposal for the year	—	(241)	—	—	(241)
Amortisation for the year	—	—	(192)	—	(192)
Movement of provision for impairment losses	—	—	—	(87)	(87)
Balance at 31 December 2003	736	10,285	400	(271)	11,150

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 2003	37,347	53,766	537	(149)	91,501
Addition for the year	—	380	39	—	419
Share of profits less losses from investments accounted for under the equity method	6,447	9,121	—	—	15,568
Dividends receivable/received	(335)	(8,568)	—	—	(8,903)
Disposal for the year	—	(59)	—	—	(59)
Amortisation for the year	—	—	(181)	—	(181)
Movement of provision for impairment losses	—	—	—	(11)	(11)
Balance at 31 December 2003	43,459	54,640	395	(160)	98,334

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

11 LONG-TERM EQUITY INVESTMENTS (Continued)

Provision for impairment losses are analysed as follows:

	The Group		The Company	
	2003 RMB millions	2002 RMB millions	2003 RMB millions	2002 RMB millions
Balance at 1 January	184	181	149	149
Provision for the year	131	8	21	—
Written back for the year	(16)	(5)	—	—
Written off	(28)	—	(10)	—
Balance at 31 December	271	184	160	149

At 31 December 2003 and 2002, the Group and the Company had no 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 41.

At 31 December 2003, details of listed stock investment of the Group are as follows:

Name of invested company	Type of investment	No. of shares millions	Percentage of equity interest held by the Group	Initial investment cost RMB millions	Balance at 1 January 2003 RMB millions	Shares of profits accounted for under the equity method RMB millions	Dividends receivable/ received RMB millions	Balance at 31 December 2003	Market value as at 31 December 2003*
								RMB millions	RMB millions
Sinopec Shengli Oil Field Dynamic Co Ltd	Legal person shares	96	26.33%	223	417	37	(29)	425	783
Sinopec Shandong Taishan Petroleum Co Ltd	Legal person shares	186	38.68%	124	309	2	—	311	1,971
					726	39	(29)	736	

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

At 31 December 2003, details of principal unlisted stock and other equity investment of the Group are as follows:

Name of invested company	Initial investment cost RMB millions	Investment period	Percentage of equity interest held by the Group	Balance at 1 January 2003 RMB millions	Addition for the year RMB millions	Share of profits/ (losses) accounted for under the equity method RMB millions	Dividends receivable/ received RMB millions	Balance at 31 December 2003
								RMB millions
BASF - YPC Company Limited (i)	2,814	—	40%	1,935	879	—	—	2,814
Sinopec Finance Company Limited	1,205	—	40%	1,278	—	66	(56)	1,288
Shanghai Petroleum National Gas Corporation	300	—	30%	672	—	202	(120)	754
Shanghai Chemical Industry Park Development Company Limited	608	30 years	38%	631	—	21	—	652
China Shipping & Sinopec Suppliers Company Limited (i)	438	—	50%	—	438	—	—	438
Sinopec Changjiang Fuel Company Limited	190	20 years	50%	194	—	23	—	217
Shanghai Jinpu Packaging Material Company Limited	102	30 years	50%	114	—	(3)	(7)	104
Hunan Highway Industrial Development Company Limited	103	—	49%	103	—	3	—	106

No provision for individually significant impairment losses or individually 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 2003.

At 31 December 2003, the Group's and the Company's proportion of the total investments to the net assets were 6.8% (2002: 7.3%) and 60.3% (2002: 60.3%) respectively.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

12 FIXED ASSETS

The Group – by segment

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others RMB millions	Total RMB millions
Cost/valuation:						
At 1 January 2003	157,929	98,908	49,348	122,976	2,230	431,391
Acquisitions of Ethylene and Refining Assets (Note 1)	—	693	—	8,608	—	9,301
Addition for the year	1,360	906	1,094	1,065	14	4,439
Transferred from construction in progress	19,459	6,161	5,079	5,482	337	36,518
Disposals	(12,145)	(2,236)	(1,309)	(4,757)	(74)	(20,521)
At 31 December 2003	166,603	104,432	54,212	133,374	2,507	461,128
Accumulated depreciation:						
At 1 January 2003	84,268	45,330	8,472	61,060	472	199,602
Acquisitions of Ethylene and Refining Assets (Note 1)	—	159	—	3,745	—	3,904
Depreciation charge for the year	11,188	6,358	2,312	7,125	168	27,151
Written back on disposal	(10,794)	(1,512)	(784)	(3,695)	(68)	(16,853)
At 31 December 2003	84,662	50,335	10,000	68,235	572	213,804
Net book value:						
At 31 December 2003	81,941	54,097	44,212	65,139	1,935	247,324
At 31 December 2002	73,661	53,578	40,876	61,916	1,758	231,789

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:						
At 1 January 2003	53,102	68,581	48,237	30,527	1,258	201,705
Acquisitions of Ethylene and Refining Assets (Note 1)	—	693	—	8,608	—	9,301
Addition for the year	710	180	891	85	2	1,868
Transferred from construction in progress	9,067	3,465	4,884	829	336	18,581
Disposals	(3,232)	(1,505)	(1,283)	(2,351)	(69)	(8,440)
At 31 December 2003	59,647	71,414	52,729	37,698	1,527	223,015
Accumulated depreciation:						
At 1 January 2003	26,615	32,869	8,272	16,909	226	84,891
Acquisitions of Ethylene and Refining Assets (Note 1)	—	159	—	3,745	—	3,904
Depreciation charge for the year	3,798	4,116	2,131	1,548	141	11,734
Written back on disposal	(2,762)	(1,097)	(776)	(1,693)	(63)	(6,391)
At 31 December 2003	27,651	36,047	9,627	20,509	304	94,138
Net book value:						
At 31 December 2003	31,996	35,367	43,102	17,189	1,223	128,877
At 31 December 2002	26,487	35,712	39,965	13,618	1,032	116,814

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

12 FIXED ASSETS (Continued)

The Group – by asset class

	Land and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
Cost/valuation:					
At 1 January 2003	38,186	140,932	36,797	215,476	431,391
Acquisitions of Ethylene and Refining Assets (Note 1)	875	—	—	8,426	9,301
Addition for the year	518	202	664	3,055	4,439
Transferred from construction in progress	1,407	17,912	5,690	11,509	36,518
Reclassification	1,420	—	3,722	(5,142)	—
Disposals	(758)	(11,771)	(806)	(7,186)	(20,521)
At 31 December 2003	41,648	147,275	46,067	226,138	461,128
Accumulated depreciation:					
At 1 January 2003	15,027	78,355	6,378	99,842	199,602
Acquisitions of Ethylene and Refining Assets (Note 1)	201	—	—	3,703	3,904
Depreciation charge for the year	1,603	9,756	1,683	14,109	27,151
Reclassification	512	—	1,080	(1,592)	—
Written back on disposal	(365)	(10,471)	(370)	(5,647)	(16,853)
At 31 December 2003	16,978	77,640	8,771	110,415	213,804
Net book value:					
At 31 December 2003	24,670	69,635	37,296	115,723	247,324
At 31 December 2002	23,159	62,577	30,419	115,634	231,789

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:					
At 1 January 2003	18,439	45,972	35,665	101,629	201,705
Acquisitions of Ethylene and Refining Assets (Note 1)	875	—	—	8,426	9,301
Addition for the year	179	202	661	826	1,868
Transferred from construction in progress	884	8,301	5,461	3,935	18,581
Reclassification	1,420	—	3,722	(5,142)	—
Disposals	(530)	(3,095)	(806)	(4,009)	(8,440)
At 31 December 2003	21,267	51,380	44,703	105,665	223,015
Accumulated depreciation:					
At 1 January 2003	6,429	24,937	6,232	47,293	84,891
Acquisitions of Ethylene and Refining Assets (Note 1)	201	—	—	3,703	3,904
Depreciation charge for the year	835	3,335	1,563	6,001	11,734
Reclassification	512	—	1,080	(1,592)	—
Written back on disposal	(295)	(2,641)	(370)	(3,085)	(6,391)
At 31 December 2003	7,682	25,631	8,505	52,320	94,138
Net book value:					
At 31 December 2003	13,585	25,749	36,198	53,345	128,877
At 31 December 2002	12,010	21,035	29,433	54,336	116,814

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.

In accordance with the relevant rules and regulations in respect of the Acquisition of Ethylene Assets (Note 1), the fixed assets and construction in progress of Sinopec Maoming have been revalued by a firm of independent valuers in the PRC. Deficit on revaluation of 86 million has been incorporated in the Group's financial statements for the year ended 31 December 2003.

In accordance with the relevant rules and regulations in respect of the Acquisition of Refining Assets (Note 1), the fixed asset and construction in progress of the Refining Assets have been revalued by a firm of independent valuers in the PRC. Surplus on revaluation of 82 million has been incorporated in the Group's financial statements for the year ended 31 December 2003.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

12 FIXED ASSETS (Continued)

At 31 December 2003, the carrying amounts of fixed assets that were pledged by the Group and the Company are RMB 519 million (2002: RMB 146 million) and RMB 14 million (2002: RMB 20 million) respectively.

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

The Group – by segment

	Exploration and production RMB millions	Refining RMB millions	Chemicals RMB millions	Total RMB millions
At 1 January 2003	391	—	—	391
Addition for the year	373	114	453	940
At 31 December 2003	764	114	453	1,331

The Company – by segment

	Exploration and production RMB millions	Refining RMB millions	Chemicals RMB millions	Total RMB millions
At 1 January 2003	391	—	—	391
Addition for the year	310	63	—	373
At 31 December 2003	701	63	—	764

The Group – by asset class

	Land and buildings RMB millions	Oil and gas properties RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
At 1 January 2003	—	391	—	391
Addition for the year	8	373	559	940
At 31 December 2003	8	764	559	1,331

The Company – by asset class

	Land and buildings RMB millions	Oil and gas properties RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
At 1 January 2003	—	391	—	391
Addition for the year	—	310	63	373
At 31 December 2003	—	701	63	764

At 31 December 2003 and 2002, the Group and the Company had no individually significant fixed assets which were temporarily idle or pending for disposal.

At 31 December 2003 and 2002, the Group and the Company had no individually significant fully depreciated fixed assets which were still in use.

13 CONSTRUCTION MATERIALS

At 31 December 2003 and 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.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

14 CONSTRUCTION IN PROGRESS

The Group

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others RMB millions	Total RMB millions
At 1 January 2003	4,526	5,719	7,288	3,196	393	21,122
Acquisitions of Ethylene and Refining Assets (Note 1)	—	467	—	23	—	490
Addition for the year	22,057	8,330	5,432	5,851	345	42,015
Addition for the year of jointly controlled entities	1,200	—	—	2,993	—	4,193
Dry hole costs written off	(2,789)	—	—	—	—	(2,789)
Transferred to fixed assets	(19,459)	(6,161)	(5,079)	(5,482)	(337)	(36,518)
At 31 December 2003	5,535	8,355	7,641	6,581	401	28,513

The interest rates per annum at which borrowing costs were capitalised during the year by the Group ranged from 3.1% to 6.1% (2002: 3.1% to 6.2%).

At 31 December 2003, major projects of the Group are as follows:

Project name	Budgeted amount RMB Millions	At 1 January 2003 RMB Millions	Addition for the year RMB Millions	At 31 December 2003 RMB Millions	Percentage of completion	Source of funding	Accumulated interest capitalised at 31 December 2003 RMB Millions
The Group							
Ningbo – Shanghai – Nanjing Pipeline Project	3,657	465	2,584	3,049	83%	Bank loans & self-financing	5
Ethylene Reconstruction Project II	4,677	143	1,249	1,392	30%	Bank loans & self-financing	28
8,000,000 tonnes per annum Crude Oil Plant Improvement Project	1,397	14	290	304	22%	Self-financing	—
South-west Fuel Oil Pipeline Project	3,526	50	737	787	22%	Bank loans & self-financing	—
Jointly controlled entities							
900,000 tonnes Ethylene Project	8,895	—	2,975	2,975	33%	Bank loans & self-financing	124

The Company

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others RMB millions	Total RMB millions
At 1 January 2003	3,118	4,125	6,907	868	376	15,394
Acquisitions of Ethylene and Refining Assets (Note 1)	—	467	—	23	—	490
Addition for the year	12,230	6,184	4,357	1,222	342	24,335
Dry hole costs written off	(1,780)	—	—	—	—	(1,780)
Transferred to fixed assets	(9,067)	(3,465)	(4,884)	(829)	(336)	(18,581)
At 31 December 2003	4,501	7,311	6,380	1,284	382	19,858

The interest rates per annum at which borrowing costs were capitalised for the year ended 31 December 2003 by the Company ranged from 3.1% to 6.1% (2002: 3.1% to 6.2%).

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

15 INTANGIBLE ASSETS

The Group

	Computer software license RMB millions	Technical know-how RMB millions	Exploration and production right RMB millions	Others RMB millions	Total RMB millions
Cost:					
At 1 January 2003	331	1,289	3,163	102	4,885
Addition for the year	229	508	—	96	833
Disposals	(6)	—	—	—	(6)
At 31 December 2003	554	1,797	3,163	198	5,712
Accumulated Amortisation:					
At 1 January 2003	47	487	234	55	823
Amortisation charge for the year	46	147	117	18	328
Written back on disposal	(3)	—	—	—	(3)
At 31 December 2003	90	634	351	73	1,148
Net book value:					
At 31 December 2003	464	1,163	2,812	125	4,564
At 31 December 2002	284	802	2,929	47	4,062

Except for the 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 of the exploration and production right was 27 years. The amortisation periods of other intangible assets range from 4 to 10 years. At 31 December 2003, the remaining amortisation period of the exploration and production right was 24 years.

The Company

	Computer Software license RMB millions	Technical know-how RMB millions	Exploration and production right RMB millions	Others RMB millions	Total RMB millions
Cost:					
At 1 January 2003	171	1,007	3,163	54	4,395
Addition for the year	211	29	—	75	315
Disposals	(3)	—	—	—	(3)
At 31 December 2003	379	1,036	3,163	129	4,707
Accumulated Amortisation:					
At 1 January 2003	21	452	234	29	736
Amortisation charge for the year	29	102	117	13	261
Written back on disposal	(2)	—	—	—	(2)
At 31 December 2003	48	554	351	42	995
Net book value:					
At 31 December 2003	331	482	2,812	87	3,712
At 31 December 2002	150	555	2,929	25	3,659

Except for the 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 of the exploration and production right was 27 years. The amortisation periods of other intangible assets range from 4 to 10 years. At 31 December 2003, the remaining amortisation period of the exploration and production right was 24 years.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

16 DEFERRED TAX ASSETS AND LIABILITIES

The Group

	Deferred tax assets		Deferred tax liabilities		Net balance	
	2003	2002	2003	2002	2003	2002
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
<i>Current</i>						
Provision primarily for receivables and inventories	1,436	264	—	—	1,436	264
<i>Non-current</i>						
Property, plant and equipment	272	47	(289)	(460)	(17)	(413)
Tax value of losses carried forward	—	30	—	—	—	30
Others	44	16	—	(14)	44	2
Deferred tax assets/(liabilities)	1,752	357	(289)	(474)	1,463	(117)

The Company

	Deferred tax assets		Deferred tax liabilities		Net balance	
	2003	2002	2003	2002	2003	2002
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
<i>Current</i>						
Provision primarily for receivables and inventories	1,249	57	—	—	1,249	57
<i>Non-current</i>						
Property, plant and equipment	226	36	(16)	(54)	210	(18)
Others	35	15	—	(3)	35	12
Deferred tax assets/(liabilities)	1,510	108	(16)	(57)	1,494	51

17 SHORT-TERM LOANS

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

	The Group		The Company	
	2003	2002	2003	2002
	RMB millions	RMB millions	RMB millions	RMB millions
Short-term bank loans	16,979	22,839	7,466	12,514
Short-term other loans	29	19	25	15
Loans from Sinopec Group Company and fellow subsidiaries	3,896	4,121	2,296	2,299
	20,904	26,979	9,787	14,828

The Group's and the Company's weighted average interest rates per annum on short-term loans were 3.2% (2002: 4.3%) and 3.1% (2002: 4.2%) respectively at 31 December 2003. The majority of the above loans are unsecured.

At 31 December 2003 and 2002, the Group and the Company had no significant overdue short-term loan.

18 BILLS PAYABLE

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

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

Financial Statements (PRC)

19 TRADE ACCOUNTS PAYABLE

The ageing analyses of trade accounts payable are as follows:

	The Group			
	2003		2002	
	RMB millions	%	RMB millions	%
Within 3 months	16,311	71.8	11,058	57.6
Between 3 and 6 months	5,140	22.6	5,688	29.6
Over 6 months	1,253	5.6	2,466	12.8
	22,704	100.0	19,212	100.0

	The Company			
	2003		2002	
	RMB millions	%	RMB millions	%
Within 3 months	15,143	83.6	13,975	76.3
Between 3 and 6 months	2,130	11.8	2,588	14.2
Over 6 months	844	4.6	1,747	9.5
	18,117	100.0	18,310	100.0

Except for the balances disclosed in Note 40, 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 2003 and 2002, the Group and the Company had no individually significant trade accounts payable aged over three years.

20 RECEIPTS IN ADVANCE

Except for the balances disclosed in Note 40, 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 2003 and 2002, the Group and the Company had no individually significant receipts in advance aged over one year.

21 TAXES PAYABLE

	The Group		The Company	
	2003	2002	2003	2002
	RMB millions	RMB millions	RMB millions	RMB millions
Value added tax	459	(1,200)	(389)	(1,077)
Consumption tax	1,547	947	1,184	733
Income tax	4,077	2,776	2,012	1,307
Business tax	52	88	24	20
Other taxes	851	769	144	111
	6,986	3,380	2,975	1,094

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 2003 and 2002, except for certain subsidiaries of the Company, which are taxed at a preferential rate of 15%.

22 OTHER PAYABLES

At 31 December 2003 and 2002, the Group's and the Company's other payables primarily represented payables for resources compensation fee and education surcharge.

23 OTHER CREDITORS

At 31 December 2003 and 2002, the Group's and the Company's other creditors primarily represented payables for constructions.

Except for the balances disclosed in Note 40, 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 2003 and 2002, the Group and the Company had no individually significant other creditors aged over three years.

24 ACCRUED EXPENSES

At 31 December 2003 and 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.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

25 CURRENT PORTION OF LONG-TERM LOANS

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

	The Group		The Company	
	2003 RMB millions	2002 RMB millions	2003 RMB millions	2002 RMB millions
Long-term bank loans				
— Renminbi loans	5,363	6,436	3,437	5,194
— Japanese Yen loans	533	294	498	243
— US Dollar loans	623	1,337	408	237
— Hong Kong Dollar loans	4	3	—	—
— Euro loans	—	50	—	47
	6,523	8,120	4,343	5,721
Long-term other loans				
— Renminbi loans	65	148	30	12
— US Dollar loans	62	152	30	110
	127	300	60	122
Debentures payable				
— Renminbi loans (Note 27)	1,500	—	—	—
Long-term loans from Sinopec Group Company and fellow subsidiaries				
— Renminbi loans	19	144	19	144
— US Dollar loans	6	9	6	9
	25	153	25	153
Total current portion of long-term loans	8,175	8,573	4,428	5,996

At 31 December 2003 and 2002, the Group and the Company had no significant overdue long-term loan.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

26 LONG-TERM LOANS

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

Interest rate and final maturity	The Group		The Company		
	2003 RMB millions	2002 RMB millions	2003 RMB millions	2002 RMB millions	
Third parties debts					
Long-term bank loans					
Renminbi loans	Interest rates ranging from interest free to 6.2% per annum at 31 December 2003 with maturities through 2013	38,863	36,855	29,577	25,884
Japanese Yen loans	Interest rates ranging from 1.0% to 8.1% per annum at 31 December 2003 with maturities through 2024	2,909	2,373	2,866	2,280
US Dollar loans	Interest rates ranging from interest free to 7.4% per annum at 31 December 2003 with maturities through 2031	4,340	4,294	2,676	1,323
Hong Kong Dollar loans	Floating rate at Hong Kong Prime Rate plus 0.3% per annum at 31 December 2003 with maturities through 2006	7	10	—	—
Euro loans	Interest rates ranging from 6.0% to 7.9% per annum at 31 December 2002 with maturities through 2006; paid off as at 31 December 2003	—	162	—	155
Less: Current portion		6,523	8,120	4,343	5,721
Long-term bank loans		39,596	35,574	30,776	23,921
Other long-term loans					
Renminbi loans	Interest rates ranging from interest free to 5.0% per annum at 31 December 2003 with maturities through 2008	359	277	182	61
US Dollar loans	Interest rates ranging from interest free to 3.2% per annum at 31 December 2003 with maturities through 2015	151	438	118	398
Euro loans	Interest rates ranging from 1.8% to 8.1% per annum at 31 December 2003 with maturities through 2025	21	16	21	16
Less: Current portion		127	300	60	122
Other long-term loans		404	431	261	353
Long-term bank loans of jointly controlled entities					
Renminbi loans	Floating rate at 90% of PBOC's base lending rate per annum at 31 December 2003 with maturities through 2021	705	—	—	—
US Dollar loans	Floating rate at London Interbank Offer Rate plus 0.7% per annum at 31 December 2003 with maturities through 2013	745	—	—	—
Long-term bank loans of jointly controlled entities		1,450	—	—	—
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 at 5.0% per annum at 31 December 2003 with maturities through 2005	2,223	2,272	2,138	2,187
US Dollar loans	Floating rate at London Interbank Offer Rate plus 1.4% per annum at 31 December 2003 with maturities through 2005	12	23	12	21
Less: Current portion		25	153	25	153
Long-term loans from Sinopec Group Company and fellow subsidiaries		37,771	37,703	37,686	37,616
		79,221	73,708	68,723	61,890

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

26 LONG-TERM LOANS (Continued)

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

	The Group		The Company	
	2003 RMB millions	2002 RMB millions	2003 RMB millions	2002 RMB millions
Between one and two years	13,145	7,177	9,346	3,876
Between two and five years	26,591	25,564	21,526	17,458
After five years	39,485	40,967	37,851	40,556
Total long-term loans	79,221	73,708	68,723	61,890

At 31 December 2003, the Group and the Company had secured loans from third parties amounting to RMB 103 million (2002: RMB 85 million) and RMB 9 million (2002: RMB 23 million) respectively. All long-term other loans are unsecured.

Except for the balances disclosed in Note 40, there is no amount due to shareholders who hold 5% or more voting right of the Company included in the balance of long-term loans.

27 DEBENTURES PAYABLE

Interest rate and final maturity	The Group	
	2003 RMB millions	2002 RMB millions
Convertible bonds	1,500	1,500
Less: Current portion	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 into ordinary shares of the subsidiary from the date of initial public offering to maturity date. Pursuant to the subsidiary's shareholders' approval at the Annual General Meeting held on 23 March 2004, the subsidiary decided not to undergo an initial public offering.

28 OTHER LONG-TERM PAYABLES

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

29 SHARE CAPITAL

	The Group and the Company	
	2003 RMB millions	2002 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 Depositary Shares ("ADSs", each representing 100 H shares) at prices of HK\$ 1.59 and US\$ 20.645 respectively. As part of the offering, 1,678,049,000 shares were offered in placing to Hong Kong and overseas investors.

According to Sinopec Group Company's debt-to-equity arrangement, some of the Company's shares held by Sinopec Group Company were transferred to the following 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 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 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 ordinary shares and H shares rank pari passu in all material aspects.

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

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

30 CAPITAL RESERVE

The movements in capital reserve are as follows:

	The Group and the Company	
	2003	2002
	RMB millions	RMB millions
Balance at 1 January	36,588	36,297
Government grants (i)	35	291
Premium from issuance of shares by a subsidiary (ii)	147	—
Gain from debt restructuring by a subsidiary (iii)	82	—
Balance at 31 December	36,852	36,588

(i) For the year ended 31 December 2003, the Group received subsidy on investments amounted to RMB 35 million (2002: 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.

(ii) A subsidiary of the Group issued additional shares in the PRC. Independent investors used cash to subscribe for shares. The increase in the Group's consolidated net assets due to the share premium was reflected as an increase of capital reserve.

(iii) During the year ended 31 December 2003, a subsidiary of the Group carried out debt restructuring with a bank and obtained a waiver of interest payable. The gain in connection with the debt restructuring was reflected as an increase of capital reserve.

31 SURPLUS RESERVES

Movements in surplus reserves are as follows:

	The Group and the Company			
	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Total
	RMB millions	RMB millions	RMB millions	RMB millions
At 1 January 2002	3,017	3,017	—	6,034
Appropriation of net profit	1,412	1,412	7,000	9,824
At 31 December 2002	4,429	4,429	7,000	15,858
At 1 January 2003	4,429	4,429	7,000	15,858
Appropriation of net profit	1,901	1,901	—	3,802
At 31 December 2003	6,330	6,330	7,000	19,660

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:

(a) 10% of the net profit is transferred to the statutory surplus reserve;

(b) 5% to 10% of the net profit is transferred to the statutory public welfare fund; and

(c) 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 shareholders' meeting.

32 INCOME FROM PRINCIPAL OPERATIONS

The income from principal operations represents revenue from sales of crude oil, natural gas, petroleum and chemical products net of value added tax. The Group's segmental information is set out in Note 45.

For the year ended 31 December 2003, revenue from sales to top five customers amounted to RMB 61,502 million (2002: RMB 51,896 million) which accounted for 15% (2002: 16%) of income from principal operations of the Group.

33 SALES TAXES AND SURCHARGES

	The Group		The Company	
	2003	2002	2003	2002
	RMB millions	RMB millions	RMB millions	RMB millions
Consumption tax	9,856	8,823	6,691	5,909
City construction tax	1,991	1,636	1,038	896
Education surcharge	955	782	503	420
Resources tax	434	499	108	96
Business tax	135	112	73	60
	13,371	11,852	8,413	7,381

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

34 FINANCIAL EXPENSES

	The Group		The Company	
	2003 RMB millions	2002 RMB millions	2003 RMB millions	2002 RMB millions
Interest expenses incurred	4,635	4,951	2,417	3,060
Less: Capitalised interest expenses	487	551	187	271
Net interest expenses	4,148	4,400	2,230	2,789
Interest income	(305)	(338)	(125)	(200)
Foreign exchange losses	316	312	279	235
Foreign exchange gains	(30)	(47)	(47)	(31)
	4,129	4,327	2,337	2,793

35 EXPLORATION EXPENSES

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

36 INVESTMENT INCOME

	The Group		The Company	
	2003 RMB millions	2002 RMB millions	2003 RMB millions	2002 RMB millions
Investment income accounted for under the cost method	71	190	36	16
Investment income accounted for under the equity method	477	315	22,808	15,564
	548	505	22,844	15,580

37 NON-OPERATING EXPENSES

	The Group		The Company	
	2003 RMB millions	2002 RMB millions	2003 RMB millions	2002 RMB millions
Loss on disposal of fixed assets	3,459	748	1,917	469
Fines, penalties and compensation	140	74	133	71
Donations	132	66	91	38
Employee reduction expenses (i)	1,014	244	713	244
Impairment losses on fixed assets	940	—	373	—
Others	649	511	372	320
	6,334	1,643	3,599	1,142

(i) In accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 1,014 million during the year ended 31 December 2003 in respect of the voluntary termination totalling approximately 21,000 employees.

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

38 INCOME TAX

	The Group		The Company	
	2003 RMB millions	2002 RMB millions	2003 RMB millions	2002 RMB millions
Provision for PRC income tax	10,941	6,611	10,347	6,250
Deferred taxation	(1,580)	198	(1,443)	253
	9,361	6,809	8,904	6,503

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

39 DIVIDENDS

(a) Dividends of ordinary shares proposed after the balance sheet date

Pursuant to a resolution passed at the Board of Directors' meeting on 26 March 2004, a final dividend in respect of the year ended 31 December 2003 of RMB 0.06 per share totalling RMB 5,202 million was proposed for shareholders' approval at the Annual General Meeting.

(b) Dividends of ordinary shares declared during the year

Pursuant to the shareholders' approval at the Annual General Meeting on 10 June 2003, the Board of Directors was authorised to declare the interim dividends for the year ending 2003. According to the resolution passed at the Directors' meeting on 22 August 2003, an interim dividend of RMB 0.03 (2002: RMB 0.02) per share totalling RMB 2,601 million (2002: RMB 1,734 million) was declared.

Pursuant to the shareholders' approval at the Annual General Meeting on 10 June 2003, a final dividend of RMB 0.06 per share totalling RMB 5,202 million in respect of the year ended 31 December 2002 was declared and paid on 30 June 2003.

Pursuant to the shareholders' approval at the Annual General Meeting on 13 June 2002, a final dividend of RMB 0.08 per share totalling RMB 6,936 million in respect of the year ended 31 December 2001 was declared and paid on 8 August 2002.

40 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

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

The name of the company	:	China Petrochemical Corporation ("Sinopec Group Company")
Registered address	:	No. 6A, Huixin East Street, Chaoyang District, Beijing
Principal activities	:	Processing crude oil into refined products and 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	:	Chen Tonghai
Registered capital	:	RMB 104,912 million

There is no movement in the above registered capital for the year ended 31 December 2003.

As at 31 December 2003, 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 Vinyon Company
Nanjing Petrochemical Company
Qingjiang Petrochemical Limited Liability Company
Baoding Petrochemical Company
Luoyang Petrochemical Polypropylene Industrial Company
Baling Petrochemical Yueyang Petrochemical Company
Tianjin United Chemical Company
Zhanjiang Dongxing Petroleum Corporation Company Limited

The above companies and the Company are under common control of a parent company.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

40 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

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

	Note	2003 RMB millions	2002 RMB millions
Sales of goods	(i)	42,398	36,343
Purchases	(ii)	34,953	26,225
Transportation and storage	(iii)	1,835	1,514
Exploration and development services	(iv)	13,699	10,310
Production related services	(v)	8,718	7,316
Ancillary and social services	(vi)	1,862	1,945
Operating lease charges	(vii)	3,116	2,716
Agency commission income	(viii)	41	37
Intellectual property license fee paid	(ix)	10	10
Interest received	(x)	87	104
Interest paid	(xi)	583	636
Net deposits withdrawn from related parties	(xii)	1,438	1,427
Net loans (repaid to)/obtained from related parties	(xiii)	(285)	1,990

The amounts set out in the table above in respect of the years ended 31 December 2003 and 2002 represent the relevant costs to the Group and income from related parties as determined by the corresponding contracts with the related parties.

At 31 December 2003 and 2002, 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:

- (i) Sales of goods represent the sale of crude oil, intermediate petrochemical products, petroleum products and ancillary materials.
- (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 Sinopec Finance Company Limited, a finance company controlled by Sinopec Group Company. The applicable interest rate is determined in accordance with the prevailing saving deposit rate. The balances of deposits at 31 December 2003 and 2002 were RMB 4,264 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.
- (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 periodic balance of average loan for the year ended 31 December 2003, which is based on monthly average balances, was RMB 41,247 million (2002: RMB 40,019 million).

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

40 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

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 2003. The terms of these agreements are summarised as follows:

(a) The Company entered into an 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 an 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 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.

In August 2003, the Company has entered into additional lease agreements with Sinopec Group Company effective from 1 January 2003 to lease additional land at a rental of approximately RMB 273 million per annum.

(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. 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 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 station franchise agreement with Sinopec Group Company under which its service station and retail stores would exclusively sell the refined products supplied by the Group.

(d) Balances with related parties

The balances with the Group's related parties at 31 December 2003 and 2002 are as follows:

	The ultimate holding company		Other related companies	
	2003	2002	2003	2002
	RMB millions	RMB millions	RMB millions	RMB millions
Trade accounts receivable	—	62	3,044	2,566
Advance payments	—	6	463	578
Other receivables	3,201	3,509	5,693	7,621
Trade accounts payable	—	—	984	2,103
Receipts in advance	—	77	539	264
Other creditors	4,588	18	9,927	9,608
Short-term loans	—	—	3,896	4,121
Long-term loans (including current portion) (Note)	—	—	37,796	37,856

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 the long-term loans.

The Company entered into the asset acquisition agreement with Sinopec Group Company on 28 October 2003. The Company used cash of RMB 3.3 billion to acquire the Ethylene Assets of Sinopec Maoming From Sinopec Group Company. As of the valuation date, the assessed net asset value of the Ethylene Assets was RMB 3.3 billion. The Acquisition of Ethylene Assets was completed on 31 December 2003, and is included in the financial statements.

The Company entered into the assets acquisition agreements with Sinopec Group Company on 29 December 2003. The Company used cash of RMB 356 million to acquired the Refining Assets of Tahe Petrochemical and Xi'an Petrochemical from Sinopec Group Company. As of the revaluation date, the assessed net asset value of the Refining Assets was RMB 356 million. The Acquisition of Refining Assets was completed on 31 December 2003, and is included in the financial statements for the year ended 31 December 2003.

During the year ended 31 December 2003, Sinopec Group Company repaid a bank loan of RMB 962 million on behalf of a subsidiary of the Group.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

41 PRINCIPAL SUBSIDIARIES

The Company's principal subsidiaries are limited companies operating in the PRC and had been consolidated into the Group's financial statements for the year ended 31 December 2003. 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 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	875	70.85	Exploration and production of crude oil and natural gas

(i) The Company consolidated the results of the entity because the Company controlled the board of this entity and had the power to govern its financial and operating policies.

42 PRINCIPAL JOINTLY CONTROLLED ENTITIES

At 31 December 2003, the Group's principal interest in jointly controlled entities are as follows:

Name of company	Registered capital/ paid-up capital	Percentage of equity held by the Group %	Principal activities
Shanghai Secco Petrochemical Company Limited	Registered capital USD 901,440,964	50.00	Manufacturing and distribution of petrochemical products
Yueyang Sinopec and Shell Coal Gasification Company Limited	Registered capital USD 45,588,700	50.00	Manufacturing and distribution of industrial gas
Block A Oil Field in the Western Area Chenda in Bohai Bay	—	43.00	Exploration and production of crude oil and natural gas

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

43 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 2003, the future minimum lease payments of the Group and the Company under operating leases are as follows:

	The Group		The Company	
	2003 RMB millions	2002 RMB millions	2003 RMB millions	2002 RMB millions
Within one year	3,276	2,726	3,175	2,629
Between one and two years	3,229	2,666	3,133	2,585
Between two and three years	3,200	2,647	3,114	2,568
Between three and four years	3,175	2,635	3,095	2,557
Between four and five years	3,162	2,609	3,087	2,531
After five years	99,619	83,718	98,253	82,231
	115,661	97,001	113,857	95,101

Capital commitments

At 31 December 2003, the capital commitments are as follows:

	2003 RMB millions	2002 RMB millions
The Group		
Authorised and contracted for	48,107	24,764
Authorised but not contracted for	47,716	34,988
	95,823	59,752
Jointly controlled entities		
Authorised and contracted for	6,923	5,481
Authorised but not contracted for	3,432	6,027
	10,355	11,508
The Company		
Authorised and contracted for	32,210	15,218
Authorised but not contracted for	36,029	27,115
	68,239	42,333

These capital commitments relate to oil and gas exploration and development, refining and petrochemical production capacity expansion projects, the construction of service stations and oil depots, and capital contributions to the Group's investments and interests in associates.

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 was given by the State Council. The maximum term of the production licenses issued to the Group is 55 years as a special dispensation was 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 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 97 million for the year ended 31 December 2003 (2002: RMB 65 million).

Estimated future annual payments are as follows:

	The Group		The Company	
	2003 RMB millions	2002 RMB millions	2003 RMB millions	2002 RMB millions
Within one year	87	55	69	37
Between one and two years	117	76	88	45
Between two and three years	87	66	54	35
Between three and four years	72	63	42	28
Between four and five years	65	43	52	12
After five years	361	263	212	109
	789	566	517	266

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

44 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 2003, guarantees given by the Group and the Company to banks in respect of banking facilities granted to the parties below are as follows:

	The Group		The Company	
	2003 RMB millions	2002 RMB millions	2003 RMB millions	2002 RMB millions
Subsidiaries	—	—	173	—
Associates and jointly controlled entities	4,955	7,492	12,084	7,017
Third parties	—	30	—	—
	4,955	7,522	12,257	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 recognises any such losses under guarantees when those losses are estimable. At 31 December 2003 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.

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 245 million for the year ended 31 December 2003 (2002: RMB 287 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 is of the opinion that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

45 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 3). Corporate administrative costs and assets are not allocated to the operating segments; instead, operating segments are billed for direct corporate services. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by the Group's policy.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

45 SEGMENTAL INFORMATION (Continued)

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

	2003 RMB millions	2002 RMB millions
Income from principal operations		
Exploration and production		
External sales	14,936	10,920
Inter-segment sales	47,287	39,407
	62,223	50,327
Refining		
External sales	57,887	47,555
Inter-segment sales	208,366	161,340
	266,253	208,895
Marketing and distribution		
External sales	238,210	184,378
Inter-segment sales	2,602	2,329
	240,812	186,707
Chemicals		
External sales	74,919	58,401
Inter-segment sales	7,415	7,204
	82,334	65,605
Others		
External sales	31,239	22,930
Inter-segment sales	29,361	19,845
	60,600	42,775
Elimination of inter-segment sales	(295,031)	(230,125)
Income from principal operations	417,191	324,184
Cost of sales, sales taxes and surcharges		
Exploration and production	31,596	28,788
Refining	254,360	198,115
Marketing and distribution	210,456	163,701
Chemicals	73,116	60,429
Others	59,984	42,378
Elimination of inter-segment cost of sales	(293,037)	(230,377)
Cost of sales, sales taxes and surcharges	336,475	263,034
Profit from principal operations		
Exploration and production	28,785	21,973
Refining	11,741	10,598
Marketing and distribution	30,356	23,006
Chemicals	9,218	5,176
Others	616	397
Profit from principal operations	80,716	61,150

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2003

46 POST BALANCE SHEET EVENTS

Pursuant to the shareholders' approval at the Extraordinary General Meeting on 15 October 2003, the Company was authorised to issue ten years corporate bonds of RMB 3.5 billion to PRC citizens as well as PRC legal and non-legal persons subject to the approval from National Development and Reform Commission. The approval was given on 16 January 2004, and on 24 February 2004, the Company issued RMB 3.5 billion corporate bonds with a fixed interest rate at 4.61% per annum.

47 NET PROFIT BEFORE NON-OPERATING PROFITS/LOSSES

	2003 RMB millions
Net profit	19,011
Items under non-operating profits/losses:	
Add: Loss on disposal of fixed assets	3,459
Employee reduction expenses	1,014
Donations	132
Loss on disposal of long-term equity investments	23
Others	789
Less: Non-operating income	292
Written back of provision for impairment losses in previous years	205
Tax effect	1,624
Total of items under non-operating profits/losses	3,296
Net profit before non-operating profits/losses	22,307

48 OTHER SIGNIFICANT EVENTS

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