

# NOTES ON THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

## 1 STATUS OF THE COMPANY

China Petroleum & Chemical Corporation (the "Company") was established 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 (the "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 all operating assets and liabilities of two wholly owned subsidiaries of Sinopec Group Company, being 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").

Pursuant to the resolutions passed at the Extraordinary General Meeting held on 21 December 2004, the Company acquired certain operating assets and the related liabilities of certain refining, petrochemicals, catalysts and gas stations businesses (the "Acquisition of Acquired Assets") from Sinopec Group Company for considerations totalling RMB 5.360 billion. In connection with these acquisitions, the Group disposed of certain assets and liabilities of its oilfield downhole operation (the "Disposal of Downhole Assets") to Sinopec Group Company for a consideration of RMB 1.712 billion, resulting in a net consideration of RMB 3.648 billion payable to Sinopec Group Company.

## 2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Group are in conformity with the Accounting Standards for Business Enterprises and "Accounting Regulations for Business Enterprises" and other relevant regulations issued by the MOF of the PRC.

### (a) Accounting year

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

### (b) Basis of consolidation

The Group prepared the consolidated financial statements according to "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. A subsidiary is a company held by the Company directly or indirectly, more than 50% (excluding 50%) of the equity interest, or the Company holds less than 50% of the equity interest of a company but has effective controlling power. The consolidated income statement of the Company only includes the results of the subsidiaries during the period when the Company holds more than 50% of the equity interests or holds less than 50% of equity interest but exercises effective control. The effect of minority interests on equity and profit/loss attributable to minority shareholders are separately shown in the consolidated financial statements. 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 accounts for under the equity method in the long-term equity investments.

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 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.

**2 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(d) Reporting currency and translation of foreign currencies**

The Group's reporting currency is the 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 gains and losses on foreign currency translation, except for those directly relating to the construction of fixed assets (see note 2(i)), are dealt with 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 held by the Group 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.

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.

Any excess of the cost over the net realisable value of each item of inventories is recognised as a provision for diminution in the value of inventories. Net realisable value is the estimated selling price in the normal course of business less the estimated costs to completion and the estimated expenses 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**

Where the Group has the power to control, jointly control or exercise significant influence over an investee enterprise, the investment is accounted for under the equity method whereby the investment is initially recorded at cost and adjusted thereafter for any post acquisition change in the Group's share of the shareholders' funds in the investee enterprise.

Equity investment difference, which is the difference between the initial investment cost and the Group's share of shareholders' funds 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 enterprise 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 unamortised balance is included in long-term equity investments at the period end.

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 acquired after the issuance of Cai Kuai [2003] No.10 "Questions and answers on implementing Accounting Regulations for Business Enterprises and related accounting standards (II)". 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)", such shortfall is amortised on a straight-line basis over the investment period as stipulated in the relevant agreement, or 10 years if the investment period is not specified in the agreement. The unamortised balance is included in long-term equity investments at the period end.

Where the Group does not control, jointly control or exercise significant influence over an investee enterprise, the investment is accounted for under the cost method, stating it at the initial investment cost. Investment income is recognised when the investee enterprise declares a cash dividend or distributes profits.

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

The Group makes provision for impairment losses on long-term equity investments (see note 2(w)).

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (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 are stated in the balance sheet at cost or revalued amount less accumulated depreciation and impairment losses (see note 2(w)). Construction in progress is stated in the balance sheet at cost or revalued amount less impairment losses (see note 2(w)). The revalued amount represents the value of an asset which has been adjusted based on revaluation carried out in accordance with the relevant rules and regulations.

All direct and indirect costs related to the purchase or construction of fixed assets, incurred before the assets are ready for their intended uses, are capitalised as construction in progress. Those costs include borrowing costs (including foreign exchange differences arising from the loan principal and the related interest) 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. No depreciation is provided against construction in progress.

Fixed assets of the Group are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives and the estimated rate of residual values adopted for respective classes of fixed assets are as follows:

	Estimated useful lives	Estimated rate of residual value
Land and buildings	15-45 years	3%-5%
Oil and gas properties	10-14 years	0%-3%
Plant, machinery, equipment and vehicles	4-18 years	3%
Oil depots and storage tanks	8-14 years	3%
Service stations	25 years	3%-5%

#### (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 charged to expense. All other exploration costs, including geological and geophysical costs, are expensed as incurred.

#### (k) Intangible assets

Intangible assets are carried in the balance sheet at cost or valuation less accumulated amortisation and provision for impairment losses (see note 2(w)). 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 recorded in long-term deferred expenses and charged to the income statement in the month when business operation commences.

#### (m) Debentures payable

Debentures payable is stated in the balance sheet at issued price. Interest expense is calculated based on stipulated interest rate.

#### (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.

Revenue from the rendering of services only involving in one accounting year is recognised in the income statement upon performance of services. If a transaction lasts more than one accounting year, when the outcome of the 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; or when the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent that costs incurred which are expected to be recoverable.

Interest income is recognised on a time proportion basis according to the outstanding principal and the applicable interest rate.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (o) Income tax

Income tax is recognised using the tax effect accounting method. Income tax for the year comprises provision for current tax and movement of deferred tax assets and liabilities.

Current tax for the year is calculated on taxable income by applying the applicable tax rates.

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

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 on specific borrowings for the construction of fixed assets are capitalised into the cost of the fixed assets during the construction period until the fixed assets are ready for 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 recognised in the income statement when incurred.

#### (r) Environmental expenditures

Environmental expenditures that relate to current ongoing operations or to conditions caused by past operations are recognised in the income statement when incurred.

#### (s) Research and development costs

Research and development costs are recognised in the income statement when 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 are recognised in the income statement and profit appropriation statement when they are declared. 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 in the balance sheet.

#### (v) Retirement benefits

Pursuant to the relevant laws and regulations in the PRC, the Group has joined defined contribution retirement plans for the employees organised by governmental organisations. The Group makes contributions to the retirement plans at the applicable rates based on the employees' salaries. The contributions payable under the retirement plans are charged to the income statement when incurred.

#### (w) Provision for impairment

The carrying amounts of assets (including long-term equity investments, fixed assets, construction in progress, intangible assets and other assets) are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. 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 amount by which the carrying amount is reduced is the impairment loss.

The recoverable amount is the greater of the net selling price and the present value of the estimated future cash flows generated by the continuous use of the asset and the proceed from the disposal of the asset at the end of its useful life.

Provision for impairment loss is calculated on an item by item basis and recognised as an expense in the income statement. However, when a difference between the initial investment cost and the Group's share of the shareholders' funds of the investee enterprise has been credited to the capital reserve, any impairment loss for long-term equity investment is firstly set off against the difference initially recognised in the capital reserve in connection with the related investment and any excess impairment loss is then recognised in the income statement.

If there is an indication that there has been a change in the estimates used to determine the recoverable amount and as a result the estimated recoverable amount is greater than the carrying amount of the asset, the impairment loss recognised in prior years is reversed. Reversal of impairment loss is recognised in current period's income statement. Impairment loss is reversed to the extent of the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. In respect of the reversal of an impairment loss for a long-term equity investment, the reversal starts with the impairment loss that had previously been recognised in the income statement and then the impairment loss that had been charged to capital reserve.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (x) Related parties

If the Group has the ability, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control from another party, they are considered to be related parties. Related parties may be individuals or enterprises.

#### (y) Provisions and contingent liabilities

A provision is recognised when the Group has an obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligations and a reliable estimate can be made.

Where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the obligation is disclosed as a contingent liability.

### 3 TAXATION

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

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

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

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

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

The subsidiaries and branches granted with tax concession are set out below:

Name of subsidiaries	Preferential tax rate	Reasons for granting concession
Sinopec Shanghai Petrochemical Company Limited	15%	The first batch of joint stock enterprise which successfully got listed overseas
Sinopec Yizheng Chemical Fibre Company Limited	15%	The first batch of joint stock enterprise which successfully got listed overseas
Sinopec Yangzi Petrochemical Company Limited	15%	High technology enterprise
Sinopec Zhongyuan Petroleum Company Limited	15%	High technology enterprise
Petro-CyberWorks Information Technology Company Limited	15%	High technology enterprise
Sinopec National Star Xinan Branch	15%	Tax preferential policy in the western part of China
Sinopec National Star Xibei Branch	15%	Tax preferential policy in the western part of China
Sinopec Southern Exploration Branch	15%	Tax preferential policy in the western part of China

### 4 CASH AT BANK AND IN HAND

#### The Group

	2004			2003		
	Original currency millions	Exchange rates	RMB millions	Original currency millions	Exchange rates	RMB millions
Cash in hand						
Renminbi			115			101
Cash at bank						
Renminbi			12,621			11,959
US Dollars	96	8.2765	795	118	8.2767	973
Hong Kong Dollars	47	1.0637	50	70	1.0657	75
Japanese Yen	220	0.0797	18	207	0.0773	16
Euro	1	11.2627	10	2	10.3380	17
			<b>13,609</b>			<b>13,141</b>
Deposits at related parties						
Renminbi			4,657			4,210
US Dollars	2	8.2765	14	7	8.2767	54
<b>Total cash at bank and in hand</b>			<b>18,280</b>			<b>17,405</b>

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 4 CASH AT BANK AND IN HAND (Continued)

#### The Company

	2004			2003		
	Original currency millions	Exchange rates	RMB millions	Original currency millions	Exchange rates	RMB millions
Cash in hand						
Renminbi			107			64
Cash at bank						
Renminbi			4,892			4,752
US Dollars	1	8.2765	6	6	8.2767	53
Hong Kong Dollars			—	26	1.0657	28
Japanese Yen			—	7	0.0773	1
			<b>5,005</b>			<b>4,898</b>
Deposits at related parties						
Renminbi			1,280			1,629
US Dollars	2	8.2765	14	7	8.2767	54
<b>Total cash at bank and in hand</b>			<b>6,299</b>			<b>6,581</b>

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

### 5 BILLS RECEIVABLE

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

### 6 TRADE ACCOUNTS RECEIVABLE

	The Group		The Company	
	2004 RMB millions	2003 RMB millions	2004 RMB millions	2003 RMB millions
Subsidiaries	—	—	5,026	2,920
Sinopec Group Company and its fellow subsidiaries	2,349	3,044	858	1,623
Associates	89	81	19	23
Others	10,989	9,344	5,179	4,813
	<b>13,427</b>	<b>12,469</b>	<b>11,082</b>	<b>9,379</b>
Less: Allowance for doubtful accounts	3,671	3,185	2,837	2,299
<b>Total</b>	<b>9,756</b>	<b>9,284</b>	<b>8,245</b>	<b>7,080</b>

Allowance for doubtful accounts are analysed as follows:

	The Group		The Company	
	2004 RMB millions	2003 RMB millions	2004 RMB millions	2003 RMB millions
Balance at 1 January	3,185	2,666	2,299	1,867
Provision for the year	931	910	708	763
Written back for the year	(85)	(46)	(37)	(20)
Written off for the year	(360)	(345)	(133)	(311)
<b>Balance at 31 December</b>	<b>3,671</b>	<b>3,185</b>	<b>2,837</b>	<b>2,299</b>

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 6 TRADE ACCOUNTS RECEIVABLE (Continued)

Ageing analyses on trade accounts receivable are as follows:

	The Group							
	2004				2003			
	Amount RMB millions	Allowance % RMB millions						
Within one year	9,546	71.1	390	4.1	8,229	66.0	64	0.8
Between one and two years	308	2.3	83	26.9	770	6.2	309	40.1
Between two and three years	527	3.9	361	68.5	497	4.0	246	49.5
Over three years	3,046	22.7	2,837	93.1	2,973	23.8	2,566	86.3
<b>Total</b>	<b>13,427</b>	<b>100.0</b>	<b>3,671</b>		<b>12,469</b>	<b>100.0</b>	<b>3,185</b>	

	The Company							
	2004				2003			
	Amount RMB millions	Allowance % RMB millions						
Within one year	8,103	73.1	275	3.4	6,466	68.9	15	0.2
Between one and two years	193	1.8	66	34.2	373	4.0	157	42.1
Between two and three years	334	3.0	251	75.1	350	3.7	180	51.4
Over three years	2,452	22.1	2,245	91.6	2,190	23.4	1,947	88.9
<b>Total</b>	<b>11,082</b>	<b>100.0</b>	<b>2,837</b>		<b>9,379</b>	<b>100.0</b>	<b>2,299</b>	

Major trade accounts receivable of the Group at 31 December 2004 are set out below:

Name of entity	Balance RMB millions	Percentage of trade accounts receivable %
Baling Petrochemical Yueyang Petrochemical Company	393	2.9
Qingdao Petrochemical Plant	379	2.8
Petrolimex Vietnam	311	2.3
Phibro GmbH	294	2.2
Maoming Petrochemical Shihua Company Limited	248	1.8

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

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 years ended 31 December 2004 and 2003, the Group and the Company had no individually significant trade accounts receivable which had been fully or substantially provided for.

During the years ended 31 December 2004 and 2003, the Group and the Company had no individually significant write off or recover of doubtful debts which had been fully or substantially provided for in prior years.

At 31 December 2004 and 2003, the Group and the Company had no individually significant trade accounts receivable that aged over three years.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 7 OTHER RECEIVABLES

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Subsidiaries	—	—	11,004	12,434
Sinopec Group Company and its fellow subsidiaries	6,135	8,894	5,616	8,104
Associates	308	331	260	331
Others	9,515	8,580	6,168	5,959
	<b>15,958</b>	<b>17,805</b>	<b>23,048</b>	<b>26,828</b>
Less: Allowance for doubtful accounts	3,496	2,348	3,423	1,967
<b>Total</b>	<b>12,462</b>	<b>15,457</b>	<b>19,625</b>	<b>24,861</b>

Allowance for doubtful accounts are analysed as follows:

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Balance at 1 January	2,348	1,872	1,967	1,193
Provision for the year	1,245	1,098	1,514	1,258
Written back for the year	(41)	(61)	(26)	(45)
Written off for the year	(56)	(561)	(32)	(439)
<b>Balance at 31 December</b>	<b>3,496</b>	<b>2,348</b>	<b>3,423</b>	<b>1,967</b>

Ageing analyses of other receivables are as follows:

	The Group							
	2004				2003			
	Amount	Allowance		Amount	Allowance			
RMB millions	% RMB millions		% RMB millions	% RMB millions	% RMB millions		%	
Within one year	8,577	53.8	14	0.2	8,191	46.0	14	0.2
Between one and two years	485	3.0	17	3.5	4,256	23.9	321	7.5
Between two and three years	3,549	22.2	430	12.1	1,367	7.7	65	4.8
Over three years	3,347	21.0	3,035	90.7	3,991	22.4	1,948	48.8
<b>Total</b>	<b>15,958</b>	<b>100.0</b>	<b>3,496</b>		<b>17,805</b>	<b>100.0</b>	<b>2,348</b>	

	The Company							
	2004				2003			
	Amount	Allowance		Amount	Allowance			
RMB millions	% RMB millions		% RMB millions	% RMB millions	% RMB millions		%	
Within one year	16,168	70.1	12	0.1	18,585	69.3	257	1.4
Between one and two years	923	4.0	592	64.1	3,777	14.1	21	0.6
Between two and three years	2,620	11.4	48	1.8	1,062	3.9	35	3.3
Over three years	3,337	14.5	2,771	83.0	3,404	12.7	1,654	48.6
<b>Total</b>	<b>23,048</b>	<b>100.0</b>	<b>3,423</b>		<b>26,828</b>	<b>100.0</b>	<b>1,967</b>	

Major other receivables of the Group at 31 December 2004 are set out below:

Name of entity	Particulars	Percentage of	
		Balance	other receivables
		RMB millions	%
China Petrochemical Corporation	Current Account	2,502	15.7
Jinhuang Real Estate Company Limited	Current Account	219	1.4
China Ruilian Industrial Group Corporation	Current Account	184	1.2
Anhui Jinyu Highway Development Company Limited	Current Account	121	0.8
Anhui He Chao Wu Highway Company Limited	Current Account	107	0.7

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 7 OTHER RECEIVABLES (Continued)

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

Name of entity	Particulars	Percentage of	
		Balance	other receivables
		RMB millions	%
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

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 years ended 31 December 2004 and 2003, the Group and the Company had no individually significant other receivables which had been fully or substantially provided for.

During the years ended 31 December 2004 and 2003, the Group and the Company had no individually significant write off of other receivables.

At 31 December 2004 and 2003, the Group and the Company had no individually significant other receivables that aged over three years.

### 8 ADVANCE PAYMENTS

All advance payments are aged 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.

### 9 INVENTORIES

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Raw materials	32,581	23,570	14,544	10,200
Work in progress	8,341	6,805	3,605	3,308
Finished goods	20,804	12,268	15,163	8,741
Spare parts and consumables	3,098	2,791	1,033	770
	<b>64,824</b>	<b>45,434</b>	<b>34,345</b>	<b>23,019</b>
Less: Provision for diminution in value of inventories	906	519	394	226
	<b>63,918</b>	<b>44,915</b>	<b>33,951</b>	<b>22,793</b>

All of the above inventories are purchased or self-manufactured.

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

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

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Balance at 1 January	519	486	226	224
Provision for the year	621	196	314	72
Written back for the year	(188)	(82)	(124)	(42)
Written off	(46)	(81)	(22)	(28)
<b>Balance at 31 December</b>	<b>906</b>	<b>519</b>	<b>394</b>	<b>226</b>

The cost of inventories recognised as costs and expenses by the Group and the Company amounted to RMB 473,724 million (2003: RMB 335,588 million) and RMB343,269 million (2003: RMB 235,664 million) for the year ended 31 December 2004.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 10 LONG-TERM EQUITY INVESTMENTS

#### The Group

	Listed stock investment	Unlisted stock and other equity investment	Equity investment differences	Provision for impairment losses	Total
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Balance at 1 January 2004	736	10,285	400	(271)	11,150
Addition for the year	—	2,083	169	—	2,252
Share of profits less losses from investments accounted for under the equity method	54	887	—	—	941
Dividends receivable/received	—	(237)	—	—	(237)
Disposal for the year	—	(429)	—	—	(429)
Amortisation for the year	—	—	(186)	—	(186)
Movement of provision for impairment losses	—	—	—	(82)	(82)
<b>Balance at 31 December 2004</b>	<b>790</b>	<b>12,589</b>	<b>383</b>	<b>(353)</b>	<b>13,409</b>

#### The Company

	Listed stock investment	Unlisted stock and other equity investment	Equity investment differences	Provision for impairment losses	Total
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Balance at 1 January 2004	43,459	54,640	395	(160)	98,334
Addition for the year	—	7,141	162	—	7,303
Share of profits less losses from investments accounted for under the equity method	10,964	16,902	—	—	27,866
Dividends receivable/received	(2,103)	(4,037)	—	—	(6,140)
Disposal for the year	—	(411)	—	—	(411)
Acquired equity interests in a subsidiary (Note)	(2,589)	—	—	—	(2,589)
Amortisation for the year	—	—	(157)	—	(157)
Movement of provision for impairment losses	—	—	—	5	5
<b>Balance at 31 December 2004</b>	<b>49,731</b>	<b>74,235</b>	<b>400</b>	<b>(155)</b>	<b>124,211</b>

Note: During 2004 the Company acquired equity interests from minority shareholders of a subsidiary, Sinopec Maoming Refining and Chemical Company Limited. All assets and liabilities of the subsidiary were merged into the Company. The subsidiary was liquidated and no longer existed as at 31 December 2004.

Provision for impairment losses are analysed as follows:

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Balance at 1 January	271	184	160	149
Provision for the year	96	131	2	21
Written back for the year	(8)	(16)	(2)	—
Written off	(6)	(28)	(5)	(10)
<b>Balance at 31 December</b>	<b>353</b>	<b>271</b>	<b>155</b>	<b>160</b>

At 31 December 2004 and 2003, the Group and the Company had no individually significant long-term equity investments which had been provided for.

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 entities 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 investments of the Company represent investments in subsidiaries, associates and jointly controlled entities. Details of the Company's principal subsidiaries are set out in Note 41.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 10 LONG-TERM EQUITY INVESTMENTS (Continued)

At 31 December 2004, details of listed stock investment of the Group are as follows:

Name of investee enterprise	Type of equity interest	No. of shares millions	Percentage of equity interest held by the Group	Initial investment cost RMB millions	Balance at 1	Shares of profits for under the equity method	Balance at 31 December 2004	Market value as at 31 December 2004*
					January 2004			
Sinopec Shengli Oil Field Dynamic Co Ltd	Legal person shares	96	26.33%	223	425	36	461	479
Sinopec Shandong Taishan Petroleum Co Ltd	Legal person shares	186	38.68%	124	311	18	329	1,516
					<b>736</b>	<b>54</b>	<b>790</b>	

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

At 31 December 2004, details of principal unlisted stock and other equity investment of the Group are as follows:

Name of investee enterprise	Initial investment cost RMB millions	Investment period	Percentage of equity interest held by the Group	Balance at 1	Addition for the year RMB millions	Share of profits/ (losses) accounted for under the equity method RMB millions	Dividends receivable/ received RMB millions	Balance at 31
				January 2004 RMB millions		RMB millions		December 2004 RMB millions
BASF-YPC Company Limited (i)	3,516	—	40%	2,814	702	—	—	3,516
Sinopec Finance Company Limited	1,205	—	40%	1,288	—	83	(60)	1,311
Shanghai Petroleum National Gas Corporation	300	—	30%	754	—	293	(135)	912
Shanghai Chemical Industry Park Development Company Limited	608	30 years	38%	652	—	10	(11)	651
China Shipping & Sinopec Suppliers Company Limited	438	—	50%	438	—	30	—	468
Sinopec Changjiang Fuel Company Limited	190	20 years	50%	217	—	62	(28)	251
Hunan Highway Industrial Development Company Limited	215	—	49%	106	109	3	—	218
China Gas Holdings Ltd	136	—	11%	—	136	—	—	136
Sinopec Railway Oil Marketing Company Limited	50	20 years	50%	50	—	60	—	110
Shanghai Jinpu Packaging Material Company Limited	102	30 years	50%	104	—	(11)	—	93

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 project in the investee enterprise is still under construction, there is no income statement for the investee enterprise. Accordingly the Group did not have any share of profit or loss of the investee enterprise for the year ended 31 December 2004.

At 31 December 2004, the Group's and the Company's proportion of the total investments to the net assets was 7.0% (2003: 6.8%) and 65.8% (2003: 60.3%) respectively.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 11 FIXED ASSETS

#### The Group – by segment

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others RMB millions	Total RMB millions
<b>Cost/valuation:</b>						
At 1 January 2004	166,603	104,432	54,212	133,374	2,507	461,128
Acquisition of Acquired Assets from Sinopec Group Company (Note 1)	—	1,828	1,536	24,400	1,442	29,206
Disposal of Downhole Assets (Note 1)	(3,631)	—	—	—	—	(3,631)
Addition for the year	1,402	782	1,555	263	71	4,073
Transferred from construction in progress	17,428	13,366	8,983	8,609	183	48,569
Disposals	(11,345)	(3,345)	(1,511)	(3,571)	(111)	(19,883)
<b>At 31 December 2004</b>	<b>170,457</b>	<b>117,063</b>	<b>64,775</b>	<b>163,075</b>	<b>4,092</b>	<b>519,462</b>
<b>Accumulated depreciation:</b>						
At 1 January 2004	84,662	50,335	10,000	68,235	572	213,804
Acquisition of Acquired Assets from Sinopec Group Company (Note 1)	—	975	—	13,674	740	15,389
Disposal of Downhole Assets (Note 1)	(1,774)	—	—	—	—	(1,774)
Depreciation charge for the year	12,556	7,564	2,599	7,855	192	30,766
Written back on disposal	(8,894)	(2,260)	(942)	(2,482)	(97)	(14,675)
<b>At 31 December 2004</b>	<b>86,550</b>	<b>56,614</b>	<b>11,657</b>	<b>87,282</b>	<b>1,407</b>	<b>243,510</b>
<b>Net book value:</b>						
<b>At 31 December 2004</b>	<b>83,907</b>	<b>60,449</b>	<b>53,118</b>	<b>75,793</b>	<b>2,685</b>	<b>275,952</b>
<b>At 31 December 2003</b>	<b>81,941</b>	<b>54,097</b>	<b>44,212</b>	<b>65,139</b>	<b>1,935</b>	<b>247,324</b>

#### 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
<b>Cost/valuation:</b>						
At 1 January 2004	59,647	71,414	52,729	37,698	1,527	223,015
Acquisition of Acquired Assets from Sinopec Group Company (Note 1)	—	1,828	1,536	19,360	1,442	24,166
Disposal of Downhole Assets (Note 1)	(2,103)	—	—	—	—	(2,103)
Transfer from a subsidiary	—	5,158	—	—	—	5,158
Addition for the year	437	672	459	13	10	1,591
Transferred from construction in progress	9,056	10,911	8,020	1,452	183	29,622
Disposals	(6,012)	(2,090)	(1,331)	(804)	(92)	(10,329)
<b>At 31 December 2004</b>	<b>61,025</b>	<b>87,893</b>	<b>61,413</b>	<b>57,719</b>	<b>3,070</b>	<b>271,120</b>
<b>Accumulated depreciation:</b>						
At 1 January 2004	27,651	36,047	9,627	20,509	304	94,138
Acquisition of Acquired Assets from Sinopec Group Company (Note 1)	—	975	—	10,267	740	11,982
Disposal of Downhole Assets (Note 1)	(1,063)	—	—	—	—	(1,063)
Transfer from a subsidiary	—	2,682	—	—	—	2,682
Depreciation charge for the year	4,430	4,698	2,295	1,832	94	13,349
Written back on disposal	(4,535)	(1,599)	(805)	(496)	(81)	(7,516)
<b>At 31 December 2004</b>	<b>26,483</b>	<b>42,803</b>	<b>11,117</b>	<b>32,112</b>	<b>1,057</b>	<b>113,572</b>
<b>Net book value:</b>						
<b>At 31 December 2004</b>	<b>34,542</b>	<b>45,090</b>	<b>50,296</b>	<b>25,607</b>	<b>2,013</b>	<b>157,548</b>
<b>At 31 December 2003</b>	<b>31,996</b>	<b>35,367</b>	<b>43,102</b>	<b>17,189</b>	<b>1,223</b>	<b>128,877</b>

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 11 FIXED ASSETS (Continued)

#### The Group – by asset class

	Land and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
<b>Cost/valuation:</b>					
At 1 January 2004	41,648	147,275	46,067	226,138	461,128
Acquisition of Acquired					
Assets from Sinopec Group Company (Note 1)	3,873	—	1,533	23,800	29,206
Disposal of Downhole Assets (Note 1)	(97)	(2,362)	—	(1,172)	(3,631)
Addition for the year	305	450	1,301	2,017	4,073
Transferred from construction in progress	2,235	17,428	12,161	16,745	48,569
Disposals	(857)	(10,846)	(1,099)	(7,081)	(19,883)
<b>At 31 December 2004</b>	<b>47,107</b>	<b>151,945</b>	<b>59,963</b>	<b>260,447</b>	<b>519,462</b>
<b>Accumulated depreciation:</b>					
At 1 January 2004	16,978	77,640	8,771	110,415	213,804
Acquisition of Acquired					
Assets from Sinopec Group Company (Note 1)	1,734	—	—	13,655	15,389
Disposal of Downhole Assets (Note 1)	(22)	(1,207)	—	(545)	(1,774)
Depreciation charge for the year	1,663	9,726	2,307	17,070	30,766
Written back on disposal	(365)	(8,493)	(585)	(5,232)	(14,675)
<b>At 31 December 2004</b>	<b>19,988</b>	<b>77,666</b>	<b>10,493</b>	<b>135,363</b>	<b>243,510</b>
<b>Net book value:</b>					
<b>At 31 December 2004</b>	<b>27,119</b>	<b>74,279</b>	<b>49,470</b>	<b>125,084</b>	<b>275,952</b>
<b>At 31 December 2003</b>	<b>24,670</b>	<b>69,635</b>	<b>37,296</b>	<b>115,723</b>	<b>247,324</b>

#### 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
<b>Cost/valuation:</b>					
At 1 January 2004	21,267	51,380	44,703	105,665	223,015
Acquisition of Acquired					
Assets from Sinopec Group Company (Note 1)	3,060	—	1,533	19,573	24,166
Disposal of Downhole Assets (Note 1)	(75)	(1,081)	—	(947)	(2,103)
Transfer from a subsidiary	216	—	—	4,942	5,158
Addition for the year	223	43	248	1,077	1,591
Transferred from construction in progress	1,128	8,854	11,415	8,225	29,622
Disposals	(632)	(5,889)	(1,075)	(2,733)	(10,329)
<b>At 31 December 2004</b>	<b>25,187</b>	<b>53,307</b>	<b>56,824</b>	<b>135,802</b>	<b>271,120</b>
<b>Accumulated depreciation:</b>					
At 1 January 2004	7,682	25,631	8,505	52,320	94,138
Acquisition of Acquired					
Assets from Sinopec Group Company (Note 1)	1,276	—	—	10,706	11,982
Disposal of Downhole Assets (Note 1)	(17)	(578)	—	(468)	(1,063)
Transfer from a subsidiary	101	—	—	2,581	2,682
Depreciation charge for the year	923	3,664	2,193	6,569	13,349
Written back on disposal	(293)	(4,418)	(582)	(2,223)	(7,516)
<b>At 31 December 2004</b>	<b>9,672</b>	<b>24,299</b>	<b>10,116</b>	<b>69,485</b>	<b>113,572</b>
<b>Net book value:</b>					
<b>At 31 December 2004</b>	<b>15,515</b>	<b>29,008</b>	<b>46,708</b>	<b>66,317</b>	<b>157,548</b>
<b>At 31 December 2003</b>	<b>13,585</b>	<b>25,749</b>	<b>36,198</b>	<b>53,345</b>	<b>128,877</b>

Fixed assets and construction in progress of the Group at 30 September 1999 were valued by registered valuers. 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.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 11 FIXED ASSETS (Continued)

In accordance with the relevant rules and regulations in respect of the acquisition of Sinopec National Star, fixed assets and construction in progress of Sinopec National Star have been valued by a firm of independent valuers. 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, fixed assets and construction in progress of Sinopec Maoming have been revalued by a firm of independent valuers. Deficit on revaluation of RMB 86 million has been incorporated in the Group's financial statements since the year ended 31 December 2003.

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

In accordance with the relevant rules and regulations in respect of the Acquisition of Acquired Assets, fixed assets and construction in progress of the Acquired Assets have been revalued by independent valuers. Surplus on revaluation of RMB 492 million has been incorporated in the Group's financial statements for the year ended 31 December 2004.

At 31 December 2004, the carrying amounts of fixed assets that were pledged by the Group and the Company were RMB 123 million (2003: RMB 519 million) and RMB 10 million (2003: RMB 14 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	Marketing and distribution RMB millions	Chemicals RMB millions	Total RMB millions
At 1 January 2004	764	114	—	453	1,331
Addition for the year	98	14	1,769	2,747	4,628
Disposal of Downhole Assets (Note 1)	(79)	—	—	—	(79)
Written off	—	(64)	—	—	(64)
<b>At 31 December 2004</b>	<b>783</b>	<b>64</b>	<b>1,769</b>	<b>3,200</b>	<b>5,816</b>

#### The Company – by segment

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Total RMB millions
At 1 January 2004	701	63	—	—	764
Addition for the year	98	14	1,737	1,568	3,417
Disposal of Downhole Assets (Note 1)	(79)	—	—	—	(79)
Written off	—	(64)	—	—	(64)
<b>At 31 December 2004</b>	<b>720</b>	<b>13</b>	<b>1,737</b>	<b>1,568</b>	<b>4,038</b>

#### 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
At 1 January 2004	8	764	—	559	1,331
Addition for the year	325	98	1,249	2,956	4,628
Disposal of Downhole Assets (Note 1)	—	(79)	—	—	(79)
Written off	(2)	—	—	(62)	(64)
<b>At 31 December 2004</b>	<b>331</b>	<b>783</b>	<b>1,249</b>	<b>3,453</b>	<b>5,816</b>

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 11 FIXED ASSETS (Continued)

#### The Company – by asset class

	Land and buildings	Oil and gas properties	Oil depots, storage tanks and service stations	Plant, machinery, equipment and others	Total
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
At 1 January 2004	—	701	—	63	764
Addition for the year	186	98	1,249	1,884	3,417
Disposal of Downhole Assets (Note 1)	—	(79)	—	—	(79)
Written off	(2)	—	—	(62)	(64)
<b>At 31 December 2004</b>	<b>184</b>	<b>720</b>	<b>1,249</b>	<b>1,885</b>	<b>4,038</b>

Provision for impairment losses recognised on fixed assets of the refining and chemicals segment of RMB 14 million (2003: RMB 114 million) and RMB 2,747 million (2003: RMB 453 million) for the year ended 31 December 2004 relate to certain refining and chemicals production facilities that are held for use. The carrying values of these facilities were written down to their recoverable values which were based on the asset held for use model using the present value of estimated future cash flows. The primary factor resulting in the provision for impairment losses of the chemicals segment was due to higher operating and production costs caused by the increase in the prices of raw materials that are not expected to be recovered through an increase in selling price.

Provision for impairment losses recognised on fixed assets of the marketing and distribution segment of RMB 1,769 million (2003: RMB nil) for the year ended 31 December 2004 primarily relate to certain service stations that were closed during the year. In measuring the amounts of impairment charges, the carrying amounts of these assets were compared to the present value of the expected future cash flows of the assets, as well as information about sales and purchases of similar properties in the same geographic area.

The factors resulting in the exploration and production (“E&P”) segment provision for impairment losses of RMB 98 million for the year ended 31 December 2004 (2003: RMB 373 million) were unsuccessful development drilling and high operating and development costs for certain small oil fields. The carrying values of these E&P properties were written down to a recoverable value which was determined based on the present values of the expected future cash flows of the assets. The oil and gas pricing was a factor used in the determination of the present values of the expected future cash flows of the assets and had an impact on the recognition of the asset impairment.

At 31 December 2004 and 2003, the Group and the Company had no individually significant fixed assets which were temporarily idle or pending for disposal.

At 31 December 2004 and 2003, the Group and the Company had no individually significant fully depreciated fixed assets which were still in use.

### 12 CONSTRUCTION MATERIALS

At 31 December 2004 and 2003, 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 2004

### 13 CONSTRUCTION IN PROGRESS

#### The Group

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others RMB millions	Total RMB millions
At 1 January 2004	5,535	8,355	7,641	6,581	401	28,513
Acquisition of Acquired Assets from Sinopec Group Company (Note 1)	—	2	—	267	56	325
Addition for the year	22,808	13,224	14,793	10,118	1,239	62,182
Addition for the year of jointly controlled entities	1,323	—	—	5,178	—	6,501
Dry hole costs written off	(2,976)	—	—	—	—	(2,976)
Transferred to fixed assets	(17,428)	(13,366)	(8,983)	(8,609)	(183)	(48,569)
<b>At 31 December 2004</b>	<b>9,262</b>	<b>8,215</b>	<b>13,451</b>	<b>13,535</b>	<b>1,513</b>	<b>45,976</b>

The interest rates per annum at which borrowing costs were capitalised during the year ended 31 December 2004 by the Group ranged from 3.1% to 6.0% (2003: 3.1% to 6.1%).

The Group's proportionate share of the jointly controlled entities' construction in progress at 31 December 2004 in the E&P and the chemicals segments were RMB 2,053 million (2003: RMB 3,812 million) and RMB 8,171 million (2003: RMB 2,993 million), respectively.

At 31 December 2004, major projects of the Group are as follows:

Project name	Budgeted amount RMB millions	At 1 January 2004 RMB millions	Addition for the year RMB millions	Transferred to fixed assets RMB millions	At 31 December 2004 RMB millions	Percentage of completion	Source of funding	Accumulated interest capitalised at 31 December 2004 RMB millions
<b>The Group</b>								
South-west Fuel Oil Pipeline Project	3,526	787	1,661	—	2,448	69%	Bank loans & self-financing	10
Ningbo – Shanghai – Nanjing Pipeline Project	5,705	3,049	1,865	(3,514)	1,400	86%	Bank loans & self-financing	20
Sour Crude Oil Improvement Project	1,454	134	961	(120)	975	67%	Bank loans & self-financing	4
Yizheng-Changling Crude Oil Pipeline Project	4,820	—	893	—	893	19%	Bank loans & self-financing	—
Fertilizer Improvement Project	1,063	178	712	—	890	84%	Bank loans & self-financing	4
<b>Jointly controlled entities</b>								
900,000 tonnes Ethylene Project	8,895	2,975	5,165	—	8,140	92%	Bank loans & self-financing	261

#### 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 2004	4,501	7,311	6,380	1,284	382	19,858
Acquisition of Acquired Assets from Sinopec Group Company (Note 1)	—	2	—	257	56	315
Transfer from a subsidiary	—	76	—	—	—	76
Addition for the year	13,346	10,281	11,581	3,889	1,239	40,336
Dry hole costs written off	(2,184)	—	—	—	—	(2,184)
Transferred to fixed assets	(9,056)	(10,911)	(8,020)	(1,452)	(183)	(29,622)
<b>At 31 December 2004</b>	<b>6,607</b>	<b>6,759</b>	<b>9,941</b>	<b>3,978</b>	<b>1,494</b>	<b>28,779</b>

The interest rates per annum at which borrowing costs were capitalised for the year ended 31 December 2004 by the Company ranged from 3.1% to 6.0% (2003: 3.1% to 6.1%).

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 14 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
<b>Cost:</b>					
At 1 January 2004	554	1,797	3,163	198	5,712
Addition for the year	298	490	—	516	1,304
Disposals	—	(1)	—	(79)	(80)
<b>At 31 December 2004</b>	<b>852</b>	<b>2,286</b>	<b>3,163</b>	<b>635</b>	<b>6,936</b>
<b>Accumulated Amortisation:</b>					
At 1 January 2004	90	634	351	73	1,148
Amortisation charge for the year	95	207	117	57	476
Written back on disposal	—	—	—	(33)	(33)
<b>At 31 December 2004</b>	<b>185</b>	<b>841</b>	<b>468</b>	<b>97</b>	<b>1,591</b>
<b>Net book value:</b>					
<b>At 31 December 2004</b>	<b>667</b>	<b>1,445</b>	<b>2,695</b>	<b>538</b>	<b>5,345</b>
<b>At 31 December 2003</b>	<b>464</b>	<b>1,163</b>	<b>2,812</b>	<b>125</b>	<b>4,564</b>

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 2004, the remaining amortisation period of the exploration and production right was 23 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
<b>Cost:</b>					
At 1 January 2004	379	1,036	3,163	129	4,707
Addition for the year	292	280	—	355	927
Disposals	—	—	—	(63)	(63)
<b>At 31 December 2004</b>	<b>671</b>	<b>1,316</b>	<b>3,163</b>	<b>421</b>	<b>5,571</b>
<b>Accumulated Amortisation:</b>					
At 1 January 2004	48	554	351	42	995
Amortisation charge for the year	72	119	117	38	346
Written back on disposal	—	—	—	(31)	(31)
<b>At 31 December 2004</b>	<b>120</b>	<b>673</b>	<b>468</b>	<b>49</b>	<b>1,310</b>
<b>Net book value:</b>					
<b>At 31 December 2004</b>	<b>551</b>	<b>643</b>	<b>2,695</b>	<b>372</b>	<b>4,261</b>
<b>At 31 December 2003</b>	<b>331</b>	<b>482</b>	<b>2,812</b>	<b>87</b>	<b>3,712</b>

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 2004, the remaining amortisation period of the exploration and production right was 23 years.

### 15 LONG-TERM DEFERRED EXPENSES

Long-term deferred expenses primarily represent prepaid rental expenses over one year, catalysts and jointly controlled entities' pre-operating expenditures.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 16 DEFERRED TAX ASSETS AND LIABILITIES

#### The Group

	Deferred tax assets		Deferred tax liabilities		Net balance	
	2004	2003	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
<i>Current</i>						
Provisions, primarily for receivables and inventories	2,524	1,436	—	—	2,524	1,436
<i>Non-current</i>						
Property, plant and equipment	1,566	272	(198)	(289)	1,368	(17)
Tax value of losses carried forward, net of valuation allowance	66	—	—	—	66	—
Others	10	44	—	—	10	44
<b>Deferred tax assets/(liabilities)</b>	<b>4,166</b>	<b>1,752</b>	<b>(198)</b>	<b>(289)</b>	<b>3,968</b>	<b>1,463</b>

#### The Company

	Deferred tax assets		Deferred tax liabilities		Net balance	
	2004	2003	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
<i>Current</i>						
Provisions, primarily for receivables and inventories	2,245	1,249	—	—	2,245	1,249
<i>Non-current</i>						
Property, plant and equipment	1,457	226	(16)	(16)	1,441	210
Others	6	35	—	—	6	35
<b>Deferred tax assets/(liabilities)</b>	<b>3,708</b>	<b>1,510</b>	<b>(16)</b>	<b>(16)</b>	<b>3,692</b>	<b>1,494</b>

### 17 SHORT-TERM LOANS

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

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Short-term bank loans	20,009	16,979	10,527	7,466
Short-term other loans	—	29	—	25
Loans from Sinopec Group Company and its fellow subsidiaries	6,714	3,896	5,727	2,296
<b>Total</b>	<b>26,723</b>	<b>20,904</b>	<b>16,254</b>	<b>9,787</b>

The Group's and the Company's weighted average interest rates per annum on short-term loans were 3.9% (2003: 3.2%) and 4.0% (2003: 3.1%) respectively at 31 December 2004. The majority of the above loans are unsecured.

At 31 December 2004 and 2003, the Group and the Company had no significant overdue short-term loans.

### 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 2004

### 19 TRADE ACCOUNTS PAYABLE

The ageing analyses of trade accounts payable are as follows:

	The Group			
	2004		2003	
	RMB millions	%	RMB millions	%
Within 3 months	12,868	54.1	16,311	71.8
Between 3 and 6 months	9,110	38.3	5,140	22.6
Over 6 months	1,814	7.6	1,253	5.6
<b>Total</b>	<b>23,792</b>	<b>100.0</b>	<b>22,704</b>	<b>100.0</b>

	The Company			
	2004		2003	
	RMB millions	%	RMB millions	%
Within 3 months	13,462	63.7	15,143	83.6
Between 3 and 6 months	6,183	29.3	2,130	11.8
Over 6 months	1,492	7.0	844	4.6
<b>Total</b>	<b>21,137</b>	<b>100.0</b>	<b>18,117</b>	<b>100.0</b>

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 2004 and 2003, 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 2004 and 2003, the Group and the Company had no individually significant receipts in advance aged over one year.

### 21 TAXES PAYABLE

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Value added tax	(1,119)	459	(1,377)	(389)
Consumption tax	1,443	1,547	1,146	1,184
Income tax	5,391	4,077	3,142	2,012
Business tax	99	52	37	24
Other taxes	927	851	222	144
<b>Total</b>	<b>6,741</b>	<b>6,986</b>	<b>3,170</b>	<b>2,975</b>

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 2004 and 2003, except for certain entities of the Company, which are taxed at a preferential rate of 15%.

### 22 OTHER PAYABLES

At 31 December 2004 and 2003, 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 2004 and 2003, 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 2004 and 2003, the Group and the Company had no individually significant other creditors aged over three years.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 24 ACCRUED EXPENSES

At 31 December 2004 and 2003, 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.

### 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	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
<b>Long-term bank loans</b>				
— Renminbi loans	8,500	5,363	6,247	3,437
— Japanese Yen loans	805	533	798	498
— US Dollar loans	2,841	623	2,341	408
— Euro loans	28	—	28	—
— Hong Kong Dollar loans	3	4	—	—
	<b>12,177</b>	<b>6,523</b>	<b>9,414</b>	<b>4,343</b>
<b>Long-term other loans</b>				
— Renminbi loans	88	65	61	30
— US Dollar loans	33	62	31	30
	<b>121</b>	<b>127</b>	<b>92</b>	<b>60</b>
<b>Debentures payable</b>				
— Renminbi loans (Note 27)	—	1,500	—	—
<b>Long-term loans from Sinopec Group Company and its fellow subsidiaries</b>				
— Renminbi loans	2,000	19	2,000	19
— US Dollar loans	—	6	—	6
	<b>2,000</b>	<b>25</b>	<b>2,000</b>	<b>25</b>
<b>Total current portion of long-term loans</b>	<b>14,298</b>	<b>8,175</b>	<b>11,506</b>	<b>4,428</b>

At 31 December 2004 and 2003, the Group and the Company had no significant overdue long-term loans.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 26 LONG-TERM LOANS

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

	Interest rate and final maturity	The Group		The Company	
		2004	2003	2004	2003
		RMB millions	RMB millions	RMB millions	RMB millions
<b>Third parties debts</b>					
<b>Long-term bank loans</b>					
Renminbi loans	Interest rates ranging from interest free to 6.2% per annum at 31 December 2004 with maturities through 2013	52,227	38,863	45,233	29,577
Japanese Yen loans	Interest rates ranging from 2.6% to 5.8% per annum at 31 December 2004 with maturities through 2024	4,562	2,909	4,556	2,866
US Dollar loans	Interest rates ranging from interest free to 7.4% per annum at 31 December 2004 with maturities through 2031	7,729	4,340	5,278	2,676
Euro loans	Fixed rate at 6.7% per annum at 31 December 2004 with maturities through 2010	165	—	165	—
Hong Kong Dollar loans	Floating rate at Hong Kong Prime Rate plus 0.3% per annum at 31 December 2004 with maturities through 2006	5	7	—	—
Less: Current portion		12,177	6,523	9,414	4,343
<b>Long-term bank loans</b>		<b>52,511</b>	<b>39,596</b>	<b>45,818</b>	<b>30,776</b>
<b>Other long-term loans</b>					
Renminbi loans	Interest rates ranging from interest free to 5.0% per annum at 31 December 2004 with maturities through 2008	359	359	200	182
US Dollar loans	Interest rates ranging from interest free to 4.0% per annum at 31 December 2004 with maturities through 2015	110	151	89	118
Euro loans	Interest rates ranging from 1.8% to 8.1% per annum at 31 December 2003 with maturities through 2025. Paid off as at 31 December 2004	—	21	—	21
Less: Current portion		121	127	92	60
<b>Other long-term loans</b>		<b>348</b>	<b>404</b>	<b>197</b>	<b>261</b>
<b>Long-term bank loans of jointly controlled entities</b>					
Renminbi loans	Floating rate at 90% of PBOC's base lending rate per annum at 31 December 2004 with maturities through 2021	2,415	705	—	—
US Dollar loans	Floating rate at London Interbank Offer Rate plus 0.7% per annum at 31 December 2004 with maturities through 2021	2,048	745	—	—
<b>Long-term bank loans of jointly controlled entities</b>		<b>4,463</b>	<b>1,450</b>	<b>—</b>	<b>—</b>
<b>Long-term loans from Sinopec Group Company and fellow subsidiaries</b>					
Renminbi loans	Interest free with maturity in 2020	35,561	35,561	35,561	35,561
Renminbi loans	Interest rates ranging from interest free to 5.2% per annum at 31 December 2004 with maturities through 2009	3,204	2,223	2,756	2,138
US Dollar loans	Floating rate at London Interbank Offer Rate plus 1.4% per annum at 31 December 2003; paid off as at 31 December 2004	—	12	—	12
Less: Current portion		2,000	25	2,000	25
<b>Long-term loans from Sinopec Group Company and fellow subsidiaries</b>		<b>36,765</b>	<b>37,771</b>	<b>36,317</b>	<b>37,686</b>
		<b>94,087</b>	<b>79,221</b>	<b>82,332</b>	<b>68,723</b>

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 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	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Between one and two years	15,886	13,145	12,363	9,346
Between two and five years	36,041	26,591	31,279	21,526
After five years	42,160	39,485	38,690	37,851
<b>Total long-term loans</b>	<b>94,087</b>	<b>79,221</b>	<b>82,332</b>	<b>68,723</b>

At 31 December 2004, the Group and the Company had secured loans from third parties amounting to RMB 40 million (2003: RMB 103 million) and RMB 9 million (2003: RMB 9 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		The Company	
		2004	2003	2004	2003
		RMB millions	RMB millions	RMB millions	RMB millions
Corporate bonds	Fixed rate at 4.61% per annum, redeemable in February 2014 (i)	3,500	—	3,500	—
Convertible bonds	Matured and paid off during the year ended 2004(ii)	—	1,500	—	—
Less: current portion		—	1,500	—	—
		<b>3,500</b>	<b>—</b>	<b>3,500</b>	<b>—</b>

(i) The Company issued ten years corporate bonds of RMB 3.5 billion to PRC citizens as well as PRC legal and non-legal persons on 24 February 2004, guaranteed by Sinopec Group Company, with a fixed interest rate at 4.61% per annum and annual interest payment schedule. Interest payable for the current period was included in accrued expenses.

(ii) Convertible bonds amounting to RMB 1,500 million were issued by a subsidiary of the Group on 28 July 1999. 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. The bonds were repaid in July 2004.

### 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	
	2004	2003
	RMB millions	RMB millions
<b>Registered, issued and fully paid:</b>		
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
	<b>86,702</b>	<b>86,702</b>

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 the 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.

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 2004

### 30 CAPITAL RESERVE

The movements in capital reserve are as follows:

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Balance at 1 January	36,852	36,588	36,852	36,588
Government grants (i)	269	35	269	35
Reserve for equity investment (ii)	—	—	676	—
Premium from issuance of shares by a subsidiary (iii)	—	147	—	147
Gain from debt restructuring by a subsidiary (iv)	—	82	—	82
<b>Total long-term loans</b>	<b>37,121</b>	<b>36,852</b>	<b>37,797</b>	<b>36,852</b>

- (i) During the year ended 31 December 2004, the Group received subsidy on investments amounted to RMB 269 million (2003: RMB 35 million), pursuant to Fa Gai Tou Zi [2004] No. 1248 "Notice on the Enterprise Technology Reform and Industry Upgrade regarding the First Batch State Debt's Project Fund Plan in 2004" issued by the National Development and Reform Commission and the MOF. This fund is used for technology improvement projects.
- (ii) During the year ended 31 December 2004, the Company invested in certain newly set up subsidiaries using non-monetary assets at revalued amount as the Group's capital investment in these subsidiaries. The difference between the revalued amount of these non-monetary assets and their original book value (that is the Group's shared shareholders' funds in these subsidiaries over the initial investment cost) was recorded in capital reserve. Such difference has been eliminated in the Group's consolidated financial statements.
- (iii) A subsidiary of the Group issued additional shares in the PRC during the year ended 31 December 2003. Independent investors used cash to subscribe for the additional shares. The increase in the Group's consolidated net assets as a result of addition issuance of shares was reflected as an increase of capital reserve.
- (iv) During the year ended 31 December 2003, a subsidiary of the Group carried out debt restructuring with a bank and certain interest payable had been waived. 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 2003	4,429	4,429	7,000	15,858
Appropriation of net profit	1,901	1,901	—	3,802
<b>At 31 December 2003</b>	<b>6,330</b>	<b>6,330</b>	<b>7,000</b>	<b>19,660</b>
At 1 January 2004	6,330	6,330	7,000	19,660
Appropriation of net profit	3,228	3,228	—	6,456
<b>At 31 December 2004</b>	<b>9,558</b>	<b>9,558</b>	<b>7,000</b>	<b>26,116</b>

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 2004, revenue from sales to top five customers amounted to RMB 58,691 million (2003: RMB 61,502 million) which accounted for 10% (2003: 15%) of income from principal operations of the Group.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 33 SALES TAXES AND SURCHARGES

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Consumption tax	11,847	9,856	7,981	6,691
City construction tax	2,505	1,991	1,261	1,038
Education surcharge	1,243	955	624	503
Resources tax	452	434	114	108
Business tax	156	135	114	73
<b>Total</b>	<b>16,203</b>	<b>13,371</b>	<b>10,094</b>	<b>8,413</b>

### 34 FINANCIAL EXPENSES

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Interest expenses incurred	4,909	4,635	3,067	2,417
Less: Capitalised interest expenses	327	487	231	187
<b>Net interest expenses</b>	<b>4,582</b>	<b>4,148</b>	<b>2,836</b>	<b>2,230</b>
Interest income	(359)	(305)	(144)	(125)
Foreign exchange losses	167	316	130	279
Foreign exchange gains	(59)	(30)	(52)	(47)
<b>Total</b>	<b>4,331</b>	<b>4,129</b>	<b>2,770</b>	<b>2,337</b>

### 35 EXPLORATION EXPENSES

Exploration expenses include geological and geophysical expenses and dry hole costs.

### 36 INVESTMENT INCOME

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Investment income accounted for under the cost method	120	71	82	36
Investment income accounted for under the equity method	968	477	39,292	22,808
<b>Total</b>	<b>1,088</b>	<b>548</b>	<b>39,374</b>	<b>22,844</b>

### 37 NON-OPERATING EXPENSES

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Loss on disposal of fixed assets	4,304	3,459	2,733	1,917
Impairment losses on fixed assets	4,628	940	3,417	373
Fines, penalties and compensations	280	140	273	133
Donations	275	132	91	91
Employee reduction expenses (Note)	919	1,014	745	713
Others	765	649	620	372
<b>Total</b>	<b>11,171</b>	<b>6,334</b>	<b>7,879</b>	<b>3,599</b>

Note: During the year ended 31 December 2004, in accordance with the Group's voluntary employee reduction plan, and in connection with the Acquisition of Acquired Assets from and Disposal of Downhole Assets to Sinopec Group Company, the Group recorded employee reduction expenses of RMB 919 million (2003: RMB 1,014 million) relating to the reduction of approximately 24,000 employees (2003: 21,000 employees).

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 38 INCOME TAX

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Provision for PRC income tax for the year	18,405	10,862	16,815	10,340
Deferred taxation	(2,439)	(1,580)	(2,198)	(1,443)
Underprovision for income tax in respect of preceding year	94	79	152	7
<b>Total</b>	<b>16,060</b>	<b>9,361</b>	<b>14,769</b>	<b>8,904</b>

### 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 25 March 2005, a final dividend in respect of the year ended 31 December 2004 of RMB 0.08 per share totalling RMB 6,936 million was proposed for shareholders' approval at the Annual General Meeting.

#### (b) Dividends of ordinary shares declared during the year

Pursuant to the shareholder's approval at the Annual General Meeting on 18 May 2004, the Board of Directors was authorised to declare the interim dividends for the year ended 31 December 2004. According to the resolution passed at the Directors' meeting on 27 August 2004, an interim dividend of RMB 0.04 (2003: RMB 0.03) per share totalling RMB 3,468 million (2003: RMB 2,601 million) was declared.

Pursuant to the shareholders' approval at the Annual General Meeting on 18 May 2004, a final dividend of RMB 0.06 per share totalling RMB 5,202 million in respect of the year ended 31 December 2003 was declared and paid on 28 June 2004.

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.

### 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 2004.

Change of the Company's equity interests held by Sinopec Group Company is as follows:

From 1 January 2004 to 29 December 2004	55.06%
From 30 December 2004 to 31 December 2004	67.92%

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 40 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

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

	Note	2004 RMB millions	2003 RMB millions
Sales of goods	(i)	72,015	42,398
Purchases	(ii)	40,911	34,953
Transportation and storage	(iii)	2,003	1,835
Exploration and development services	(iv)	14,446	13,699
Production related services	(v)	9,123	8,718
Ancillary and social services	(vi)	1,776	1,862
Operating lease charges	(vii)	3,365	3,116
Agency commission income	(viii)	41	41
Intellectual property license fee paid	(ix)	10	10
Interest received	(x)	59	87
Interest paid	(xi)	622	583
Net deposits placed with /(withdrawn from) related parties	(xii)	407	(1,438)
Net loans obtained from /(paid to) related parties	(xiii)	3,787	(285)

The amounts set out in the table above in respect of the years ended 31 December 2004 and 2003 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 2004 and 2003, there were no guarantees given to banks by the Group in respect of banking facilities to Sinopec Group Company and fellow subsidiaries.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions, and this has been confirmed by the independent non-executive directors.

Notes:

- (i) Sales of goods represent the sale of crude oil, intermediate petrochemical products, 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 and development activities 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 and purchase of material for 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 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 2004 and 2003 were RMB 4,671 million and RMB 4,264 million respectively.
- (xi) Interest paid represents interest charges on the loans obtained from Sinopec Group Company and Sinopec Finance Company Limited.
- (xii) Deposits were withdrawn from/placed with Sinopec Finance Company Limited.
- (xiii) The Group obtained/repaid loans from/to Sinopec Group Company and Sinopec Finance Company Limited. The average loan balance for the year ended 31 December 2004, which is calculated based on monthly average balance, was RMB 42,696 million (2003: RMB 41,247 million).

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 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 2004. The terms of these agreements are summarised as follows:

- (a) The Company entered into a non-exclusive Agreement for Mutual Provision of Products and Ancillary Services (“Mutual Provision Agreement”) with Sinopec Group Company under which Sinopec Group Company has agreed to provide the Group with certain ancillary production services, construction services, information advisory services, supply services and other services and products. While each of Sinopec Group Company and the Company is permitted to terminate the Mutual Provision Agreement upon at least six months’ notice, Sinopec Group Company has agreed not to terminate the agreement if the Group is unable to obtain comparable services from a third party. The pricing policy for these services and products provided by Sinopec Group Company to the Group is as follows:
- the government-prescribed price;
  - where there is no government-prescribed price, the government-guidance price;
  - where there is neither a government-prescribed price nor a government-guidance price, the market price; or
  - where none of the above is applicable, the price to be agreed between the parties, which shall be based on a reasonable cost incurred in providing such services plus a profit margin not exceeding 6%.
- (b) The Company has entered into a non-exclusive Agreement for Provision of Cultural and Educational, Health Care and Community Services with Sinopec Group Company effective from 1 January 2000 in which Sinopec Group Company has agreed to provide the Group with certain cultural, educational, health care and community services on the same pricing terms and termination conditions as agreed to in the above Mutual Provision Agreement.
- (c) The Company has entered into a number of lease agreements with Sinopec Group Company to lease certain land and buildings at a rental of approximately RMB 2,447 million and RMB 567 million, respectively, per annum. The Company and Sinopec Group Company can renegotiate the rental amount every three years for land and every year for buildings, such amount not to exceed the market price as determined by an independent third party. The Group has the option to terminate these leases upon six months notice to Sinopec Group Company.
- (d) The Company has entered into agreements with Sinopec Group Company effective from 1 January 2000 under which the Group has been granted the right to use certain trademarks, patents, technology and computer software developed by Sinopec Group Company. 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.

#### (c) Balances with related parties

The balances with the Group’s related parties at 31 December 2004 and 2003 are as follows:

	The ultimate holding company		Other related companies	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Trade accounts receivable	—	—	2,438	3,125
Advance payments	—	—	350	463
Other receivables	2,502	3,201	3,941	6,024
Trade accounts payable	—	—	1,527	1,028
Receipts in advance	—	—	1,218	539
Other creditors	4,851	4,588	4,828	9,927
Short-term loans	—	—	6,714	3,896
Long-term loans (including current portion) (Note)	—	—	38,765	37,796

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.

As discussed in Note 1, pursuant to the resolutions passed at the Extraordinary General Meeting held on 21 December 2004, the Company acquired the equity interests of Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical, Guangzhou Petrochemical and Catalyst Plants from Sinopec Group Company for a total consideration payable of RMB 3,128 million. In addition, the Company acquired certain individual assets and liabilities from Sinopec Group Company for a total consideration payable of RMB 2,232 million. In connection with these acquisitions, the Group disposed of Downhole Assets to Sinopec Group Company for a consideration receivable of RMB 1,712 million, resulting in a net consideration of RMB 3,648 million payable to Sinopec Group Company.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 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 2004. Except for Sinopec Kantons Holdings Limited, which is incorporated in Bermuda, the companies below are incorporated in the PRC. The following list contains the particulars of subsidiaries which principally affected the results or assets of the Group:

Name of enterprise	Registered capital RMB millions	Percentage of equity interest 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	29,000	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 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
Zhongyuan Petrochemical Company Limited	2,400	93.51	Manufacturing of chemical products
Sinopec Shell (Jiangsu) Petroleum Marketing Company Limited	830	60.00	Marketing and distribution of refined petroleum products
BP Sinopec (Zhejiang) Petroleum Company Limited	800	60.00	Marketing and distribution of refined petroleum products

(i) The Company consolidated the results of these entities because the Company controlled the board of these entities and had the power to govern their financial and operating policies.

### 42 PRINCIPAL JOINTLY CONTROLLED ENTITIES

At 31 December 2004, the Group's principal jointly controlled entities are as follows:

Name of jointly controlled entities	Registered capital/paid-up capital	Percentage of equity interest 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 2004

### 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 2004, the future minimum lease payments of the Group and the Company under operating leases are as follows:

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Within one year	3,452	3,276	3,272	3,175
Between one and two years	3,343	3,229	3,237	3,133
Between two and three years	3,278	3,200	3,213	3,114
Between three and four years	3,245	3,175	3,188	3,095
Between four and five years	3,225	3,162	3,170	3,087
After five years	97,527	99,619	95,968	98,253
<b>Total</b>	<b>114,070</b>	<b>115,661</b>	<b>112,048</b>	<b>113,857</b>

#### Capital commitments

At 31 December 2004, capital commitments are as follows:

	2004	2003
	RMB millions	RMB millions
<b>The Group</b>		
Authorised and contracted for	43,001	48,107
Authorised but not contracted for	60,173	47,716
	<b>103,174</b>	<b>95,823</b>
<b>Jointly controlled entities</b>		
Authorised and contracted for	3,157	6,923
Authorised but not contracted for	2,088	3,432
	<b>5,245</b>	<b>10,355</b>
<b>The Company</b>		
Authorised and contracted for	28,143	32,210
Authorised but not contracted for	37,619	36,029
	<b>65,762</b>	<b>68,239</b>

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 to the Group 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 189 million for the year ended 31 December 2004 (2003: RMB 97 million).

Estimated future annual payments are as follows:

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Within one year	90	87	60	69
Between one and two years	120	117	85	88
Between two and three years	75	87	47	54
Between three and four years	67	72	55	42
Between four and five years	74	65	64	52
After five years	279	361	143	212
<b>Total</b>	<b>705</b>	<b>789</b>	<b>454</b>	<b>517</b>

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 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 2004, 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	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Subsidiaries	—	—	2,656	173
Associates and jointly controlled entities	4,828	4,955	12,059	12,084
<b>Total</b>	<b>4,828</b>	<b>4,955</b>	<b>14,715</b>	<b>12,257</b>

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 2004 and 31 December 2003, it is not probable that the Company will be required to make payments under the guarantees. Thus no liability has been accrued relating to the Company's obligation under these guarantee arrangements.

#### 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 248 million for the year ended 31 December 2004 (2003: RMB 245 million).

#### Legal contingencies

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

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

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

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

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 45 SEGMENTAL INFORMATION (Continued)

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

	2004	2003
	RMB millions	RMB millions
<b>Income from principal operations</b>		
Exploration and production		
External sales	16,109	14,936
Inter-segment sales	59,914	47,287
	<b>76,023</b>	<b>62,223</b>
Refining		
External sales	71,333	57,887
Inter-segment sales	281,215	208,366
	<b>352,548</b>	<b>266,253</b>
Marketing and distribution		
External sales	342,840	238,210
Inter-segment sales	2,831	2,602
	<b>345,671</b>	<b>240,812</b>
Chemicals		
External sales	112,078	74,919
Inter-segment sales	10,040	7,415
	<b>122,118</b>	<b>82,334</b>
Others		
External sales	48,272	31,239
Inter-segment sales	30,873	29,361
	<b>79,145</b>	<b>60,600</b>
Elimination of inter-segment sales	(384,873)	(295,031)
<b>Income from principal operations</b>	<b>590,632</b>	<b>417,191</b>
<b>Cost of sales, sales taxes and surcharges</b>		
Exploration and production	36,073	31,596
Refining	340,360	254,360
Marketing and distribution	306,309	210,456
Chemicals	96,994	73,116
Others	78,410	59,984
Elimination of inter-segment cost of sales	(382,736)	(293,037)
<b>Cost of sales, sales taxes and surcharges</b>	<b>475,410</b>	<b>336,475</b>
<b>Profit from principal operations</b>		
Exploration and production	37,997	28,785
Refining	12,005	11,741
Marketing and distribution	39,362	30,356
Chemicals	25,123	9,218
Others	735	616
<b>Profit from principal operations</b>	<b>115,222</b>	<b>80,716</b>

### 46 POST BALANCE SHEET EVENTS

On 29 December 2004, the Group announced its proposal to privatise Sinopec Beijing Yanhua Petrochemical Company Limited ("Beijing Yanhua"), a non-wholly owned subsidiary in which the Group holds approximately 70% of the equity interests. According to the proposal, the Group will acquire the entire 1,012,000,000 H shares, representing approximately 30% of the issued share capital of Beijing Yanhua at HK\$ 3.80 per share. The total consideration required to be paid by the Group was approximately HK\$ 3,846 million which will be settled in cash.

Pursuant to the resolution passed in the Special General Meeting of Beijing Yanhua on 4 March 2005, the shareholders of the H shares in Beijing Yanhua agreed to dispose of and sell their shares in Beijing Yanhua to the Group at the above mentioned price, subject to the approval from the relevant PRC governmental and regulatory bodies.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 47 ITEMS UNDER NON-OPERATING PROFITS/LOSSES

Pursuant to "Questions and answers in the prepayment of information disclosures of companies issuing public shares, No.1—Extraordinary gain and loss" (2004 revised), the extraordinary gains and losses of the Group are as follows:

	2004	2003
	RMB millions	RMB millions
<b>Items under non-operating profits/losses for the year:</b>		
Loss on disposal of fixed assets	4,304	3,459
Employee reduction expenses	919	1,014
Donations	275	132
(Gain)/loss on disposal of long-term equity investments	(2)	23
Other non-operating income and expenses, excluding impairment losses on long-lived assets	380	497
Written back of provisions for impairment losses in previous years	(322)	(205)
Tax effect	(1,833)	(1,624)
<b>Total</b>	<b>3,721</b>	<b>3,296</b>

### 48 OTHER SIGNIFICANT EVENTS

The Group had no any other significant event required to disclose as at the approval date of these financial statements.