Sinopec Zhenhai Refining & Chemical Company Limited (Formerly known as Zhenhai Refining & Chemical Company Limited)

31st December, 2000 and 1999

1. ORGANISATION AND OPERATIONS

Sinopec Zhenhai Refining & Chemical Company Limited (the "Company", and formerly known as Zhenhai Refining & Chemical Company Limited) was established in the People's Republic of China (the "PRC") on 28th June, 1994 as a joint stock company as part of a restructuring exercise to convert Zhenhai General Petrochemical Works ("ZGP"), a state-owned enterprise, into a joint stock company. ZGP was under the direct supervision and control of China Petrochemical Corporation ("Sinopec Group Company"), a ministry-level enterprise under the direct supervision of the State Council of the PRC, which is responsible for the administration and development of the petrochemical industry in the PRC. On 28th June, 1994, the Company took over the business undertakings and subsidiaries of ZGP together with the relevant assets and liabilities, and issued to Sinopec 1,800,000,000 State-owned shares with a par value of RMB1.00 each.

The Company is principally engaged in the production and sale of petroleum products (including gasoline, diesel fuel and jet fuel), intermediate petrochemical products (including benzene, propylene and poly-propylene), urea, and other petrochemical products (including LPG, asphalt and petroleum coke). Gasoline, diesel fuel, jet fuel and urea are four major products of the Company. The activities of its principal subsidiaries are shown in Note 6. The address of its registered office is as follows:

Zhenhai District, Ningbo Municipality
Zhejiang Province, the PRC

As of 31st December, 2000, the Company and its subsidiaries had 10,034 (1999 – 10,079) employees.

As part of the reorganisation of Sinopec Group Company in 2000, Sinopec Group Company transferred all of its shareholdings in the Company to China Petroleum & Chemical Corporation ("Sinopec"), a joint stock company established in the PRC on 25th February, 2000. Since then, the parent company of the Group is Sinopec and the ultimate parent company of the Group is Sinopec Group Company.

By a shareholders' resolution on 20th June, 2000, the Company changed its name from Zhenhai Refining & Chemical Company Limited to Sinopec Zhenhai Refining & Chemical Company Limited.

2. CHANGE OF ACCOUNTING POLICIES

(a) Overhaul expenses

In prior years, overhaul expenses were accrued in advance over the maintenance cycle of once every two years. With the adoption of International Accounting Standards ("IAS") No. 37 "Provisions, Contingent Liabilities and Contingent Assets" issued by International Accounting Standards Committee ("IASC"), which becomes effective for annual financial statements covering periods beginning on or after 1st July, 1999, the Group changed its accounting policy on overhaul expenses from accrue in advance method to expense as incurred method since 1st January, 2000. As a result, overhaul expenses during the year ended 31st December, 2000 amounting to approximately RMB136,324,000 were charged to the consolidated income statement.

Sinopec Zhenhai Refining & Chemical Company Limited (Formerly known as Zhenhai Refining & Chemical Company Limited)

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2. CHANGE OF ACCOUNTING POLICIES (Continued)

(a) Overhaul expenses (Continued)

This change in accounting policy has been applied retrospectively. As a result of the adoption of the new accounting policy, the Group's net profit for the year ended 31st December, 1999 was decreased by approximately RMB37,251,000 (net of tax of approximately RMB18,347,000), the opening unappropriated profits for 1999 increased by approximately RMB77,966,000 and the opening unappropriated profits for 2000 increased by approximately RMB40,715,000. Comparative figures as of 31st December, 1999 and for the year then ended have been restated to reflect the change in accounting policy.

(b) Dividends and appropriation of profit to discretionary surplus reserve

In prior years, dividends proposed after the balance sheet dates were recognised as a liability as of the balance sheet dates. With the adoption of IAS No. 10 (revised 1999) "Events After the Balance Sheet Date" issued by IASC, dividends proposed or declared after the balance sheet date should be disclosed as a non-adjusting event after the balance sheet date rather than recognised as a liability as of the balance sheet date starting from 1st January, 2000.

Similarly, appropriation of profit to discretionary surplus reserve proposed after the balance sheet date is disclosed as a non-adjusting event after the balance sheet date rather than recognised as appropriation of profit at the balance sheet date.

This change in accounting policy has been applied retrospectively. As a result of the adoption of the new accounting policy, the Group's opening unappropriated profits for 1999 was increased by approximately RMB310,593,000 and the opening unappropriated profits for 2000 increased by approximately RMB405,144,000. Comparative figures as of 31st December, 1999 and for the year then ended have been restated to reflect the change in accounting policy.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with IAS, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The principal accounting policies are summarised as follows:

(a) Consolidation

The consolidated financial statements include those of the Company and its subsidiaries (the "Group") and also incorporate the Group's interests in associates on the basis as set out in Note 3(f).

The purchase method of accounting is used for acquired businesses. Results of subsidiaries and associates acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or to the date of disposal.

Sinopec Zhenhai Refining & Chemical Company Limited (Formerly known as Zhenhai Refining & Chemical Company Limited)

31st December, 2000 and 1999

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Consolidation (Continued)

All significant intercompany balances and transactions, including intercompany profits and losses and resulting unrealised profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(b) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after the property, plant and equipment have been put into operation, is recognised as an expense in the period in which it is incurred. In situations where it is probable that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

Depreciation is calculated using the straight-line method to write off the cost, after taking into account the estimated residual value (excluding land use rights, which have no residual value), of each asset over its expected useful life. The expected useful lives are as follows:

	Years
Land use rights	50
Buildings	9 to 40
Machinery and equipment	5 to 20
Motor vehicles	8 to 10

The useful lives of assets and depreciation method are reviewed periodically.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposals is included in the income statement.

(c) Construction-in-progress

Construction-in-progress represents buildings and machinery and equipment under construction, and is stated at cost. This includes costs of construction, attributable borrowing costs, which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction period, to the extent these are regarded as an adjustment to interest costs, and other direct costs capitalised during the period of construction, and cost of installation and testing up to the commissioning dates. No depreciation is provided on construction-in-progress until such time as the relevant assets are completed and put into operational use.

Sinopec Zhenhai Refining & Chemical Company Limited (Formerly known as Zhenhai Refining & Chemical Company Limited)

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3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the assets will flow to the enterprise; and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives. The amortisation period and the amortisation method are reviewed annually at each financial year-end.

(e) Subsidiaries

A subsidiary is a company in which the Company controls. Control exists when the Company has the power to govern the financial and operating policies of the subsidiary so as to obtain benefits from its activities. In the Company's financial statements, investments in subsidiaries are accounted for using the equity method of accounting. An assessment of investments in subsidiaries is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

(f) Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Company has significant influence. Significant influence exists when the Company has the power to participate in, but not control, the financial and operating decisions of the associate.

Investments in associates are accounted for using the equity method of accounting. An assessment of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

(g) Other long-term investments

Other long-term investments are stated at cost less provision for any impairment in value and are included in other non-current assets. An assessment of other long-term investments is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist. Income derived from these investments is accounted for to the extent of dividends/distributions declared or received.

Upon disposal of a long-term investment, the difference between net disposal proceeds and the carrying amount is charged or credited to the income statement.

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3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, other than that of spare parts and consumables which is calculated on a first-in-first-out basis, calculated on the weighted average basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(i) Receivables

Receivables are stated at face value, after provision for doubtful accounts.

(j) Cash and cash equivalents

Cash represents cash in hand and deposits with any banks or other financial institutions which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

(k) Operating leases

Leases are classified as operating leases whenever substantially all the risks and rewards incidental to ownership of the leased assets remain with the lessor.

Lease payments under operating leases are recognised as an expense in the income statement on a straight-line basis over the lease term. Aggregate benefit of incentives on operating leases is recognised as a reduction of rental expense over the lease term on a straight-line basis.

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3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Provisions

A provision is recognised when, and only when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

(m) Convertible bonds

Convertible bonds are stated at the amount of the consideration received on the issue of bonds, together with interest payable, less converted bonds. Interest expense is accrued on a constant yield-to-redemption rate.

When bonds are converted before the expiry date, the unamortised issuance costs and unpaid borrowing costs are transferred into capital surplus upon conversion. When bonds are redeemed before the expiry date, the unamortised issuance costs are dealt with in the income statement.

(n) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised on the following bases:

(i) Sales of goods

Revenue is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

(ii) Rendering of services

Revenue from rendering services is recognised by reference to the stage of completion when can be measured reliably.

(iii) Interest income

Interest income is recognised on a time proportion basis that take into account the effective yield on the assets.

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3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Revenue recognition (Continued)

(iv) Dividend income

Dividend income is recognised when the right to receive dividend is established.

(o) Deferred taxation

Deferred taxation is provided under the balance sheet liability method in respect of significant temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary difference can be utilised.

(p) Repair and maintenance expenses

Repair and maintenance expenses, including overhaul expenses (see Note 2), are expensed as incurred.

(q) Research and development expenditures

Expenditures for research and development are charged against income in the period incurred except for project development costs which comply strictly with the following criteria:

- the product or process is clearly defined and costs are separately identified and measured reliably;
- the technical feasibility of the product is demonstrated;
- the product or process will be sold or used in-house;
- a potential market exists for the product or its usefulness in case of internal use is demonstrated; and
- adequate technical, financial and other resources required for completion of the project are available.

Capitalised development costs are amortised on a straight-line basis over their expected useful lives.

The recoverable amount of development costs is estimated whenever there is an indication that the asset has been impaired or that the impairment losses recognised in previous years no longer exist.

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3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Translation of foreign currencies

Companies within the Group maintain their books and accounting records in their reporting currency – RMB, which is not a freely convertible currency. Transactions in foreign currency are translated into RMB at the applicable exchange rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated into RMB at the exchange rates prevailing at the balance sheet date. Non-monetary assets and liabilities in other currencies are translated at historical rates. Exchange differences other than those capitalised as a component of borrowing costs are recognised in the income statement in the period in which they arise.

(s) Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arranging borrowings and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed as incurred, except when they are directly attributable to the acquisition, construction or production of the buildings and machinery and equipment that necessarily takes a substantial period of time to get ready for its intended use in which case they are capitalised as part of the cost of that asset. Capitalisation of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalised at the actual cost of the related borrowings until the asset is ready for its intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

(t) Retirement scheme

Contributions to defined contribution plans are charged to income in the year to which they related.

(u) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalent, trade and other receivable and payable, balances with related parties, long-term receivables, other long-term investments, loans, borrowings, bonds payable and other non-current liabilities. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

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3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(v) Impairment of assets

Property, plant and equipment, intangible assets, investments in associates, and other long-term investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in income for items of property, plant and equipment and intangibles and investments in associates and other long-term investments carried at cost. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or has decreased. The reversal is recorded in income.

(w) Segments

Business segments: for management purposes the Group is organised on a domestic basis into two major operating businesses. The divisions are the basis upon which the Group reports its primary segment information. Financial information on business segments is presented in Note 40.

Intersegment transactions: segment revenue, segment expenses and segment performance include transfers between business segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar services. Those transfers are eliminated on consolidation.

(x) Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(y) Subsequent events

Post-year-end events that provide additional information about a company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate, (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

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4. PROPERTY, PLANT AND EQUIPMENT

GROUP

	1999	2000						
	Total	Land use rights	Buildings	Machinery and equipment	Motor vehicles	Construction-in-progress	Total	
	RMB'000 *(Note 46)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*US$'000*
Cost:								
Beginning of year	8,296,336	200,000	1,369,694	6,701,152	104,434	837,512	9,212,792	1,112,912
Reclassification	–	13,776	99,171	658,876	(3,221)	(779,981)	(11,379)	(1,375)
Additions	890,735	–	2,970	49,123	4,444	538,231	594,768	71,848
Additions arising from exchange of assets with certain unconsolidated investee companies (see Note 38(b)(iii))	71,379	–	–	–	–	–	–	–
Additions arising from consolidation of gasoline stations (see Note 38(b)(ii))	24,832	–	–	–	–	–	–	–
Disposals	(70,490)	–	(14,333)	(168,950)	(3,538)	(95,301)	(282,122)	(34,080)
End of year	9,212,792	213,776	1,457,502	7,240,201	102,119	500,461	9,514,059	1,149,305
Accumulated depreciation:								
Beginning of year	1,689,503	21,333	327,664	1,935,623	53,967	–	2,338,587	282,503
Reclassification	–	–	(58,443)	60,600	(2,157)	–	–	–
Provision for the year	656,520	4,115	94,654	700,499	12,694	–	811,962	98,084
Additions arising from exchange of assets with certain unconsolidated investee companies (see Note 38(b)(iii))	3,924	–	–	–	–	–	–	–
Additions arising from consolidation of gasoline stations (see Note 38(b)(ii))	1,166	–	–	–	–	–	–	–
Write-back on disposals	(12,526)	–	(1,919)	(149,190)	(2,463)	–	(153,572)	(18,549)
End of year	2,338,587	25,448	361,956	2,547,532	62,041	–	2,996,977	362,038
Net book value:								
End of year	6,874,205	188,328	1,095,546	4,692,669	40,078	500,461	6,517,082	787,267
Beginning of year	6,606,833	178,667	1,042,030	4,765,529	50,467	837,512	6,874,205	830,409

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4. PROPERTY, PLANT AND EQUIPMENT (Continued)

COMPANY

	1999	2000						
	Total	Land use rights	Buildings	Machinery and equipment	Motor vehicles	Construction-in-progress	Total	
	RMB'000 (Note 46)	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*US$'000*
Cost:								
Beginning of year	7,546,953	200,000	884,745	6,392,713	71,894	760,140	8,309,492	1,003,792
Reclassification	–	–	242,741	389,286	2,568	(645,974)	(11,379)	(1,374)
Additions	785,018	–	2,547	35,807	1,402	470,970	510,726	61,696
Additions arising from exchange of assets with certain unconsolidated investee companies (see Note 38(b)(iii))	71,379	–	–	–	–	–	–	–
Disposals	(93,858)	–	(11,414)	(160,749)	(2,446)	(95,301)	(269,910)	(32,606)
End of year	8,309,492	200,000	1,118,619	6,657,057	73,418	489,835	8,538,929	1,031,508
Accumulated depreciation:								
Beginning of year	1,487,400	21,333	204,039	1,804,796	41,875	–	2,072,043	250,304
Reclassification	–	–	(98,372)	98,372	–	–	–	–
Provision for the year	593,507	4,000	86,207	655,632	9,174	–	755,013	91,206
Additions arising from exchange of assets with certain unconsolidated investee companies (see Note 38(b)(iii))	3,924	–	–	–	–	–	–	–
Write-back on disposals	(12,788)	–	(1,425)	(145,046)	(1,716)	–	(148,187)	(17,901)
End of year	2,072,043	25,333	190,449	2,413,754	49,333	–	2,678,869	323,609
Net book value:								
End of year	6,237,449	174,667	928,170	4,243,303	24,085	489,835	5,860,060	707,899
Beginning of year	6,059,553	178,667	680,706	4,587,917	30,019	760,140	6,237,449	753,488

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4. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) The cost of exchanged assets was measured at the fair value of the assets received, which was equivalent to the fair value of the asset given up.

(b) The Group's land use rights were for a period of fifty years from June 1994 or January 1998 to June, 2044 or January 2048.

(c) Construction-in-progress

	Group			Company		
	1999	**2000**		1999	**2000**	
	RMB'000 (*Note 46*)	***RMB'000***	***US$'000***	*RMB'000* (*Note 46*)	***RMB'000***	***US$'000***
Costs of construction	747,359	**497,415**	**60,088**	669,987	**486,789**	**58,804**
Interest and other borrowing costs capitalised	90,153	**3,046**	**368**	90,153	**3,046**	**368**
	837,512	**500,461**	**60,456**	760,140	**489,835**	**59,172**
Average capitalisation rate of borrowing costs	7.82%	**6.52%**		7.82%	**6.52%**	

(d) The impairment change in 2000 amounting to approximately RMB95,301,000 (1999 – nil) represents the partial write-off of construction-in-progress costs to their recoverable amount based on estimates of their value in future use.

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5. INTANGIBLE ASSETS

GROUP AND COMPANY

	Technology know-how		
	1999	**2000**	
	RMB'000 *(Note 46)*	***RMB'000***	***US$'000***
Cost:			
Beginning of year	44,430	**44,430**	**5,367**
Additions	–	**11,379**	**1,375**
Disposal	–	**(5,406)**	**(653)**
End of year	44,430	**50,403**	**6,089**
Accumulated amortisation:			
Beginning of year	12,648	**16,731**	**2,021**
Provision for the year	4,083	**5,204**	**629**
Write-back on disposal	–	**(5,406)**	**(653)**
End of year	16,731	**16,529**	**1,997**
Net book value:			
End of year	27,699	**33,874**	**4,092**
Beginning of year	31,782	**27,699**	**3,346**

Technology know-how is amortised over the respective contract periods ranging from 5 years to 10 years.

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6. INVESTMENTS IN SUBSIDIARIES

COMPANY

	1999	2000	
	RMB'000	***RMB'000***	***US$'000***
	(Note 46)		
Unlisted investments, at cost	797,865	**762,127**	**92,065**
Share of post-acquisition profits less losses	263,897	**324,127**	**39,155**
Amounts due from consolidated subsidiaries	143,308	**169,691**	**20,499**
Amounts due to consolidated subsidiaries	(427,069)	**(504,045)**	**(60,889)**
	778,001	**751,900**	**90,830**

The Company's directors are of the opinion that the underlying value of the subsidiaries was not less than the Company's carrying value of the subsidiaries as of year ends.

Details of the Company's principal subsidiaries as of 31st December, 2000 were as follows:

Name of consolidated subsidiaries	Country of establishment and operations and date of establishment	Company's equity interest	Registered capital	Type of legal entity	Principal activities
Zhenhai Refining & Chemical Maintenance and Installation Co. (鎮海煉化檢修安裝工程公司)	PRC; 11th December, 1992	100% (directly held)	RMB26,132,000	Corporation (股份制)	Maintenance and installation of industrial equipment
Zhenhai Refining & Chemical Warehousing Co. (寧波經濟技術開發區鎮海煉化倉儲公司)	PRC; 8th April, 1993	100% (directly held)	RMB360,000,000	Corporation (股份制)	Warehousing services
Zhenhai Refining & Chemical Engineering Project Contract Co. (鎮海煉化工程公司, 原鎮海煉化工程承包公司)	PRC; 7th July, 1993	100% (directly held)	RMB50,000,000	Corporation (股份制)	Contractor for construction projects

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6. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of consolidated subsidiaries	Country of establishment and operations and date of establishment	Company's equity interest	Registered capital	Type of legal entity	Principal activities
Zhenhai Refining & Chemical Materials and Equipment Co. (鎮海煉化物資裝備公司)	PRC; 16th April, 1993	100% (directly held)	RMB245,000,000	Corporation (股份制)	Trading in construction materials and supplies
Zhenhai Refining & Chemical Haida Development Company (鎮海煉化海達發展公司)	PRC; 21st May, 1994	100% (directly held)	RMB34,730,000	Corporation (股份制)	Contract labour services, trading in daily necessities for employees of the Group and trading in petrochemical products
Zhenhai Refining & Chemical International Trading Co. Ltd. (寧波保稅區鎮海煉化國際貿易公司)	PRC; 18th March, 1993	100% (directly held)	RMB3,000,000	Corporation (股份制)	Import and export of petrochemical products
Ningbo Bonded Area Zhenhai Refining & Chemical Gasoline Stations Investment Company (寧波保稅區鎮海煉化油站投資有限責任公司，原寧波保稅區鎮海煉化銷售公司)	PRC; 14th October, 1998	100% (95% directly and 5% indirectly held)	RMB50,000,000	Corporation (股份制)	Wholesale and retail of petrochemical products and related warehousing services
Zhenhai Petrochemical Luotuo Engineering Development Company (鎮海煉化駱駝工程開發公司)	PRC; 10th April, 1994	100% (indirectly held)	RMB500,000	Collective enterprise (集體所有制)	Trading in construction materials and supplies
ZGP Pressure Container Examination and Maintenance Station (鎮海石化壓力容器檢驗站)	PRC; 11th June, 1993	100% (directly held)	RMB200,000	Collective enterprise (集體所有制)	Provision of examination and maintenance services

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6. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of consolidated subsidiaries	Country of establishment and operations and date of establishment	Company's equity interest	Registered capital	Type of legal entity	Principal activities
Zhenhai Refining & Chemical Dong Hai Hotel (鎮海煉化東海賓館)	PRC; 22nd November, 1995	100% (directly held)	RMB30,000,000	Corporation (股份制)	Provision of hotel and food service
Ningbo Daxie Development Area Jinchen Commercial Company (寧波大榭開發區金晨實業有限公司)	PRC; 3rd December, 1997	100% (90% directly and 10% indirectly held)	RMB10,000,000	Corporation (股份制)	Sales of petrochemical products, real estate development and warehousing services

7. INVESTMENTS IN ASSOCIATES

GROUP

	1999	2000	
	RMB'000 (Note 46)	***RMB'000***	***US$'000***
Unlisted investments, at cost	264,887	**258,265**	**31,199**
Share of post-acquisition profits less losses	21,776	**27,314**	**3,299**
	286,663	**285,579**	**34,498**

COMPANY

	1999	2000	
	RMB'000 (Note 46)	***RMB'000***	***US$'000***
Unlisted investments, at cost	142,806	**137,043**	**16,555**
Share of post-acquisition profits less losses	17,077	**19,053**	**2,302**
	159,883	**156,096**	**18,857**

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7. INVESTMENTS IN ASSOCIATES (Continued)

Details of the Company's principal associates were as follows:

Name of associates	Country of establishment and operations and date of establishment	Company's equity interest directly held	Registered capital	Type of legal entity	Principal activities
Xiamen Luyong Petroleum & Chemical Company Limited (廈門市鷺甬石油化工有限公司)	PRC; 26th February, 1985	49%	RMB31,900,000	State-owned associated (全民與全民聯營)	Trading in petroleum products
Zhuhai Gulf Petroleum & Chemical Company Limited (珠海市海灣石油化工有限公司)	PRC; 4th August, 1987	45%	RMB10,000,000	State-owned associated (全民與全民聯營)	Trading in petroleum and petrochemical products
Nantong Donghai Petroleum & Chemical Company (南通東海石化公司)	PRC; 30th July, 1992	50%	RMB40,000,000	State-owned associated (全民與全民聯營)	Trading in petroleumical products
Xiaoshan Donghai Petrochemical Associated Company (蕭山市東海石化聯營公司)	PRC 26th February, 1992	48.5%	RMB15,000,000	State-owned associated (全民與全民聯營)	Trading in petroleum products
Wenzhou Donghai Petroleum & Chemical Company Limited (溫州東海石油化工有限公司)	PRC; 15th July, 1997	45%	RMB13,000,000	State-owned associated (全民與全民聯營)	Trading in petroleumical products
Taizhou Donghai Petrochemical Business Joint Company (台州東海石化實業聯合公司)	PRC; 20th September, 1993	50%	RMB3,000,000	State-owned (全民所有制)	Trading in petroleum and petrochemical products
Ningbo Donghai Petroleum & Chemical Company Limited (寧波東海石油化工有限公司)	PRC; 23rd September, 1997	43%	RMB10,000,000	State-owned associated (全民與全民聯營)	Trading in petroleum and petrochemical products

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7. INVESTMENTS IN ASSOCIATES (Continued)

Name of associates	Country of establishment and operations and date of establishment	Company's equity interest directly held	Registered capital	Type of legal entity	Principal activities
Hai De Shipping Pte. Ltd. (海德船務有限責任公司)	Singapore; 10th December, 1993	40%	US$1,400,000	Private limited company (私人有限公司)	Shipping and transportation
Zhejiang Petroleum Products Pipage and Storage Co., Ltd. (浙江油品儲運有限公司)	PRC; 26th August, 1999	50%	RMB60,000,000	State-owned associated (全民與全民聯營)	Pipage and storage of petroleum products
Ningbo Donghai Compound Fertiliser Co., Ltd. (寧波東海複合肥有限公司)	PRC; 30th October, 1999	45%	US$6,750,000	Sino-foreign joint venture (中外合資經營)	Production, sale of compound fertiliser and providing related agricultural services

8. OTHER LONG-TERM INVESTMENTS

GROUP

	1999	2000	
	RMB'000 (Note 46)	***RMB'000***	***US$'000***
Investments in unlisted shares at cost	174,508	**173,508**	**20,959**
Less: Provision for impairment in value	–	**(10,360)**	**(1,251)**
	174,508	**163,148**	**19,708**

COMPANY

	1999	2000	
	RMB'000 (Note 46)	***RMB'000***	***US$'000***
Investments in unlisted shares at cost	174,208	**173,208**	**20,922**
Less: Provision for impairment in value	–	**(10,360)**	**(1,251)**
	174,208	**162,848**	**19,671**

Investments in unlisted shares represent investments in PRC incorporated companies of not more than 20 per cent of their paid-up capital.

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9. OTHER LONG-TERM RECEIVABLES

GROUP AND COMPANY

	1999	2000	
	RMB'000 (Note 46)	***RMB'000***	***US$'000***
Deposits with real estate companies			
– construction fee paid on behalf of employees for housing	61,593	**59,787**	**7,222**
Deposits	46,200	**39,600**	**4,784**
	107,793	**99,387**	**12,006**

The Group, on behalf of its employees, paid deposits to several real estate companies for construction of houses which will be sold by the real estate companies to the Group's employees.

All balances were unsecured, interest free and repayable beyond one year after the balance sheet dates.

10. INVENTORIES

GROUP

	1999	2000	
	RMB'000 (Note 46)	***RMB'000***	***US$'000***
Raw materials	265,244	**812,819**	**98,189**
Work-in-process	148,041	**259,591**	**31,359**
Finished goods	323,323	**334,495**	**40,407**
Spare parts and consumables	96,181	**118,610**	**14,328**
	832,789	**1,525,515**	**184,283**

COMPANY

	1999	2000	
	RMB'000 (Note 46)	***RMB'000***	***US$'000***
Raw materials	265,244	**812,819**	**98,189**
Work-in-process	148,041	**259,591**	**31,359**
Finished goods	323,323	**334,495**	**40,407**
Spare parts and consumables	9,102	**12,117**	**1,464**
	745,710	**1,419,022**	**171,419**

Out of the total as of 31st December, 2000, inventories of approximately RMB483,402,000 (1999 – RMB82,223,000) are stated at net realisable value.

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11. TRADE RECEIVABLES, NET

GROUP

	1999	2000	
	RMB'000 *(Note 46)*	***RMB'000***	***US$'000***
Accounts receivable	124,828	**170,646**	**20,614**
Notes receivable	2,300	**47,110**	**5,691**
	127,128	**217,756**	**26,305**
Less: Provision for doubtful accounts	(3,711)	**(4,942)**	**(597)**
	123,417	**212,814**	**25,708**

COMPANY

	1999	2000	
	RMB'000 *(Note 46)*	***RMB'000***	***US$'000***
Accounts receivable	117,337	**165,774**	**20,025**
Notes receivable	1,900	**46,590**	**5,628**
	119,237	**212,364**	**25,653**
Less: Provision for doubtful accounts	(2,048)	**(3,231)**	**(389)**
	117,189	**209,133**	**25,264**

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11. TRADE RECEIVABLES, NET (Continued)

Ageing analysis of accounts receivable was as follows:

GROUP

	1999	2000	
	RMB'000 *(Note 46)*	***RMB'000***	***US$'000***
Ageing			
– not exceeding one year	119,360	**210,155**	**25,387**
– more than one year but not exceeding two years	3,432	**1,967**	**237**
– more than two years but not exceeding three years	2,718	**3,351**	**405**
– more than three years	1,618	**2,283**	**276**
	127,128	**217,756**	**26,305**

COMPANY

	1999	2000	
	RMB'000 *(Note 46)*	***RMB'000***	***US$'000***
Ageing			
– not exceeding one year	114,705	**206,361**	**24,928**
– more than one year but not exceeding two years	3,432	**1,967**	**237**
– more than two years but not exceeding three years	1,100	**3,351**	**405**
– more than three years	–	**685**	**83**
	119,237	**212,364**	**25,653**

Provisions are made for long ageing and doubtful debts based on reviews of the status of individual accounts receivable outstanding.

12. DUE FROM ASSOCIATES

The amount due from associates arose from ordinary business transactions, generally with a credit period of one month, and were unsecured and non-interest bearing.

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13. DUE FROM/TO AFFILIATED COMPANIES

Affiliated companies refer to enterprises under the direct supervision of Sinopec (see Note 39).

Included in the amount due from affiliated companies as of 31st December, 2000 was an outstanding loan made to an affiliated company via an authorised finance company under Sinopec amounting to RMB20,000,000 (1999 – RMB20,000,000) which bears interest at 6.21 per cent per annum (1999 – 6.21 per cent per annum) and is repayable on 19th June, 2001.

Other than the loan to an affiliated company as mentioned above, the amounts due from/to affiliated companies arose from ordinary business transactions, generally with a credit period of one month, and were unsecured and non-interest bearing.

14. DUE FROM/TO PARENT COMPANY

The amount due from/to parent company (Sinopec) arose from ordinary business transactions, and was unsecured, non-interest bearing and repayable on demand.

15. PREPAYMENTS AND DEPOSITS

GROUP

	1999	2000	
	RMB'000 *(Note 46)*	***RMB'000***	***US$'000***
Advances to suppliers	6,830	**4,494**	**543**
Deposits	82,250	**–**	**–**
	89,080	**4,494**	**543**

COMPANY

	1999	2000	
	RMB'000 *(Note 46)*	***RMB'000***	***US$'000***
Advances to suppliers	–	**126**	**15**
Deposits	82,250	**–**	**–**
	82,250	**126**	**15**

As of 31st December, 1999, deposits of approximately RMB82,250,000 were deposits placed with PRC customs as security made for import of crude oil.

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16. OTHER RECEIVABLES, NET

GROUP

	1999	2000	
	RMB'000 (Note 46)	RMB'000	US$'000
Input VAT refund	–	96,385	11,643
Deposits with real estate companies – construction fee paid on behalf of employees for housing	–	61,852	7,472
Deposits	6,600	6,600	797
Interest receivable	2,807	4,130	499
Others	77,456	39,994	4,831
	86,863	208,961	25,242
Less: Provision for doubtful accounts	–	(15,000)	(1,812)
	86,863	193,961	23,430

COMPANY

	1999	2000	
	RMB'000 (Note 46)	RMB'000	US$'000
Input VAT refund	–	96,385	11,643
Deposits with real estate companies – construction fee paid on behalf of employees for housing	–	61,852	7,472
Deposits	6,600	6,600	797
Interest receivable	2,807	4,130	499
Others	32,629	31,133	3,761
	42,036	200,100	24,172
Less: Provision for doubtful accounts	–	(15,000)	(1,812)
	42,036	185,100	22,360

The Group, on behalf of its employees, paid deposits to several real estate companies for construction of houses which will be sold by the real estate companies to the Group's employees.

Interest receivable represented interest income accrued on time deposits placed with banks.

All balances were unsecured, interest free and repayable within one year.

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17. CASH AT BANKS AND ON HAND

GROUP

	1999	2000	
	RMB'000	***RMB'000***	***US$'000***
	(Note 46)		
Cash on hand	27	**25**	**3**
Demand deposits	434,369	**928,355**	**112,146**
Cash at banks for specific purposes			
– Payment of taxes, letters of credit, etc.	52,941	**152,221**	**18,388**
– Housing fund (see Note (a))	23,235	**29,312**	**3,541**
– Staff quarters management fund (see Note (b))	17,644	**19,004**	**2,296**
– Housing reserve (see Note (c))	92,699	**129,547**	**15,649**
	620,915	**1,258,464**	**152,023**
Time deposits with a maturity over three months (see Note (d))	882,808	**40,000**	**4,832**
Time deposits with a maturity within three months (see Note (d))	–	**819,532**	**99,000**
	1,503,723	**2,117,996**	**255,855**

COMPANY

	1999	2000	
	RMB'000	***RMB'000***	***US$'000***
	(Note 46)		
Cash on hand	8	**8**	**1**
Demand deposits	417,253	**919,253**	**111,047**
Cash at banks for specific purposes			
– Payment of taxes, letters of credit, etc.	52,941	**151,492**	**18,300**
– Housing fund (see Note (a))	23,236	**29,312**	**3,541**
– Staff quarters management fund (see Note (b))	17,644	**19,004**	**2,296**
– Housing reserve (see Note (c))	92,699	**129,547**	**15,649**
	603,781	**1,248,616**	**150,834**
Time deposits with a maturity over three months (see Note (d))	882,808	**40,000**	**4,832**
Time deposits with a maturity within three months (see Note (d))	–	**819,532**	**99,000**
	1,486,589	**2,108,148**	**254,666**

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17. CASH AT BANKS AND ON HAND (Continued)

(a) Housing Fund（住房基金）

Housing Fund represents proceeds from sale of staff quarters. It could only be used for approved construction of staff quarters by the district's Housing Fund Management Centre as stipulated by the local government regulations.

(b) Staff Quarters Management Fund（住房維修清理衛生基金）

Staff Quarters Management Fund is appropriated based on 35 per cent of the proceeds from the sale of staff quarters. It could only be used for the management of the staff quarters as stipulated by local government regulations.

The corresponding liabilities are included in the other non-current liabilities (see Note 21).

(c) Housing Reserve（住房公積金）

Housing Reserve relates to bank balances held in trust for the Group's employees which will be utilised upon the purchase of housing quarters by the employees. The Group makes allocations to this reserve based on 20 per cent of employee's basic salary (12 per cent prior to 1st July, 2000 borne equally by the employees and the Company), out of which 10 per cent is borne by the Company with the remaining 10 per cent borne by the employees themselves as stipulated by government regulations. The bank balances have to be returned to the relevant employees, if unutilised, upon their retirement. The Company does not bear the interest rate risk of the bank balances.

The corresponding liabilities are included in other non-current liabilities (see Note 21).

(d) As of 31st December, 2000, the Group's USD time deposit with RMB equivalent of RMB819,532,000 (1999: RMB822,808,000) represents unutilised funds raised from issuance of convertible bonds. The funds could only be used for designated expansion projects of the Group.

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18. SHARE CAPITAL

GROUP AND COMPANY

The details of share capital were as follows:

	1999		2000		
	No. of shares '000	RMB'000	No. of shares '000	RMB'000	US$'000
Authorised	3,181,000	3,181,000	3,181,000	3,181,000	384,267
Issued and fully paid					
State-owned shares with a par value of RMB1.00 each	1,800,000	1,800,000	1,800,000	1,800,000	217,441
H shares with a par value of RMB1.00 each	723,755	723,755	723,755	723,755	87,430
	2,523,755	2,523,755	2,523,755	2,523,755	304,871

The special renminbi-denominated shares listed on The Stock Exchange of Hong Kong Limited (commonly referred to as "H shares") of the Company were listed on The Stock Exchange of Hong Kong Limited on 2nd December, 1994. State-owned shares and the H shares rank pari passu in all respects, except that ownership of the state-owned shares are restricted to PRC nationals and legal persons, while the H shares can only be owned and traded by overseas investors. Dividends on the state-owned shares are payable in RMB, while dividends on the H shares are payable in Hong Kong dollars ("HK$").

19. RESERVES

(a) In accordance with the provisions of the Company's articles of association, the Company shall record the following as capital reserve (i) share premium arising from the issue of shares in excess of par value; (ii) subsidies; (iii) surpluses arising from revaluation of assets; (iv) other items in accordance with the Company's articles of association and relevant regulations in the PRC. Capital reserve can be utilised to offset prior years' losses or for issuance of bonus shares.

(b) Statutory reserves（盈餘公積）include statutory surplus reserve（"SSR",法定盈餘公積）and statutory public welfare fund（"PWF",法定公益金）, both of which were appropriated from the Company's statutory after-tax profit.

In accordance with the PRC Company Law, the Company is required to appropriate 10 per cent of its statutory after-tax profit (after offsetting any prior years' losses) to the SSR until the balance of SSR reaches 50 per cent of the Company's share capital and thereafter any further appropriation is optional. SSR can be utilised to offset prior years' losses or for issuance of bonus shares. However, such SSR shall be maintained at a minimum of 25 per cent of share capital after such issuance.

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19. RESERVES (Continued)

In accordance with the provisions of the Company's articles of association, the Company shall appropriate 5 to 10 per cent of its statutory after-tax profit to the PWF. PWF shall be utilised for collective staff benefits such as building of staff quarters or housing. No distribution of the fund shall be made other than on liquidation of the Company.

Furthermore, pursuant to the Notice [1995] 31 issued by MOF on 24th August, 1995, provisions of SSR and PWF should be based on after-tax profit determined in accordance with PRC accounting standards and regulations.

(c) The appropriation of profit to discretionary surplus reserve（任意公積）is made in accordance with the Company's articles of association and the recommendation of the Board of Directors and is subject to approval by shareholders at general meetings.

(d) Unappropriated profits are to be carried forward for future distribution. The distribution of unappropriated profits/dividends is made in accordance with the Company's articles of association and the recommendation of the Board of Directors and is subject to approval by shareholders in general meetings. Pursuant to the Notice [1995] 31 issued by MOF on 24th August, 1995, the amount of profit available for distribution to the shareholders will be determined based on the lower of unappropriated profits determined in accordance with (i) PRC accounting standards and regulations, and (ii) IAS or Hong Kong Statement of Standard Accounting Practice.

As of 31st December, 2000, the reserve available for distribution was approximately RMB311,918,000 (1999 – RMB118,396,000) before taking into account the current year's proposed final dividend.

(e) Pursuant to an article published by the Accounting Department of MOF, provisions of SSR and PWF should be provided by the individual legal entities respectively, and the provisions of SSR and PWF presented in the consolidated financial statement of the Group should reflect the total of the provisions presented in the individual financial statements of the Company and its subsidiaries. Thus, the Group made reclassification between SSR, PWF and discretionary surplus reserve to conform to the requirement.

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19. RESERVES (Continued)

Analysis of the appropriations to statutory reserves and discretionary surplus reserve in the statutory accounts prepared under "The Accounting Standards for Business Enterprises" and "The Accounting Regulations for Joint Stock Enterprises" of the PRC ("Statutory Accounts") and the financial statements prepared under IAS is as follows:

	Statutory Accounts	Financial statements under IAS
	RMB'000	*RMB'000*
Net profit	442,581	420,777
Transfer to SSR	(54,073)	(54,073)
Transfer to PWF	(54,073)	(54,073)
Distributable profit attributable to shareholders	334,435	312,631
Unappropriated profits, beginning of year (see Note 2)	30,063	579,678
Total distributable profit	364,498	892,309
Appropriation of profit to discretionary surplus reserve	(14,723)	(331,535)
Dividends	(126,188)	(126,188)
Unappropriated profits, end of year	223,587	434,586

The reconciliation of the Group's net profit and net assets as reported under Statutory Accounts and financial statements prepared under IAS is as follows:

	Net profit for the year ended 31st December, 2000	Net assets as at 31st December, 2000
	RMB'000	*RMB'000*
As reported in the Statutory Accounts of the Group	442,581	7,386,140
Deficit of housing fund shown as a debit balance in liabilities under PRC GAAP but should be charged to profit and loss account under IAS	15,195	(87,385)
Overhaul expense using accrual in advance method under PRC GAAP but expense as incurred method under IAS (see Note 2)	(52,770)	20,000
Provision for dividends declared after balance sheet under PRC GAAP but reversed under IAS (see Note 2)	–	88,332
Deferred tax	9,114	1,079
Others	6,657	42,596
As reported in financial statements prepared under IAS	420,777	7,450,762

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20. LONG-TERM LOANS

GROUP AND COMPANY

	2000		
	Maturity dates	***RMB'000***	***US$'000***
Bank loans			
Amounts repayable within a period			
– not exceeding one year	**2001.1.24-2001.10.29**	**52,743**	**6,371**
– between one and two years	**2002.6.18-2002.8.30**	**200,000**	**24,160**
– between two and five years	**2003.4.1-2004.6.29**	**565,000**	**68,253**
		817,743	**98,784**
Less: Amounts repayable within one year included under current liabilities		**(52,743)**	**(6,371)**
Non-current portion		**765,000**	**92,413**

	1999				
	Bank loans		**Other loans**		**Total**
	Maturity dates	RMB'000	Maturity dates	*RMB'000*	*RMB'000 (Note 46)*
Amounts repayable within a period					
– not exceeding one year	Within 2000	1,348	Within 2000	23,062	24,410
– between one and two years	2001.10.29	50,000	Within 2001	20,487	70,487
– between two and five years	2002.6.18-2004.6.29	715,000	Within 2003	1,707	716,707
		766,348		45,256	811,604
Less: Amounts repayable within one year included under current liabilities		(1,348)		(23,062)	(24,410)
Non-current portion		765,000		22,194	787,194

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20. LONG-TERM LOANS (Continued)

(a) All the long-term loans as of 31st December, 2000 and 1999 were denominated in RMB.

(b) Bank loans of approximately RMB600,000,000 (1999 – RMB600,000,000) as of 31st December, 2000 were guaranteed by Sinopec while other bank loans were unsecured. Bank loans bore interest at rates ranging from 5.94 per cent to 6.21 per cent per annum (1999 – 6.00 per cent to 7.56 per cent per annum).

(c) Other loans as of 31st December, 1999 represented unsecured loans granted by customers. These loans bore lower than market interest rates and, in return, the Company was obligated to sell a designated quantity of its products to these customers at market price over a designated period of time. They were fully repaid during the year ended 31st December, 2000.

21. OTHER NON-CURRENT LIABILITIES

GROUP AND COMPANY

	1999	2000	
	RMB'000 (*Note 46*)	***RMB'000***	***US$'000***
Housing reserve (see Note 17(c))	95,319	**134,592**	**16,259**
Staff quarters management fund (see Note 17(b))	–	**19,004**	**2,296**
Other	9,431	**19,687**	**2,378**
	104,750	**173,283**	**20,933**

All balances were unsecured and interest free.

22. CONVERTIBLE BONDS

GROUP AND COMPANY

(a) On 19th December, 1996, the Company issued unsecured convertible bonds (the "Bonds") amounting to US$200,000,000. The Bonds bear interest at a rate of 3 per cent per annum payable in arrears on 19th December in each year. The Bonds will be redeemed at par on 19th December, 2003 unless previously converted or redeemed (see below). So long as any amount of the Bonds remain outstanding, the Company cannot create any form of encumbrance on its assets or revenue without approval of the Bond holders or their trustee. The bonds are convertible, at the option of the holders, during the period from 19th January, 1997 to 19th December, 2003, into H shares at a price of HK$2.80 per share (subject to adjustment) and a predetermined exchange rate of HK$7.735 to US$1.00.

During the years ended 31st December, 2000 and 1999, no Bonds were converted into H shares.

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22. CONVERTIBLE BONDS (Continued)

The Company may, subject to certain conditions, redeem the bonds, in whole but not in part, at any time on or after 19th December, 1999, at their principal amount, together with accrued interest to the date of redemption. Interest is accrued at an annual rate of 6.99%. The holders of the Bonds may ask the Company to redeem the Bonds, at their option on 19th December, 2001, in whole or in part, at a 122.94 per cent of the principal amount of such Bonds together with accrued interest to the date of redemption. In addition, in the event of future changes relating to taxation, the Company may, subject to certain conditions, redeem the Bonds in whole but not in part, at any time according to pre-determined formula.

(b) Analysis of changes in convertible bonds

	1999	2000	
	RMB'000	***RMB'000***	***US$'000***
	(Note 46)		
Beginning of year	1,390,734	**1,451,061**	**175,289**
Accrued interest	98,874	**102,821**	**12,421**
Interest paid	(38,547)	**(38,541)**	**(4,656)**
End of year	1,451,061	**1,515,341**	**183,054**

23. DEFERRED TAX ASSETS (LIABILITIES)

Components of deferred tax assets (liabilities) are as follows:

GROUP

	1999	Origination of temporary differences	Reversal of temporary differences	2000	
	RMB'000	*RMB'000*	*RMB'000*	***RMB'000***	***US$'000***
	(Note 46)				
Overhaul expenses accrued in advance under PRC GAAP	(24,015)	–	17,415	**(6,600)**	**(797)**
Difference between tax base and accounting base of property, plant and equipment	15,979	–	(8,300)	**7,679**	**928**
Provisions for doubtful debts, inventory net realisable value and impairment in value of long-term investments	–	30,719	–	**30,719**	**3,710**
	(8,036)	30,719	9,115	**31,798**	**3,841**

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23. DEFERRED TAX ASSETS (LIABILITIES) (Continued)

COMPANY

	1999	Origination of temporary differences	Reversal of temporary differences	2000	
	RMB'000 (*Note 46*)	*RMB'000*	*RMB'000*	***RMB'000***	***US$'000***
Overhaul expenses accrued in advance under PRC GAAP	(22,460)	–	15,860	**(6,600)**	**(797)**
Difference between tax base and accounting base of property, plant and equipment	15,979	–	(8,300)	**7,679**	**928**
Provisions for doubtful debts, inventory net realisable value and impairment in value of long-term investments	–	30,719	–	**30,719**	**3,710**
	(6,481)	30,719	7,560	**31,798**	**3,841**

24. SHORT-TERM BANK LOANS

GROUP AND COMPANY

As of 31st December, 1999, short-term bank loans were all denominated in RMB, unsecured, and bore interest at rates 5.58 per cent per annum.

25. TRADE PAYABLES

The Group's and the Company's trade payables are all with ageing less than one year.

26. TAXES PAYABLE

GROUP

	1999	2000	
	RMB'000 (*Note 46*)	***RMB'000***	***US$'000***
Consumption tax payable	159,292	**222,429**	**26,870**
VAT payable	183,799	**160,534**	**19,393**
EIT payabl	20,164	**95,942**	**11,590**
City development tax payable	25,557	**14,429**	**1,743**
Education supplementary tax payable	15,002	**3,488**	**421**
Business tax payable	3,872	**2,595**	**313**
Others	1,836	**1,905**	**230**
	409,522	**501,322**	**60,560**

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26. TAXES PAYABLE (Continued)

COMPANY

	1999	2000	
	RMB'000 (Note 46)	***RMB'000***	***US$'000***
Consumption tax payable	159,292	**222,429**	**26,870**
VAT payable	178,323	**159,715**	**19,294**
EIT payable	7,423	**88,778**	**10,724**
City development tax payable	25,193	**14,216**	**1,717**
Education supplementary tax payable	14,396	**3,314**	**400**
Business tax payable	203	**87**	**11**
Others	2,150	**1,738**	**209**
	386,980	**490,277**	**59,225**

27. ACCRUALS AND OTHER PAYABLES

GROUP

	1999	2000	
	RMB'000 (Note 46)	***RMB'000***	***US$'000***
Accrued port charges	38,910	**111,313**	**13,447**
Accrued staff salary	101,248	**92,152**	**11,132**
Accrued employee bonus	30,454	**66,763**	**8,065**
Accrued staff welfare	54,826	**53,502**	**6,463**
Advances from customers	33,025	**41,583**	**5,023**
Accrued interest expense	–	**163**	**20**
Others	52,664	**60,725**	**7,335**
	311,127	**426,201**	**51,485**

COMPANY

	1999	2000	
	RMB'000 (Note 46)	***RMB'000***	***US$'000***
Accrued port charges	38,910	**111,313**	**13,447**
Accrued employee bonus	22,062	**44,992**	**5,435**
Accrued staff welfare	44,533	**40,581**	**4,902**
Accrued staff salary	49,666	**32,933**	**3,978**
Advances from customers	21,477	**15,903**	**1,921**
Accrued interest expense	–	**163**	**20**
Others	30,709	**39,557**	**4,782**
	207,357	**285,442**	**34,485**

Accrued staff welfare（職工福利）is made according to 14 per cent (1999 – 14 per cent) of employee salary in accordance with the government regulations.

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28. REVENUE

Revenue comprised:

	1999	2000	
	RMB'000 *(Note 46)*	***RMB'000***	***US$'000***
Sales of goods	11,015,102	**21,689,964**	**2,620,162**
Rendering of services	58,631	**51,515**	**6,223**
Interest income			
– Bank deposits	45,105	**47,232**	**5,706**
– Others	1,539	**1,204**	**145**
Dividend income from other investments	18,971	**5,629**	**680**
	11,139,348	**21,795,544**	**2,632,916**

During the year ended 31st December, 2000, approximately 63.62 per cent (1999 – 52.24 per cent) of the Group's sales were made to five major customers.

29. FINANCE COST

	1999	2000	
	RMB'000 *(Note 46)*	***RMB'000***	***US$'000***
Interest income on			
– Bank deposit	45,105	**47,232**	**5,706**
– Others	1,539	**1,204**	**145**
	46,644	**48,436**	**5,851**
Interest expense on			
– Bank borrowings wholly repayable within five years	64,534	**60,123**	**7,263**
– Other borrowings wholly repayable within five years	3,299	**–**	**–**
– Convertible bonds	98,781	**102,821**	**12,421**
Less: Amount capitalised as construction-in-progress	(60,459)	**(4,952)**	**(598)**
	106,155	**157,992**	**19,086**
	(59,511)	**(109,556)**	**(13,235)**

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30. PROFIT BEFORE TAX

Profit before tax in the consolidated income statements was determined after charging or crediting the following items:

	1999	2000	
	RMB'000 (*Note 46*)	***RMB'000***	***US$'000***
After charging			
Cost of inventories	8,881,292	**19,549,547**	**2,361,598**
Depreciation of property, plant and equipment, net of change in the amount of depreciation inventoried	655,527	**811,962**	**98,084**
Amortisation of intangible assets, net of change in the amount of amortisation inventorised	4,083	**5,204**	**629**
Net loss on disposals of property, plant and equipment	11,089	**22,733**	**2,746**
Loss on impairment of property, plant and equipment	–	**95,301**	**11,513**
Net loss on disposal of long-term investments	–	**4,232**	**511**
Repair and maintenance expenses, net of change in the amount of repair and maintenance expenses inventorised	294,248	**224,243**	**27,089**
Research and development expenditures	56,324	**44,242**	**5,345**
Staff costs			
– Salaries and wages	157,403	**189,637**	**22,908**
– Contribution to pension scheme (see Note 33)	67,893	**75,057**	**9,067**
– Provision for staff welfare and bonus	193,161	**261,648**	**31,607**
– Net loss on sale of staff quarters (see Note 32)	29,289	**–**	**–**
(Reversal of) Provision for bad and doubtful debts	(3,654)	**16,231**	**1,961**
Provision for impairment in value of long-term investments	–	**10,360**	**1,251**
Exchange loss	2,027	**4,596**	**555**
Auditors' remuneration	2,898	**3,063**	**370**

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30. PROFIT BEFORE TAX (Continued)

	1999	2000	
	RMB'000 *(Note 46)*	***RMB'000***	***US$'000***
After crediting			
Investment income			
– Share of profits and losses of associates	17,266	**21,219**	**2,563**
– Dividend income from other long-term investments	18,971	**5,629**	**680**
Exchange gain	587	**776**	**94**

31. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Directors' emoluments:

	1999	2000	
	RMB'000 *(Note 46)*	***RMB'000***	***US$'000***
Basic salaries, allowances and benefits in kind	350	**232**	**28**
Bonus *	319	**766**	**93**
Pension	123	**93**	**11**
	792	**1,091**	**132**

* *Bonus is discretionary in nature.*

For the year ended 31st December, 2000, the above emoluments were paid to 7 directors (1999 – 12), each of these individuals received less than RMB1,060,600 (equivalent of HK$1,000,000). No directors waived any emoluments during the year. No emoluments were paid to the directors as inducement to join the Group or as compensation for loss of office.

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31. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Continued)

(b) Supervisors' emoluments:

	1999	2000	
	RMB'000 *(Note 46)*	***RMB'000***	***US$'000***
Basic salaries, allowances and benefits in kind	124	**85**	**10**
Bonus *	130	**225**	**27**
Pension	53	**36**	**4**
	307	**346**	**41**

* *Bonus is discretionary in nature.*

For the year ended 31st December, 2000, the above emoluments were paid to 3 supervisors (1999 – 5), each of these individuals received less than RMB1,060,600 (equivalent of HK$1,000,000). No supervisors waived any emoluments during the year. No emoluments were paid to the supervisors as inducement to join the Group or as compensation for loss of office.

(c) Senior executives' emoluments:

The amount of emoluments paid to the 5 highest paid individuals (including directors and other employees) were:

	1999	2000	
	RMB'000 *(Note 46)*	***RMB'000***	***US$'000***
Basic salaries, allowances and benefits in kind	157	**170**	**21**
Bonus *	139	**565**	**68**
Pension	55	**68**	**8**
	351	**803**	**97**

* *Bonus is discretionary in nature.*

For the year ended 31st December, 2000, the 5 highest-paid individuals of the Group included 2 directors (1999 – 5), whose emoluments had been included in Note (a) above. No emoluments were paid to the 5 highest-paid individuals as inducement to join the Group or as compensation for loss of office.

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32. SALE OF STAFF QUARTERS

Pursuant to the "Ningbo Municipal Residential Housing Reformative Scheme" issued by Ningbo Municipal People's Government, the Company has set up a scheme for selling staff quarters to the Company's staff. Under the scheme, the Company has to sell its existing staff quarters at preferential prices to the staff who are willing to buy. During the year ended 31st December, 1999, the Group incurred a loss of approximately RMB29,289,000 on sale of staff quarters.

The proceeds from sale of staff quarters have been included in cash at banks for specific purposes (see Note 17(a)).

33. PENSION SCHEME

The Group participates in the central pension fund scheme set up and managed by the Ningbo Labour Insurance Administration Department. The Group makes monthly contribution to the scheme based on 20 per cent of the total salary and bonus of its employees. The fund will be responsible for the entire pension obligations payable to retired employees. During the year ended 31st December, 2000, the Group contributed to the central pension fund scheme of approximately RMB75,057,000 (1999 – RMB67,893,000).

34. TAXATION

(a) Enterprise Income Tax（企業所得稅）

Individual companies within the Group are generally subject to Enterprise Income Tax ("EIT") at 33 per cent on taxable income determined according to the PRC tax laws. Pursuant to the relevant tax regulations, the Company is eligible to certain EIT preferential treatments because of its recycling of certain wasted materials. The amount of the reduced EIT was RMB32,028,000 (1999 – 19,975,000).

In addition, prior to 2000, some of the subsidiaries of the Group registered in Ningbo Bonded Area, Ningbo Economic & Technology Development Zone, Zhenhai Technology Development Zone and Ningbo Daxie Development Area, which together contributed less than 7 per cent of the consolidated profit during the year ended 31st December, 1999, were granted partial refund of EIT, Value-Added Tax and Business Tax as a local subsidy. However, according to Circular Guofa (2000)2 issued in January 2000, effective 1st January, 2000, the above refund would require approval from the State authority for which the Group has yet to obtain. Hence, the said benefits may cease to be available to the Group effective 1st January, 2000. As of the date of approval of these financial statements, the Group has not received any formal document from the relevant government authorities concerning the termination of the above-mentioned refund. During the year ended 31st December, 2000, the Group received such refund in relation to 1999 in the amount of RMB14,763,000 (1999 – RMB25,048,000), and recorded RMB9,452,000 (1999 – RMB19,511,000) as reduction to EIT of the period and RMB5,311,000 (1999 – RMB5,537,000) as subsidy income.

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34. TAXATION (Continued)

(a) Enterprise Income Tax（企業所得稅）(Continued)

The Group was not subject to Hong Kong profits tax as the Group did not earn any profit that was subject to Hong Kong profits tax.

Details of taxation charged during the year are as follows:

	1999	2000	
	RMB'000 (Note 46)	***RMB'000***	***US$'000***
Current income tax	260,604	**188,736**	**22,799**
Deferred tax credit relating to change in accounting policy on overhaul expenses	(18,347)	**(17,415)**	**(2,104)**
Deferred tax expense (credit) relating to the origination and reversal of temporary differences			
– Difference between tax base and accounting base of property, plant and equipment	4,538	**8,300**	**1,002**
– Provisions for doubtful debts, inventory net realisable value and impairment in value of long-term investments	–	**(30,719)**	**(3,710)**
Share of tax of associates	2,100	**5,925**	**716**
	248,895	**154,827**	**18,703**

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34. TAXATION (Continued)

(a) Enterprise Income Tax (企業所得稅) (Continued)

The reconciliation of the effective tax rate to the statutory tax rate is as follows:

	1999		2000		
	RMB'000 *(Note 46)*		***RMB'000***	***US$'000***	
Accounting profit	811,781	100%	**575,604**	**69,533**	**100%**
Tax at the applicable tax rate of 33% (1999 – 33%) (see Note)	267,888	33%	**189,949**	**22,946**	**33%**
Tax effect of expenses that are not deductible in determining taxable profit:					
– Loss on allocation of staff quarters	13,453	2%	**–**	**–**	**–**
– Salaries in excess of tax allowable limit	11,081	1%	**14,904**	**1,800**	**3%**
– Others	–	–	**(11,286)**	**(1,363)**	**(2%)**
Tax effect of income that are not taxable in determining taxable profit:					
– Investment income	(6,260)	(1%)	**(342)**	**(41)**	**–**
Tax losses of subsidiaries	2,888	–	**808**	**98**	**–**
Reduction of income tax due to preferential treatments (see Note (a) above)	(19,975)	(2%)	**(32,028)**	**(3,869)**	**(5%)**
Income tax refund (see Note (a) above)	(19,511)	(2%)	**(9,452)**	**(1,142)**	**(2%)**
Effect of different tax rates of certain associates and subsidiaries	(3,598)	–	**1,008**	**122**	**–**
Others	2,929	–	**1,266**	**152**	**–**
Tax expense	248,895	31%	**154,827**	**18,703**	**27%**

Note: The applicable tax rate is the aggregate of the national income tax rate of 30% (1999 – 30%) and the local income tax rate of 3% (1999 – 3%).

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34. TAXATION (Continued)

(b) Value-Added Tax（增值税）

The Group is subject to Value-Added Tax ("VAT") on its sales, which is levied at 17 per cent on the gross turnover upon sales. Input VAT paid on purchasing of raw materials, semi-finished products, etc. can be used to offset the VAT payable on sales.

(c) Business Tax（營業税）

Some of the subsidiaries of the Group are subject to business tax at 3 per cent to 5 per cent on their service revenue.

(d) Consumption Tax（消費税）

Consumption tax is levied on gasoline and diesel oil sold at a rate of RMB277.6 and RMB117.6 per tonne, respectively.

(e) Surtaxes（附加税）

The Group is subject to city development tax and education supplementary tax at 7 per cent and 4 per cent on turnover taxes respectively.

35. NET PROFIT

The consolidated net profit included a profit of approximately RMB331,463,000 (1999 – RMB482,887,000) dealt with in the financial statements of the Company before accounting for the results of subsidiaries and associates using the equity method of accounting.

36. DIVIDENDS

Dividend comprised:

	1999	2000	
	RMB'000 (Note 46)	***RMB'000***	***US$'000***
Prior year's final cash dividend – RMB0.035 (1999 – RMB0.03) per share	75,713	**88,332**	**10,671**
Interim cash dividend paid – RMB0.015 (1999 – RMB0.02) per share	50,475	**37,856**	**4,573**
	126,188	**126,188**	**15,244**

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36. DIVIDENDS (Continued)

Dividends are declared based on the Company's distributable profit which is determined as the lower of the unappropriated profits calculated according to the PRC accounting standards and regulations as reported in the statutory financial statements in the PRC and the unappropriated profits calculated according to IAS (see Note 19).

37. EARNINGS PER SHARE

The calculation of basic earnings per share was based on consolidated net profit of approximately RMB420,777,000 (1999 – RMB562,886,000) and on the weighted average number of 2,523,754,468 shares (1999 – 2,523,754,468 shares) in issue during the year.

The calculation of diluted earnings per share was based on adjusted consolidated net profit of approximately RMB488,277,000 (1999 – RMB629,069,000) on the assumption that all convertible bonds were converted on 1st January, 2000 and on the weighted average number of approximately 2,952,500,000 shares (1999 – 2,952,500,000 shares) deemed to have been in issue during the year.

Reconciliation of number of ordinary shares for calculation of basic and diluted earnings per share:

	1999	**2000**
Weighted average number of ordinary shares used in calculating basic earnings per share	2,523,754,468	**2,523,754,468**
Deemed issue of ordinary shares for no consideration	428,745,525	**428,745,525**
Weighted average number of ordinary shares used in calculating diluted earnings per share	2,952,499,993	**2,952,499,993**

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38. NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Reconciliation of profit before tax to cash generated from operating activities:

	1999	2000	
	RMB'000 *(Note 46)*	***RMB'000***	***US$'000***
Profit before tax	811,781	**575,604**	**69,533**
Adjustments for:			
(Reversal of) Provision for bad and doubtful debts	(3,654)	**16,231**	**1,961**
(Reversal of write-down of) Write-down of inventories to net realisable values	(21,864)	**67,319**	**8,132**
Provision of impairment loss on long term investments	–	**10,360**	**1,251**
Net loss on sale of staff quarters	29,289	**–**	**–**
Net loss on disposal of property, plant and equipment	11,089	**22,733**	**2,746**
Loss on impairment of property, plant and equipment	–	**95,301**	**11,513**
Net loss on disposal of long-term investments	–	**4,232**	**511**
Depreciation of property, plant and equipment	655,527	**811,962**	**98,084**
Amortisation of intangible assets	4,083	**5,204**	**629**
Share of profits less losses from associates	(17,266)	**(21,219)**	**(2,563)**
Dividend income from other long-term investments	(18,971)	**(5,629)**	**(680)**
Interest expense	106,155	**157,992**	**19,086**
Interest income	(46,644)	**(48,436)**	**(5,851)**
(Increase) Decrease in operating assets:			
Inventories	(197,685)	**(760,045)**	**(91,814)**
Trade receivables	(2,990)	**(90,628)**	**(10,948)**
Due from associates	40,592	**4,766**	**576**
Due from affiliated companies	(517,167)	**428,217**	**51,729**
Due from parent company	(28,552)	**(22,287)**	**(2,692)**
Prepayments and deposits	189,156	**84,586**	**10,218**
Other receivables	(130,633)	**(111,772)**	**(13,502)**
Increase (Decrease) in operating liabilities:			
Trade payables	18,030	**315,404**	**38,101**
Due to associates	(7,532)	**–**	**–**
Due to affiliated companies	20,068	**(35,517)**	**(4,290)**
Due to parent company	(12,010)	**52,605**	**6,355**
Taxes payable	329,354	**10,712**	**1,294**
Accruals and other payables	62,018	**100,376**	**12,125**
Other non-current liabilities	23,632	**66,971**	**8,091**
Cash flows generated from operations	1,295,806	**1,735,042**	**209,595**

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38. NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(b) Non-cash items on operating and investing activities:

		1999	2000	
		RMB'000 (*Note 46*)	***RMB'000***	***US$'000***
(i)	Increase in property, plant, equipment	890,735	**594,768**	**71,848**
	Less:			
	Decrease (Increase) in construction payable	(32,396)	**134,509**	**16,249**
	Capitalised convertible bonds interest	(24,936)	**(2,261)**	**(273)**
	Capitalised long-term loans interest	(35,523)	**(2,691)**	**(325)**
	Donation	–	**(2,277)**	**(275)**
	Exchange of property, plant and equipment in kind (see Note (iv))	(13,116)	**–**	**–**
	Amortisation of issuance cost of convertible bonds	(992)	**–**	**–**
	Cash used in property, plant and equipment	783,772	**722,048**	**87,224**

(ii) The Group started to consolidate certain gasoline stations which were accounted for using equity method before 1st January, 1999. The effects of consolidating these gasoline stations since 1st January, 1999 were as follows:

	1999	2000 RMB'000	2000 US$'000
Investments to these gasoline stations as of 1st January, 1999	26,495	**–**	**–**
Less: Asset and liabilities of these gasoline stations as of 1st January, 1999			
– Other current assets	(4,547)	**–**	**–**
– Property, plant and equipment, cost	(24,832)	**–**	**–**
– Property, plant and equipment, accumulated depreciation	1,166	**–**	**–**
– Other current liabilities	3,813	**–**	**–**
Cash addition from consolidation of these gasoline stations	2,095	**–**	**–**

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38. NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(b) Non-cash items on operating and investing activities: (Continued)

(iii) Certain unconsolidated investee companies repaid the investment costs of the Company and payables to the Company in form of property, plant and equipment as follows:

	1999	2000	
	RMB'000	***RMB'000***	***US$'000***
	(Note 46)		
Including:			
Repayment for investment costs of the Company	18,830	–	–
Repayment for payables to the Company	48,625	–	–
	67,455	–	–
Related property, plant and equipment:			
Cost	71,379	–	–
Less: accumulated depreciation	(3,924)	–	–
Net	67,455	–	–

(iv) Permutation of property, plant and equipment

	1999	2000	
Cost	17,040	–	–
Less: accumulated depreciation	(3,924)	–	–
Net	13,116	–	–

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38. NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(c) Analysis of changes in financing activities:

	Short-term bank loans	Long-term loans	Total	
	RMB'000	*RMB'000*	*RMB'000*	*US$'000*
Balance as of 1st January, 1999	100,000	877,000	977,000	118,022
Addition of short-term bank loans	1,425,800	–	1,425,800	172,238
Addition of long-term loans	–	2,540	2,540	307
Addition of interests on long-term loans	–	81,758	81,758	9,876
Repayment of short-term bank loans	(1,320,000)	–	(1,320,000)	(159,457)
Repayment of long-term loans	–	(74,500)	(74,500)	(9,000)
Repayment of interests on long-term loan	–	(75,194)	(75,194)	(9,084)
Balance as of 31st December, 1999	205,800	811,604	1,017,404	122,902
Addition of short-term bank loans	2,520,000	–	2,520,000	304,418
Addition of long-term loans	–	51,200	51,200	6,185
Addition of interests on long-term loans	–	52,736	52,736	6,371
Repayment of short-term bank loans	(2,725,800)	–	(2,725,800)	(329,279)
Repayment of long-term loans	–	(40,040)	(40,040)	(4,837)
Repayment of interests on long-term loans	–	(57,757)	(57,757)	(6,976)
Balance as of 31st December, 2000	–	817,743	817,743	98,784

39. RELATED PARTY TRANSACTIONS

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

Substantially all transactions undertaken by the Group have been effected with such counterparties and on such terms as determined by Sinopec and other relevant PRC authorities. Sinopec negotiates and agrees with suppliers the terms of State-allocated crude oil on a group basis, which is then allocated among the companies under its control, including the Group, on a discretionary basis.

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39. RELATED PARTY TRANSACTIONS (Continued)

Major transactions between the Group and Sinopec Group Company/Sinopec were as follows:

	1999	2000	
	RMB'000	***RMB'000***	***US$'000***
Cost of crude oil purchased (Note (a))	792,737	**–**	**–**
Reimbursement received and receivable from Sinopec (Note (b))	97,968	**–**	**–**
Surcharge paid and payable to Sinopec (Note (b))	145,040	**–**	**–**
Research and development expenditures paid and payable (Note (c)	35,000	**35,000**	**4,228**
Research and development Subventions received (Note (c))	6,450	**2,792**	**337**
Insurance premiums paid (Note (d))	24,643	**35,862**	**4,332**
Subsidy received from Sinopec (Note (e))	7,010	**20,062**	**2,424**

(a) Due to reorganisation of Sinopec Group Company, effective from 1st January, 2000, the Group began to purchase crude oil through a Sinopec group company instead of from Sinopec Group Company.

(b) All companies under the supervision of Sinopec Group Company (including the Group) had to abide by a pricing policy for purchase of crude oil. A weighted average price per tonne of crude oil was set by Sinopec Group Company. For purchases at below the weighted average price, a surcharge had to be paid to Sinopec Group Company. If purchases were made at above the weighted average price, a reimbursement would be reimbursed by Sinopec Group Company. The quantity of crude oil to be included under this policy were allocated by Sinopec Group Company on an annual basis to the companies under its supervision. Effective from 1st January, 2000, Sinopec Group Company cancelled such policy.

(c) The Company pays Sinopec for research and development expenditures in accordance with the provisions in an agreement between the Company and Sinopec. During the year ended 31st December, 2000, the Company paid to Sinopec an amount of RMB35,000,000 (1999 – RMB35,000,000). Also, the Company undertakes certain research and development projects for Sinopec. During the year ended 31st December, 2000, the Company received from Sinopec an amount of approximately RMB2,792,000 (1999 – RMB6,450,000) to this effect.

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39. RELATED PARTY TRANSACTIONS (Continued)

(d) Pursuant to administrative measures issued by Sinopec, the Group maintains insurance coverage with a subsidiary of Sinopec, which cover the Group's buildings, machinery, equipment and inventories. During the year ended 31st December, 2000, the Group paid to Sinopec insurance premium of approximately RMB35,862,000 (1999 – RMB24,643,000) based on certain percentage of the carrying value of the Group's assets covered.

(e) During the year ended 31st December, 2000, the Group received subsidy from Sinopec amounting to approximately RMB20,062,000 (1999 – RMB7,010,000) which could only be utilised to enhance the Group's security and safety measures and to conduct specified researches.

Transactions between the Group and other Sinopec group companies were as follows:

	1999	**2000**	
	RMB'000	***RMB'000***	***US$'000***
Sales	5,790,181	**14,905,188**	**1,800,557**
Purchases			
– Import of crude oil through a Sinopec group company	2,498,134	**11,863,422**	**1,433,109**
– Purchase of crude oil through a Sinopec group company (Note (a))	–	**737,769**	**89,123**
– Others	126,825	**26,065**	**3,149**
Service fee paid in relation to import of crude oil	24,981	**102,146**	**12,339**
Construction fees paid	116,974	**123,381**	**14,905**

Transactions between the Group and its associates were as follows:

	1999	**2000**	
	RMB'000	***RMB'000***	***US$'000***
Sales	299,087	**322,595**	**38,970**

The directors of the Company are of the opinion that the above transactions were conducted in the ordinary course of business and on normal commercial terms.

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40. SEGMENTAL INFORMATION

The Company conducts the majority of its business activities in two areas, refining and chemicals. An analysis by business segment is as follows:

	2000							
	Refining		Chemicals		Elimination		Total	
	RMB'000	*US$'000*	*RMB'000*	*US$'000*	*RMB'000*	*US$'000*	*RMB'000*	*US$'000*
Turnover	21,500,967	2,597,331	562,301	67,926	(373,304)	(45,095)	21,689,964	2,620,162
Cost of sales	(19,922,543)	(2,406,656)	(554,776)	(67,017)	373,304	45,095	(20,104,015)	(2,428,578)
Gross profit	1,578,424	190,675	7,525	909	–	–	1,585,949	191,584
Unallocated corporate expenses							(896,792)	(108,333)
Profit from operations							689,157	83,251
Finance cost							(109,556)	(13,235)
Share of profits and losses of associates	21,219	2,563	–	–	–	–	21,219	2,563
Others, net							(25,216)	(3,046)
Income tax expense							(154,827)	(18,703)
Net profit							420,777	50,830
OTHER INFORMATION								
Segment assets	8,896,557	1,074,708	376,335	45,462	–	–	9,272,892	1,120,170
Unallocated corporate assets							2,323,927	280,730
Total assets							11,596,819	1,400,900
Segment liabilities	(1,835,019)	(221,671)	(27,887)	(3,369)	–	–	(1,862,906)	(225,040)
Unallocated corporate liabilities							(2,283,151)	(275,806)
Total liabilities							(4,146,057)	(500,846)
Capital expenditure	557,661	67,366	48,486	5,857	–	–	606,147	73,223
Depreciation and amortisation	736,615	88,982	80,551	9,731	–	–	817,166	98,713
Impairment loss recognised in the income statement	95,301	11,513	–	–	–	–	95,301	11,513

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40. SEGMENTAL INFORMATION (Continued)

	1999							
	Refining		Chemicals		Elimination		Total	
	RMB'000	US$'000	RMB'000	US$'000	RMB'000	US$'000	RMB'000	US$'000
Turnover	10,672,458	1,289,240	703,027	84,926	(360,383)	(43,535)	11,015,102	1,330,631
Cost of sales	(9,368,580)	(1,131,731)	(556,321)	(67,204)	360,383	43,535	(9,564,518)	(1,155,400)
Gross profit	1,303,878	157,509	146,706	17,722	–	–	1,450,584	175,231
Unallocated corporate expenses							(592,006)	(71,515)
Profit from operations							858,578	103,716
Finance cost							(59,511)	(7,189)
Share of profits and losses of associates	17,266	2,086	–	–	–	–	17,266	2,086
Others, net							(4,552)	(550)
Income tax expense							(248,895)	(30,067)
Net profit							562,886	67,996
OTHER INFORMATION								
Segment assets	8,772,766	1,059,756	416,980	50,371	–	–	9,189,746	1,110,127
Unallocated corporate assets							1,789,700	216,197
Total assets							10,979,446	1,326,324
Segment liabilities	(1,330,507)	(160,727)	(2,959)	(357)	–	–	(1,333,466)	(161,084)
Unallocated corporate liabilities							(2,496,798)	(301,615)
Total liabilities							(3,830,264)	(462,699)
Capital expenditure	824,204	99,564	66,531	8,037	–	–	890,735	107,601
Depreciation and amortisation	584,767	70,640	75,836	9,161	–	–	660,603	79,801
Impairment loss recognised in the income statement	–	–	–	–	–	–	–	–

(a) The refining segment is principally engaged in the production and sale of petroleum, intermediate petrochemical and other petrochemical products. Gasoline, diesel fuel and jet fuel are three major products of the segment.

(b) The chemical segment is principally engaged in the production and sale of urea.

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41. COMMITMENTS

(a) The Group had significant capital commitments as follows:

	1999	2000	
	RMB'000	***RMB'000***	***US$'000***
Contracted but not provided for	152,742	**12,660**	**1,529**
Authorised but not contracted for	–	**–**	**–**
	152,742	**12,660**	**1,529**

Capital commitments relate primarily to construction of buildings and machinery and equipment to support the Company's expansion plan.

(b) As of 31st December, 1999, the Company had investment commitments in two associates of approximately RMB29,097,000.

(c) During the year ended 31st December, 2000, the Group entered into a pension scheme in addition to the central pension fund scheme described in Note 33 with a life insurance company by which the employees would be entitled to additional pension benefits upon the age of 60. According to the scheme, the Group was committed to pay contributions in five instalments until 2004. As of 31st December, 2000, the Group had a commitment to make payments totalled approximately RMB43,162,000 within the next four years, according to the following schedule:

	2000	
	RMB'000	*US$'000*
Amounts payable within a period		
– not exceeding one year	5,915	715
– between one and two years	12,416	1,500
– between two and four years	24,831	3,000
	43,162	5,215

42. FINANCIAL INSTRUMENTS

(a) Fair values

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

(i) Cash and cash equivalents

The carrying amount of cash and cash equivalents approximates fair value because of the short-term maturity nature of demand deposits.

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42. FINANCIAL INSTRUMENTS (Continued)

(a) Fair values (Continued)

(ii) Trade and other receivables and payables

The carrying amount of trade and other receivables and payables approximates fair value because they are subject to normal credit terms.

(iii) Balances with related parties and long-term receivables

No disclosure of fair value of balances with related parties and long-term receivables is made as it is not practicable to determine their fair values with sufficient reliability since these balances are interest-free and certain of which have no fixed repayment terms.

(iv) Other long-term investments

No disclosure of fair value of other long-term investments is made, as it is not practicable to determine their fair values with sufficient reliability.

(v) Loans and borrowings

The carrying amount of loans and borrowings approximates fair value because they are subject to normal commercial interest rates for comparable instruments.

(vi) Bonds payable

As of 31st December, 2000, the fair values of convertible bond were approximately RMB1,432,527,000 (1999 – RMB1,330,403,000) based on its market prices. As of the same date, the book value of these liabilities was approximately

(vii) Other non-current liabilities

No disclosure of fair value of other non-current liabilities is made, as it is not practicable to determine their fair values with sufficient reliability since these balances are interest-free and have no fixed repayment terms.

(b) Concentration of risks

(i) Credit risk

The carrying amounts of cash and cash equivalents, trade receivables and other current assets represents the Group's maximum exposure to credit risk in relation to financial assets. No other financial assets carry a significant exposure to credit risk.

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42. FINANCIAL INSTRUMENTS (Continued)

(b) Concentration of risks (Continued)

(ii) Interest rate risk

The interest rates and terms of repayments of short-term and long-term borrowings are disclosed in Note 24 and Note 20.

43. HOUSING REFORM

Pursuant to related rules and regulations of housing reform issued by the State Council, the Zhejiang Provincial Government and the Ningbo Municipal Government, allocation of living quarters as staff housing welfare is terminated. Instead, qualified employees are to be compensated in the form of monetary housing subsidies. In this respect, the Company is in the process of formulation of such plan. The financial impact of which will be reflected in the financial statements of the relevant year when such plan is formulated and approved.

As of 31st December, 2000, no formal plan has yet been developed by the Company nor delivered to the local government for approval. Moreover, the Company has not announced such plan to its employees. Thus, the Company had no obligation to make any payment or provision for such monetary housing subsidies as of 31st December, 2000.

MOF issued Document Caiqi [2000] No. 295 on 6th September, 2000 which became effective on the same date, announcing the accounting treatment in relation to such housing reform. The Company's Board of Directors has evaluated the policies referred to in the document, and believes that except for the impact of the above mentioned monetary housing subsidies which could not be reasonably estimated, other related policies will not have a material impact on the Group.

44. SUBSEQUENT EVENTS

Pursuant to the resolution made by the Board of Directors subsequent to 31st December, 2000, the Board of Directors proposed a final dividend of RMB0.035 (1999 – RMB0.035) per share totalled approximately RMB88,332,000 (1999 – RMB88,332,000) for the year ended 31st December, 2000.

45. CONTINGENT LIABILITIES

As of 31st December, 2000, the Group provided bank loan guarantee in the amount of RMB100,000,000 to an associate of the Group.

46. COMPARATIVE FIGURES

Certain comparative's figures in the 1999 financial statements have been restated and reclassified to conform to the current year's presentation and in accordance with the new presentation and disclosure requirements under newly revised or promulgated IASs, including IAS No. 10 "Events After Balance Sheet Date", IAS No. 37 "Provisions, Contingent Liabilities and Contingent Assets" and IAS 38 "Intangible Assets".

47. APPROVAL OF FINANCIAL STATEMENTS

The financial statements (set out on pages 24 to 87) were approved by the board of directors on 12th April, 2001.