

Notes to the Financial Statements

(for the year ended 31 December, 2000)

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is China Petrochemical Corporation ("Sinopec"), a company established under the laws of the PRC.

Sinopec together with its subsidiary and associated undertakings (incorporated or unincorporated), other than the Company and its subsidiaries, are hereinafter collectively referred to as the "Sinopec Group".

The Company is an investment holding company. Particulars of its principal subsidiaries and their principal activities are set out in note 14.

2. GROUP REORGANISATION

The Group underwent a reorganisation (the "Group Reorganisation") to rationalise the corporate structure of the Group in preparation for the public listing of the Company's shares on the Stock Exchange. Pursuant to the Group Reorganisation, the Company allotted and issued an aggregate of 1,000,000 new shares to Sinopec Kantons International Limited ("SKIL") in exchange for SKIL procuring, inter alia, the transfer of the entire equity interests in Kantons International Investment Limited, Kantons Petroleum Co. Ltd. and Sinomart KTS Development Limited to the Company, as a result of which the Company became the holding company of the Group on 9th June, 1998. Details of the Group Reorganisation are set out in the prospectus dated 15th June, 1999 issued by the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of subsidiaries and is written off to reserves immediately on acquisition.

Notes to the Financial Statements

(for the year ended 31 December, 2000)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

On disposal of investments in subsidiaries, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the gain or loss on disposal of the subsidiary.

Revenue recognition

Sales of goods are recognised when the goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rates applicable.

Rentals receivable from land and buildings held for use under operating leases are accounted for on a straight line basis over the respective periods of the leases.

Property, plant and equipment

Construction in progress is stated at cost, which includes the cost of acquisition and construction and the attributable borrowing costs and construction overheads. No depreciation or amortisation is provided on construction in progress until the relevant asset is ready for its intended use.

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation or amortisation. 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 assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated 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.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Notes to the Financial Statements

(for the year ended 31 December, 2000)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation and amortisation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land and land use rights	15 – 50 years or over the remaining term of the relevant lease, if shorter
Buildings	15 – 35 years or over the remaining term of the relevant lease, if shorter
Leasehold improvements	10 years or over the remaining term of the relevant lease, if shorter
Jetty structures	10 – 30 years
Jetty facilities	10 – 30 years
Plant and machinery	8 – 20 years
Furniture, fixtures and equipment	5 – 8 years
Motor vehicles and vessels	5 – 18 years

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Operating rights

Operating rights arising from the acquisition of petrol stations are initially recognised at cost and are amortised over the operating periods of the respective petrol stations.

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or registered capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary. Results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

Notes to the Financial Statements

(for the year ended 31 December, 2000)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories, being principally petroleum products, are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs to completion and estimated costs necessary to make the sale.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves and are recognised as income or as expense in the period in which the subsidiary is disposed of.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the remaining term of the relevant lease.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable a liability or an asset will crystallise in the foreseeable future.

Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance.

Notes to the Financial Statements

(for the year ended 31 December, 2000)

4. SEGMENTAL INFORMATION

The Group's turnover and contribution to profit before taxation, analysed by principal activity, were as follows:

	Turnover		Contribution to profit before taxation	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Sales of crude oil, petroleum and petrochemical products	8,317,751	4,086,125	95,040	76,106
Crude oil jetty services rendered	303,437	249,869	173,301	143,781
	8,621,188	4,335,994	268,341	219,887
Other revenue			18,101	16,669
Finance costs			(21,724)	(32,580)
Profit before taxation			264,718	203,976

Substantially all of the Group's activities are based in the PRC, including Hong Kong and Macau, and more than 90% of the Group's turnover and contribution to profit before taxation are derived from the PRC for both years.

Notes to the Financial Statements

(for the year ended 31 December, 2000)

5. PROFIT FROM OPERATIONS

	2000 HK\$'000	1999 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (excluding the ratable value of accommodation)	4,022	4,283
Retirement benefits scheme contributions	876	593
Other staff costs	23,981	6,078
Total staff costs	28,879	10,954
Amortisation of operating rights	348	–
Auditors' remuneration	1,225	680
Depreciation and amortisation on property, plant and equipment	81,373	63,184
Loss on disposal of property, plant and equipment	72	–
Operating lease rentals in respect of:		
Land and buildings	1,827	1,693
Plant and machinery and motor vehicles	2,593	2,574
Petrol station facilities	14,145	3,716
and after crediting:		
Interest income:		
Bank	8,917	6,137
Amount due from the Sinopec Group	31	45
Gain on disposal of property, plant and equipment	–	266
Gross rental income less negligible outgoings from properties under operating leases	96	91

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2000 HK\$'000	1999 HK\$'000
(a) Directors' emoluments		
Fees:		
Executive directors	3,282	3,386
Independent non-executive directors	160	240
Non-executive director	–	–
	3,442	3,626
Other emoluments (executive directors):		
Salaries and other benefits	761	1,072
Total emoluments	4,203	4,698

Notes to the Financial Statements

(for the year ended 31 December, 2000)

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

Directors' remuneration disclosed above includes the estimated rental value of certain of the Group's properties provided to certain directors of the Company as rent free accommodation. The aggregate ratable value of such accommodation was approximately HK\$181,000 (1999: HK\$415,000) for the year.

The emoluments of the directors were within the following bands:

	2000 Number of directors	1999 Number of directors
Nil to HK\$1,000,000	7	6
HK\$1,000,001 to HK\$1,500,000	2	3

(b) Employees' emoluments

The five highest paid individuals of the Group for both years are all directors of the Company and details of their emoluments are set out above.

During each of the two years ended 31st December, 2000, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the two years ended 31st December, 2000, none of the directors has waived any emoluments.

7. FINANCE COSTS

	2000 HK\$'000	1999 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	18,707	23,905
Bank borrowings not wholly repayable within five years	–	1,645
Loans from the Sinopec Group wholly repayable within five years	–	5,432
Other borrowings wholly repayable within five years	3,017	1,598
	21,724	32,580

Notes to the Financial Statements

(for the year ended 31 December, 2000)

8. TAXATION

	2000 HK\$'000	1999 HK\$'000
The charge comprises:		
Hong Kong Profits Tax calculated at 16% on the estimated assessable profit for the year:		
Current year	6,252	1,394
Underprovision in prior year	251	543
	6,503	1,937
PRC income tax	15,494	6,602
	21,997	8,539

PRC income tax is calculated at the applicable rates prevailing.

The Company's subsidiary established in the PRC, which commenced operations in March 1997, enjoys full tax exemption for its first five profit making years and a tax reduction of 50% in the next five years in respect of its jetty operations. Accordingly, no provision for PRC income tax has been made in respect of the jetty operations of this subsidiary for the year.

There was no significant unprovided deferred taxation for the year or as at the balance sheet date.

9. NET PROFIT FOR THE YEAR

Of the Group's net profit for the year, a profit of approximately HK\$38,902,000 (1999: a loss of HK\$231,000) has been dealt with in the financial statements of the Company.

10. DIVIDENDS

	2000 HK\$'000	1999 HK\$'000
Interim, paid – HK\$1.5 cents per share (1999: Nil)	15,552	–
Final, proposed – HK\$2 cents per share (1999: Nil)	20,737	–
	36,289	–

11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of approximately HK\$181,645,000 (1999: 151,228,000) and on the weighted average number of 1,037,133,041 (1999: 898,219,178) shares in issue throughout the year.

Diluted earnings per share has not been presented because there were no dilutive potential ordinary shares in issue during either year.

Notes to the Financial Statements

(for the year ended 31 December, 2000)

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land, land use rights and buildings HK\$'000	Lease- hold improve- ments HK\$'000	Jetty structures HK\$'000	Jetty facilities HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles and vessels HK\$'000	Con- struction in progress HK\$'000	Total HK\$'000
THE GROUP									
COST									
At 1st January, 2000	247,489	996	335,655	661,390	141,283	7,513	53,305	6,226	1,453,857
Acquired on acquisition of subsidiaries	6,804	-	-	-	363	11,053	3,246	785	22,251
Additions	24,838	2,049	-	21,861	1,911	2,645	1,452	57,090	111,846
Transfers	1,120	-	-	42,095	3,506	-	-	(46,721)	-
Disposals	-	-	-	-	-	-	(139)	-	(139)
At 31st December, 2000	280,251	3,045	335,655	725,346	147,063	21,211	57,864	17,380	1,587,815
DEPRECIATION AND AMORTISATION									
At 1st January, 2000	32,131	426	35,764	73,326	21,204	3,185	7,843	-	173,879
Acquired on acquisition of subsidiaries	488	-	-	-	4	1,285	170	-	1,947
Provided for the year	11,694	143	12,623	32,171	20,745	943	3,054	-	81,373
Eliminated on disposals	-	-	-	-	-	-	(37)	-	(37)
At 31st December, 2000	44,313	569	48,387	105,497	41,953	5,413	11,030	-	257,162
NET BOOK VALUES									
At 31st December, 2000	235,938	2,476	287,268	619,849	105,110	15,798	46,834	17,380	1,330,653
At 31st December, 1999	215,358	570	299,891	588,064	120,079	4,328	45,462	6,226	1,279,978

The net book value of leasehold land, land use rights and buildings held by the Group at the balance sheet date comprised:

	2000 HK\$'000	1999 HK\$'000
Long leasehold land and buildings situated in Hong Kong	44,295	41,988
Medium-term leasehold land, land use rights and buildings situated outside Hong Kong	191,643	173,370
	235,938	215,358

Notes to the Financial Statements

(for the year ended 31 December, 2000)

12. PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment included costs of approximately HK\$1,984,000 (1999: HK\$1,984,000) and accumulated depreciation and amortisation of approximately HK\$429,000 (1999: HK\$369,000) in respect of assets held for rental under operating leases.

Included in property, plant and equipment is net interest capitalised of approximately HK\$34,521,000 (1999: HK\$36,356,000).

13. OPERATING RIGHTS

	HK\$'000
THE GROUP	
COST	
Acquisitions during the year and balance at 31st December, 2000	10,374
AMORTISATION	
Provided for the year and balance at 31st December, 2000	348
NET BOOK VALUE	
At 31st December, 2000	10,026

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2000 HK\$'000	1999 HK\$'000
Unlisted investments, at cost	242,597	242,597
Amounts due from subsidiaries	420,785	438,297
	663,382	680,894

The amounts due from subsidiaries are unsecured and interest free. In the opinion of the Company's directors, the amounts will not be received within twelve months from the balance sheet date and, accordingly, the balances are classified as non-current.

Notes to the Financial Statements

(for the year ended 31 December, 2000)

14. INTERESTS IN SUBSIDIARIES (continued)

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

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest to the Group (note a)	Principal activities
Hua De Petrochemical Co. Ltd. 惠州市大亞灣華德石化有限公司	PRC	US\$79,518,200	70%	Operation of a crude oil jetty and its ancillary facilities and petrol stations
Kantons International Investment Limited 冠德國際投資有限公司	British Virgin Islands	3,000,000 ordinary shares of US\$1 each	100%	Investment holding
Kantons Petroleum Co. Ltd. 冠德石油有限公司	Commonwealth of the Bahamas	30,000 ordinary shares of US\$1 each	100%	Trading of crude oil
Sinomart KTS Development Limited 經貿冠德發展有限公司	Hong Kong	50 ordinary shares of HK\$1 each (note b)	100%	Trading of refined oil, and petrochemical products

Notes:

- The Company directly holds the interest in all its subsidiaries except Hua De Petrochemical Co. Ltd.
- Sinomart KTS Development Limited also has in issue fully paid 10,000 non-voting deferred shares of HK\$1 each, which practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution on winding up.

The above table lists the subsidiaries of the Company which, in the opinion of the Company's directors, principally affected the results, assets or cash flow of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital outstanding at the end of the year.

Notes to the Financial Statements

(for the year ended 31 December, 2000)

15. INVESTMENT IN A SECURITY

THE GROUP
2000 & 1999
HK\$'000

Unlisted investment	485
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In 1998, the Group entered into an agreement with the Sinopec Group to dispose of its unlisted investment to the Sinopec Group at a consideration which is equivalent to the original cost paid by the Group. According to the terms of the agreement, the completion of the disposal is subject to the approval of the relevant authority in the PRC, which is in the process of being obtained.

16. TRADE AND OTHER RECEIVABLES

The Group generally allows an average of 30 days to its crude oil trading customers and petrol station customers who satisfy credit evaluation. An aged analysis of trade and other receivables is as follows:

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
0 – 30 days	22,389	244,150
Over 90 days	–	18,136
Trade receivables	22,389	262,286
Other receivables	31,357	32,219
	<u>53,746</u>	<u>294,505</u>

17. AMOUNTS DUE FROM THE SINOPEC GROUP

Particulars of the amounts due from the Sinopec Group are as follows:

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Name of undertaking		
Zhongsui Petrochemical Development Company	36,211	13,805
Sinopec Guangzhou Petrochemical Complex	27,780	41,987
Sinopec Finance Co. Ltd.	573	3,456
China International United Petroleum and Chemicals Co. Ltd.	65	22,143
On Seng Petrochemicals Company Limited	–	134
	<u>64,629</u>	<u>81,525</u>

Notes to the Financial Statements

(for the year ended 31 December, 2000)

17. AMOUNTS DUE FROM THE SINOPEC GROUP (continued)

The above amounts, other than that due from Sinopec Finance Co. Ltd., represent balances arising from trading transactions and are unsecured, interest free and have no fixed repayment terms.

Sinopec Finance Co. Ltd. is a financial establishment and the amount due from it represents a settlement account carrying interest at prevailing market rates.

18. TRADE AND OTHER PAYABLES

An aged analysis of trade and other payables is as follows:

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
0 – 30 days	9,330	1,806
Over 90 days	819	–
Trade payables	10,149	1,806
Other payables	127,905	66,406
	138,054	68,212

19. AMOUNTS DUE TO THE SINOPEC GROUP

Name of undertaking	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
China Petrochemical International Guangzhou Company	25,782	601
Unipecc Asia Co., Ltd.	4,799	–
Sinpec Kantons International Limited	1,745	1,860
Sinopec (Hong Kong) Limited	–	6,099
Unipecc UK Co., Ltd.	–	8
	32,326	8,568

The above amounts, other than that due to SKIL, represent balances arising from trading transactions and are unsecured, interest free and have no fixed repayment terms.

The amount due to SKIL represents expenses paid on behalf of the Group and is unsecured, interest free and has no fixed repayment terms.

Notes to the Financial Statements

(for the year ended 31 December, 2000)

20. BANK BORROWINGS

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
The bank borrowings comprised:		
Mortgage loans	12,154	14,884
Long-term bank loans	98,586	141,927
Short-term bank loans	-	75,034
Trust receipts loans	-	282,138
	110,740	513,983
Analysed as:		
Secured	105,683	108,484
Unsecured	5,057	405,499
	110,740	513,983
Bank borrowings are repayable as follows:		
Within one year or on demand	54,511	406,696
More than one year, but not exceeding two years	50,504	98,166
More than two years, but not exceeding five years	5,725	9,019
More than five years	-	102
	110,740	513,983
Less: Amounts due within one year shown under current liabilities	(54,511)	(406,696)
Amounts due after one year	56,229	107,287

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(for the year ended 31 December, 2000)

21. SHARE CAPITAL

	Number of shares		Share capital	
	2000	1999	2000 HK\$'000	1999 HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised:				
At beginning of year	3,000,000,000	750,000,000	300,000	75,000
Increase on 27th May, 1999 (note a)	-	2,250,000,000	-	225,000
At end of year	3,000,000,000	3,000,000,000	300,000	300,000
Issued and fully paid:				
At beginning of year	1,037,500,000	750,000,000	103,750	75,000
Issued in 1999 (note b)	-	287,500,000	-	28,750
Shares repurchased and cancelled (note c)	(670,000)	-	(67)	-
At end of year	1,036,830,000	1,037,500,000	103,683	103,750

Notes:

(a) Pursuant to a written resolution of the then sole shareholder of the Company on 27th May, 1999, the authorised share capital of the Company was increased from HK\$75,000,000 to HK\$300,000,000 by the creation of an additional 2,250,000,000 shares of HK\$0.10 each.

(b) In June 1999, 225,000,000 shares and 25,000,000 shares of HK\$0.10 each of the Company were issued at HK\$1.02 per share for cash to the public by new issue and placing of new shares.

In July 1999, 37,500,000 shares of HK\$0.10 each of the Company were issued at HK\$1.02 per share for cash pursuant to the exercise of the over-allotment option by the underwriters to cover the over-allocations in the placing of new shares.

(c) During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
June 2000	620,000	0.61	0.58	369,000
July 2000	50,000	0.70	0.53	27,000
	670,000			396,000

The above shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

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(for the year ended 31 December, 2000)

22. RESERVES

	Share premium HK\$'000	Merger reserve HK\$'000	General reserves HK\$'000	Exchange reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
THE GROUP						
At 1st January, 1999	94,616	23,444	30,031	(1,809)	242,908	389,190
Exchange realignment	-	-	(44)	(617)	-	(661)
Premium arising from issue of shares	264,500	-	-	-	-	264,500
Shares issue expenses	(24,927)	-	-	-	-	(24,927)
Transfer	-	-	15,609	-	(15,609)	-
Net profit for the year	-	-	-	-	151,228	151,228
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At 31st December, 1999 and 1st January, 2000	334,189	23,444	45,596	(2,426)	378,527	779,330
Shares repurchased and cancelled	(332)	-	-	-	-	(332)
Transfer	-	-	22,635	-	(22,635)	-
Goodwill arising on acquisition of subsidiaries	-	-	(4,880)	-	-	(4,880)
Net profit for the year	-	-	-	-	181,645	181,645
Dividends (note 10)	-	-	-	-	(36,289)	(36,289)
At 31st December, 2000	333,857	23,444	63,351	(2,426)	501,248	919,474

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated (losses) profits HK\$'000	Total HK\$'000
THE COMPANY				
At 1st January, 1999	94,616	242,397	-	337,013
Premium arising from issue of shares	264,500	-	-	264,500
Shares issue expenses	(24,927)	-	-	(24,927)
Net loss for the year (note 9)	-	-	(231)	(231)
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At 31st December, 1999 and 1st January, 2000	334,189	242,397	(231)	576,355
Shares repurchased and cancelled	(332)	-	-	(332)
Net profit for the year (note 9)	-	-	38,902	38,902
Dividends (note 10)	-	-	(36,289)	(36,289)
At 31st December, 2000	333,857	242,397	2,382	578,636

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22. RESERVES (continued)

The merger reserve of the Group represents the difference between the nominal amount of the share capital of the subsidiaries acquired and the nominal value of the share capital of the Company issued for the acquisition under the Group Reorganisation.

The general reserves of the Group represent appropriations made by the Company's PRC subsidiaries from accumulated profits to a discretionary surplus reserve and an enterprise development fund, pursuant to the relevant laws and regulations for Sino-foreign equity joint ventures. The percentages of appropriations are determined annually by the directors of the relevant subsidiaries. The discretionary surplus reserve can be utilised to offset prior years' losses or for issuance of bonus shares. The enterprise development fund can be used for the future development of the enterprise or for issuance of bonus shares. Neither the discretionary surplus reserve nor the enterprise development fund is available for distribution.

The contributed surplus of the Company represents the difference between the aggregate shareholders' funds of the subsidiaries at the date on which the Company became the holding company of the Group and the nominal amount of the share capital of the Company issued under the Group Reorganisation.

Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is available for distribution. However, a company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

- (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company's reserves available for distribution to shareholders at 31st December, 2000 consisted of contributed surplus and accumulated profits (losses) totalling approximately HK\$244,779,000 (1999: HK\$242,166,000).

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23. LOAN/ADVANCE FROM THE SINOPEC GROUP

Particulars of the loan/advance from the Sinopec Group are as follows:

Name of undertaking	Terms of loan/advance	THE GROUP	
		2000 HK\$'000	1999 HK\$'000
Sinopec Guangzhou Petrochemical Complex	Unsecured, interest free and the terms of repayment are set out in note below	140,187	140,187
China Petrochemical International Guangzhou Company	Unsecured, interest free and was paid during the year	–	55,014
		140,187	195,201

Note: Sinopec Guangzhou Petrochemical Complex has indicated that, without prejudice to the Group's rights to repay the advance at any time, it does not intend to demand repayment of the advance and accordingly the amount is shown as a non-current liability.

24. SHARE OPTION SCHEME

Pursuant to the share option scheme of the Company adopted on 27th May, 1999, the directors of the Company may grant to any executive director or full time employee of the Company, or any of its subsidiaries, options to subscribe for shares in the Company at any price but not less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time.

No options were granted under the share option scheme since its inception.

25. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2000 HK\$'000	1999 HK\$'000
Profit before taxation	264,718	203,976
Interest income	(8,948)	(6,182)
Interest expense	21,724	32,580
Depreciation and amortisation on property, plant and equipment	81,373	63,184
Amortisation of operating rights	348	–
Loss (gain) on disposal of property, plant and equipment	72	(266)
Decrease (increase) in inventories	116,593	(81,079)
Decrease (increase) in trade and other receivables	253,188	(206,196)
Decrease in amounts due from the Sinopec Group	16,896	189,828
Increase in trade and other payables	40,282	7,951
Increase (decrease) in amounts due to the Sinopec Group	23,758	(3,365)
Net cash inflow from operating activities	810,004	200,431

Notes to the Financial Statements

(for the year ended 31 December, 2000)

26. PURCHASE OF SUBSIDIARIES

	2000 HK\$'000
NET ASSETS ACQUIRED	
Property, plant and equipment	20,304
Inventories	1,008
Trade and other receivables	12,429
Bank balances and cash	2,065
Trade and other payables	(16,196)
Minority interest	(4,337)
	15,273
Goodwill	4,880
	20,153
SATISFIED BY:	
Cash	6,789
Payables	13,364
	20,153
Net cash outflow arising on acquisition:	
Cash consideration	6,789
Bank balances and cash acquired	(2,065)
Net outflow of cash and cash equivalents in respect of purchase of subsidiaries	4,724

The subsidiaries acquired during the year did not have any significant impact on the Group's cash flows.

Notes to the Financial Statements

(for the year ended 31 December, 2000)

27. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$'000	Bank borrowings with original maturity of more than three months HK\$'000	Loan/advance from the Sinopec Group HK\$'000
At 1st January, 1999	169,616	235,805	451,228
Issue of shares	293,250	–	–
Shares issue expenses	(24,927)	–	–
New borrowings raised	–	95,000	1,563
Repayment	–	(173,994)	(257,590)
At 31st December, 1999 and 1st January, 2000	437,939	156,811	195,201
Repurchase of own shares, including expenses	(399)	–	–
Repayment	–	(46,071)	(55,014)
At 31st December, 2000	437,540	110,740	140,187

28. PLEDGE OF ASSETS

At the balance sheet date, certain of the Group's leasehold land and buildings with an aggregate net book value of approximately HK\$31,000,000 (1999: HK\$32,080,000) and short-term bank deposits and bank balance of approximately HK\$59,329,000 (1999: HK\$28,885,000) were pledged to banks to secure general banking facilities granted to the Group.

The Company did not have any significant pledged assets as at the balance sheet date.

29. CAPITAL COMMITMENTS

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Capital expenditure in respect of the construction of jetty facilities:		
Contracted for but not provided in the financial statements	20,770	17,511
Authorised but not contracted for	409	–
	21,179	17,511

The Company did not have any significant capital commitments as at the balance sheet date.

Notes to the Financial Statements

(for the year ended 31 December, 2000)

30. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had outstanding commitments payable within the next twelve months under non-cancellable operating leases as follows:

	2000			1999		
	Land and buildings HK\$'000	Plant and machinery HK\$'000	Petrol station facilities HK\$'000	Land and buildings HK\$'000	Plant and machinery HK\$'000	Petrol station facilities HK\$'000
Operating leases which expire:						
Within one year	-	1,759	-	-	-	-
In the second to fifth year inclusive	-	-	622	-	2,346	2,946
Over five years	1,782	-	6,678	652	-	2,367
	1,782	1,759	7,300	652	2,346	5,313

Certain rentals for the use of the petrol station facilities are determined by reference to the performance of the relevant petrol stations for the year.

The Company did not have any significant operating lease commitments as at the balance sheet date.

31. CONTINGENT LIABILITIES

The Company had given guarantees to banks in respect of general bank facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 31st December, 1999 amounted to approximately HK\$314,434,000 (2000: Nil).

The Group did not have any significant contingent liabilities as at the balance sheet date.

32. RETIREMENT BENEFITS SCHEME

The Company's subsidiaries established in the PRC participates in the central pension fund scheme organised by the relevant local government authority in the PRC. These subsidiaries are required to make contribution to the retirement scheme at a certain percentage of the basic salaries of its employees.

The Group did not have any other pension schemes for its employees in respect of its subsidiaries elsewhere. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 31st December, 2000 in respect of the retirement of its employees.

Notes to the Financial Statements

(for the year ended 31 December, 2000)

33. CONNECTED AND RELATED PARTY TRANSACTIONS

- (l) During the year, the Group had the following significant transactions with the Sinopec Group. Details of the amounts which have been charged (credited) to the income statement are as follows:

	Notes	2000 HK\$'000	1999 HK\$'000
Crude oil sold by the Group	(i)	(2,063,661)	(2,258,306)
Crude oil purchased by the Group and related charges	(i)	400,411	1,052,927
Petroleum products sold by the Group	(i)	(93,527)	(38,381)
Insurance premium charged to the Group	(ii)	3,765	3,533
Loan guarantee fees charged to the Group	(iii)	624	764
Crude oil refining and processing fees charged to the Group	(iv)	34,766	64,356
Rentals charged to the Group in respect of:			
– land and buildings	(v)	866	866
– motor vehicles	(v)	247	218
Rental on properties charged by the Group	(v)	(96)	(91)
Jetty service fees, inclusive of business tax thereon, charged by the Group	(vi)	(310,880)	(256,379)
Maintenance service fees charged to the Group	(vii)	5,286	4,385
Fuel purchased by the Group	(viii)	5,587	2,731
Petroleum products purchased by the Group	(viii)	670,821	233,485
Operating fees in respect of petrol station facilities charged to the Group	(ix)	11,214	1,242
Trademark licence fees charged to the Group	(x)	299	140
Interest charged to the Group	(xi)	–	5,432
Disposal of property, plant and equipment by the Group	(xii)	–	(2,013)

In addition, the Group had the following transactions with the Sinopec Group in connection with the construction of the crude oil jetty of the Group. The amounts which has been capitalised in property, plant and equipment during the year is as follows:

	Note	2000 HK\$'000	1999 HK\$'000
Cost of construction and acquisition of plant and equipment and other attributable overheads charged to the Group	(xiii)	39,246	24,093

Notes to the Financial Statements

(for the year ended 31 December, 2000)

33. CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

(II) At the balance sheet date, balances with related companies are set out in notes 17 and 19.

(III) At the balance sheet date, certain banking facilities of the Group have been supported by guarantees and/or other financial undertakings provided by the Sinopec Group.

Notes: The above transactions were conducted in accordance with the following terms:

- (i) The crude oil and petroleum products trading transactions were carried out in accordance with the relevant sales and purchase agreements and on terms agreed between the parties having regard to commercial practice of the crude oil industry and international market conditions during the year the transactions were entered into.
- (ii) The insurance premium was calculated by reference to the provisions of a document jointly issued by Sinopec and the Ministry of Finance in the PRC in 1997 and at a predetermined percentage as revised by Sinopec from time to time.
- (iii) The loan guarantee fees were charged in accordance with the terms of the relevant loan guarantee agreements at the rates of not more than 0.38% of the guarantee amount.
- (iv) The crude oil refining and processing fees were charged in accordance with the terms of the relevant refining and processing agreements and at a range from US\$14.5 to US\$17 per tonne of crude oil.
- (v) The rentals on properties and motor vehicles were charged at a fixed monthly amount in accordance with the terms of the relevant rental agreements.
- (vi) The jetty service fees were charged in accordance with the relevant service agreement and at rates based on the State-prescribed price regulated and standardised by the Ministry of Communications and government-approved prices approved by the Guangdong Price Bureau in the PRC.
- (vii) The maintenance service fees, which relate principally to after-sale services for plant and machinery purchased from or installed by the Sinopec Group, were charged in accordance with the terms of the relevant maintenance service agreements.
- (viii) The fuel and petroleum products were purchased at cost from the Sinopec Group and at the State-prescribed prices, respectively.
- (ix) The operating fees in respect of petrol stations were charged at a fixed annual fee or a fixed percentage of the profit from the relevant petrol stations in accordance with the terms of the relevant operating agreements for the operation of the petrol stations.
- (x) The trademark licence fees were charged at a fixed annual amount in accordance with the terms of the relevant agreement.
- (xi) Interest was charged at 1.5% above LIBOR per annum for loans and advances raised in Hong Kong
- (xii) The property, plant and equipment were disposed of at the original cost of purchase by the Group.
- (xiii) The construction of and the acquisition of plant and equipment for the crude oil jetty of the Group and other attributable overheads were charged in accordance with the terms of the relevant construction and purchase agreements.

In addition, a subsidiary of the Company paid a dividend of approximately HK\$43,442,000 (1999: HK\$53,218,000) to its minority shareholder which is also a member of the Sinopec Group.