

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 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 Petroleum & Chemical Corporation ("Sinopec"), a company established under the laws of the People's Republic of China (the "PRC").

Sinopec together with its subsidiaries 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 15.

### 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. Adoption of these new and revised SSAPs has led to a number of changes in the Group's accounting policies. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in the financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

#### Segment reporting

The Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment reporting". Segment disclosures for the year ended 31st December, 2000 have been amended so that they are presented on a consistent basis.

#### Leases

SSAP 14 (Revised) "Leases" has introduced some amendments to the basis of accounting for finance and operating leases, and to the disclosures specified for the Group's leasing arrangements. These changes have not had any effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment has been required. Disclosures for all of the Group's leasing arrangements have been modified so as to comply with the requirements of SSAP 14 (Revised). Comparative amounts have been restated in order to achieve a consistent presentation.

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE (continued)

#### Goodwill

In the current year, the Group has adopted SSAP 30 "Business combinations" and has elected not to restate goodwill previously eliminated against reserves. Accordingly, goodwill arising on acquisitions prior to 1st January, 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions on or after 1st January, 2001 is capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions on or after 1st January, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

#### Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) "Events after the balance sheet date," dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a note to the financial statements. This change in accounting policy has been applied retrospectively.

The financial effect of the adoption of the revised accounting policy described above as follows:

	<b>Retained profits</b>
	HK\$'000
Balance at 1st January, 2001	
As originally stated	501,248
Derecognition of liability for final dividend for 2000	20,737
As restated	521,985

### 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain investments in securities, 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.

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Revenue recognition

Sales of goods are recognised when 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

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and amortisation and any accumulated impairment losses.

Depreciation and amortisation are 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

The gain or loss arising on 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.

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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, 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.

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**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

#### **Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in the net profit or loss for the year.

#### **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.

#### **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.

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Taxation

The charge for taxation is based on the results for the year as adjusted for items that 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 using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

#### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisitions prior to 1st January, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions on or after 1st January, 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the gain or loss on disposal.

#### Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1st January, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Negative goodwill arising on acquisitions on or after 1st January, 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets, including goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

#### **Foreign currencies**

Transactions in currencies other than Hong Kong dollars are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such 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 the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

#### **Retirement benefits costs**

Payments to defined contribution retirement benefits schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefits schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### Business segments

For management purposes, the Group is currently organised into two operating divisions, namely trading of crude oil, petroleum and petrochemical products; and the rendering of crude oil jetty services. These business segments are the basis on which the Group reports its primary segment information.

#### Year ended 31st December, 2001

	Trading of crude oil, petroleum and petrochemical products HK\$'000	Crude oil jetty services HK\$'000	Consolidated HK\$'000
REVENUE			
External sales	5,646,377	305,560	5,951,397
RESULT			
Segment result	15,946	196,163	212,109
Unallocated corporate expenses			(3,639)
Profit from operations			208,470
Finance costs			(6,785)
Profit before taxation			201,685
Taxation credit			9,669
Profit after taxation			211,354
OTHER INFORMATION			
Capital additions	26,131	67,389	93,520
Depreciation	8,386	64,144	72,530
Amortisation of intangible assets	–	905	905
Impairment loss on goodwill	2,327	–	2,327
BALANCE SHEET			
ASSETS			
Segment assets	471,423	1,419,668	1,891,091
Unallocated corporate assets			394
Consolidated total assets			1,891,485
LIABILITIES			
Segment liabilities	260,615	185,740	446,355
Unallocated corporate liabilities			4,208
Consolidated total liabilities			450,563

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

#### Business segments (continued)

Year ended 31st December, 2000

	Trading of crude oil, petroleum and petrochemical products HK\$'000	Crude oil jetty services HK\$'000	Consolidated HK\$'000
<b>REVENUE</b>			
External sales	8,317,751	303,437	8,621,188
<b>RESULT</b>			
Segment result	113,996	174,842	288,838
Unallocated corporate expenses			(2,396)
Profit from operations			286,442
Finance costs			(21,724)
Profit before taxation			264,718
Taxation charge			(21,997)
Profit after taxation			242,721
<b>OTHER INFORMATION</b>			
Capital additions	54,056	80,041	134,097
Depreciation	4,788	78,532	83,320
Amortisation of intangible assets	–	348	348
<b>BALANCE SHEET</b>			
<b>ASSETS</b>			
Segment assets	342,152	1,394,006	1,736,158
Unallocated corporate assets			1,089
Consolidated total assets			1,737,247
<b>LIABILITIES</b>			
Segment liabilities	236,143	204,643	440,786
Unallocated corporate liabilities			4,187
Consolidated total liabilities			444,973



## Notes to the Financial Statements

For the year ended 31st December, 2001

### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

#### Geographical segments

Substantially all 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 in both years.

### 5. OTHER REVENUE

Included in other revenue are bank interest income of approximately HK\$5,481,000 (2000: HK\$8,917,000) and a write-back of a provision for bad debt expenses of approximately HK\$5,000,000 (2000: Nil).

### 6. PROFIT FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (excluding the ratable value of accommodation)	4,443	4,022
Retirement benefits scheme contributions	2,479	876
Other staff costs	34,500	23,981
Total staff costs	41,422	28,879
Amortisation of intangible assets included in selling and administrative expenses	905	348
Auditors' remuneration		
Current year	700	1,225
Overprovision in prior year	(500)	–
Depreciation of property, plant and equipment	72,530	83,320
Impairment of goodwill included in selling and administrative expenses	2,327	–
Loss on disposal of property, plant and equipment	2,776	72
Provision for slow moving and obsolete inventories	3,500	–
and after crediting:		
Gross rental income less negligible outgoings from properties under operating leases	48	96
Negative goodwill released to income included in selling and administrative expenses	455	–

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
<b>(a) Directors' emoluments</b>		
Fees:		
Executive directors	<b>3,814</b>	3,282
Independent non-executive directors	<b>180</b>	160
Non-executive directors	–	–
	<b>3,994</b>	3,442
Other emoluments for executive directors:		
Salaries and other benefits	<b>638</b>	761
Total emoluments	<b>4,632</b>	4,203

Other emoluments disclosed above included the estimated rateable value of certain of the Group's properties provided to certain directors of the Company as rent-free accommodation. The aggregate rateable value of such accommodation was approximately HK\$189,000 (2000: HK\$181,000) for the year.

The emoluments of the directors were within the following bands:

	<b>2001</b>	2000
	<b>Number of directors</b>	Number of directors
Nil to HK\$1,000,000	<b>8</b>	7
HK\$1,000,001 to HK\$1,500,000	<b>2</b>	2

#### (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, 2001, 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, 2001, an independent non-executive director has waived his emoluments.

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 8. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	6,387	18,707
Other borrowings wholly repayable within five years	398	3,017
	<b>6,785</b>	21,724

### 9. TAXATION

	2001 HK\$'000	2000 HK\$'000
The (credit) charge comprises:		
Hong Kong Profits Tax calculated at 16% on the estimated assessable profit:		
Current year (note a)	–	6,252
(Over)underprovision in prior year	<b>(1,314)</b>	251
	<b>(1,314)</b>	6,503
PRC income tax calculated at the applicable rates prevailing:		
Current year	<b>6,756</b>	15,494
Overprovision in prior years (note b)	<b>(15,111)</b>	–
	<b>(8,355)</b>	15,494
	<b>(9,669)</b>	21,997

One of the Company's subsidiaries 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.

Notes:

- a. No provision for Hong Kong Profits Tax has been made as the subsidiary involved in the operations in Hong Kong had no assessable profits for the current year.
- b. The Company's subsidiary incorporated in the Bahamas, which was engaged in the crude oil trading business in the PRC, ceased business during the year and became inactive thereafter. Deemed income tax on the crude oil trading business was provided for in previous years. The directors no longer consider that a tax liability will crystallise in respect of the crude oil trading business and consequently release the provisions made in previous years to the consolidated income statement.

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

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 10. NET PROFIT FOR THE YEAR

Of the Group's net profit for the year, a profit of approximately HK\$38,774,000 (2000: HK\$38,902,000) has been dealt with in the financial statements of the Company.

### 11. DIVIDENDS PAID

	<b>2001</b> <b>HK\$'000</b>	2000 HK\$'000
Interim in respect of 2001 – HK1.5 cents (2000: HK1.5 cents) per share	<b>15,552</b>	15,552
Final in respect of 2000 – HK2 cents per share	<b>20,737</b>	–
	<b>36,289</b>	15,552

The final dividend of HK1.5 cents per share in respect of 2001 has been proposed by the directors and is subject to approval by the shareholders in general meeting.

### 12. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of approximately HK\$153,982,000 (2000: HK\$181,645,000) and on 1,036,830,000 (2000: weighted average number of 1,037,133,041) shares in issue throughout the year.

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

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land, land use rights and buildings	Leasehold improvements	Jetty structures	Jetty facilities	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles and Construction vessels in progress		Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>									
COST									
At 1st January, 2001	280,251	3,045	335,655	725,346	147,063	21,211	57,864	17,380	1,587,815
Additions	15,278	1,122	-	3,436	4,904	2,652	134	65,994	93,520
Transfers	5,974	-	-	37,962	-	-	-	(43,936)	-
Disposals	(4,394)	-	-	-	(335)	(1,381)	(569)	(771)	(7,450)
At 31st December, 2001	297,109	4,167	335,655	766,744	151,632	22,482	57,429	38,667	1,673,885
DEPRECIATION									
At 1st January, 2001	44,313	569	48,387	105,497	41,953	5,413	11,030	-	257,162
Provided for the year	12,471	328	12,622	32,297	8,602	2,828	3,382	-	72,530
Eliminated on disposals	(601)	-	-	-	(3)	(658)	(207)	-	(1,469)
At 31st December, 2001	56,183	897	61,009	137,794	50,552	7,583	14,205	-	328,223
NET BOOK VALUES									
At 31st December, 2001	240,926	3,270	274,646	628,950	101,080	14,899	43,224	38,667	1,345,662
At 31st December, 2000	235,938	2,476	287,268	619,849	105,110	15,798	46,834	17,380	1,330,653

The net book value of leasehold land, land use rights and buildings comprises:

	2001 HK\$'000	2000 HK\$'000
Long leasehold land and buildings situated in Hong Kong	42,758	44,295
Medium-term leasehold land, land use rights and buildings situated outside Hong Kong	198,168	191,643
	240,926	235,938

Property, plant and equipment included costs of approximately HK\$1,984,000 (2000: HK\$1,984,000) and accumulated depreciation of approximately HK\$492,000 (2000: HK\$429,000) in respect of assets held for use under operating leases.

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 14. INTANGIBLE ASSETS

	<b>Goodwill</b> HK\$'000	<b>Negative</b> <b>Goodwill</b> HK\$'000	<b>Petrol station</b> <b>operating rights</b> HK\$'000	<b>Total</b> HK\$'000
<b>THE GROUP</b>				
COST				
At 1st January, 2001	–	–	10,374	10,374
Additions	2,327	(455)	4,025	5,897
At 31st December, 2001	2,327	(455)	14,399	16,271
AMORTISATION				
At 1st January, 2001	–	–	348	348
Provided for the year	–	–	905	905
Impairment loss	2,327	–	–	2,327
Released to income	–	(455)	–	(455)
At 31st December, 2001	2,327	(455)	1,253	3,125
CARRYING AMOUNT				
At 31st December, 2001	–	–	13,146	13,146
At 31st December, 2000	–	–	10,026	10,026

The goodwill and negative goodwill have arisen from the acquisition of certain subsidiaries during the year. As the directors consider the goodwill is no longer probable of being recovered and the negative goodwill is in excess of the fair values of the non-monetary assets acquired, they are recognised as impairment loss and income during the year, respectively.

### 15. INTERESTS IN SUBSIDIARIES

	<b>THE COMPANY</b>	
	<b>2001</b> HK\$'000	2000 HK\$'000
Unlisted investments, at cost	<b>242,597</b>	242,597
Amounts due from subsidiaries	<b>388,730</b>	420,785
	<b>631,327</b>	663,382

The amounts due from subsidiaries are unsecured and interest free. In the opinion of the Company's directors, the amounts will not be repayable 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 31st December, 2001

### 15. INTERESTS IN SUBSIDIARIES (continued)

Details of the Company's principal subsidiaries as at 31st December, 2001 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 Petroleum Co. Ltd. 冠德石油有限公司	Commonwealth of the Bahamas	US\$30,000 Ordinary shares	100%	Trading of crude oil ceased during the year and became inactive
Sinomart KTS Development Limited 經貿冠德發展有限公司	Hong Kong	HK\$50 Ordinary shares (note b)	100%	Trading of crude oil and petrochemical products
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

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, holders of 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 or assets 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 31st December, 2001

### 16. INVENTORIES

Included in inventories are finished goods of approximately HK\$78,867,000 (2000: Nil) which are carried at net realisable value.

### 17. INVESTMENT IN A SECURITY

**THE GROUP**  
**2001 & 2000**  
**HK\$'000**

Unlisted investment, at cost	485
------------------------------	-----

In 1998, the Group entered into an agreement with the Sinopec Group to dispose of its unlisted investment 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.

### 18. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days to its crude oil trading customers and petrol station customers who satisfy credit evaluation. The following is an aged analysis of the trade receivables at the balance sheet date:

	<b>THE GROUP</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Trade receivables		
0 – 30 days	<b>26,253</b>	22,389
31 – 90 days	<b>45</b>	–
Over 90 days	<b>145</b>	–
	<b>26,443</b>	22,389
Other receivables	<b>33,187</b>	31,357
	<b>59,630</b>	53,746



## Notes to the Financial Statements

For the year ended 31st December, 2001

### 19. AMOUNTS DUE FROM THE SINOPEC GROUP

Name of undertaking	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Zhongsui Petrochemical Development Company	34,383	36,211
Sinopec Guangzhou Petrochemical Complex	22,126	27,780
Unipet Asia Company Limited	7,285	–
Sinopec Finance Co. Ltd.	2,930	573
China Petroleum & Chemical Corporation	1,158	–
On Seng Petrochemicals Company Limited	48	–
China International United Petroleum and Chemicals Co. Ltd.	–	65
	<b>67,930</b>	64,629

The above amounts, other than that due from Sinopec Finance Co. Ltd., represent balances arising from trading transactions and are unsecured, interest free and are repayable on demand.

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

### 20. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade payables at the balance sheet date:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Trade payables		
0 – 30 days	15,123	9,330
31 – 90 days	–	–
Over 90 days	845	819
	<b>15,968</b>	10,149
Other payables	120,428	127,905
	<b>136,396</b>	138,054

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 21. AMOUNTS DUE TO THE SINOPEC GROUP

Name of undertaking	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
China Petrochemical International Guangzhou Company	40,112	25,782
Unipecc Labuan Company Limited	7,607	–
Sinopec Kantons International Limited (“SKI”)	1,353	1,745
Unipecc Asia Co., Ltd.	–	4,799
	<b>49,072</b>	<b>32,326</b>

The above amounts, other than that due to SKI, represent balances arising from trading transactions and are unsecured, interest free and are repayable on demand.

The amount due to SKI represents expenses paid on behalf of the Group and is unsecured, interest free and repayable on demand.

### 22. BANK BORROWINGS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Short-term bank loans	124,908	–
Long-term bank loans	–	98,586
Mortgage loans	–	12,154
	<b>124,908</b>	<b>110,740</b>
Analysed as:		
Unsecured	124,908	5,057
Secured	–	105,683
	<b>124,908</b>	<b>110,740</b>
Bank borrowings are repayable as follows:		
On demand or within one year	124,908	54,511
More than one year, but not exceeding two years	–	50,504
More than two years, but not exceeding five years	–	5,725
	<b>124,908</b>	<b>110,740</b>
Less: Amount due within one year shown under current liabilities	<b>(124,908)</b>	<b>(54,511)</b>
Amount due after one year	–	56,229

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 23. SHARE CAPITAL

	Number of shares		Amount	
	2001	2000	2001 HK\$'000	2000 HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised:				
At beginning and end of the year	<b>3,000,000,000</b>	3,000,000,000	<b>300,000</b>	300,000
Issued and fully paid:				
At beginning of the year	<b>1,036,830,000</b>	1,037,500,000	<b>103,683</b>	103,750
Shares repurchased and cancelled (note)	–	(670,000)	–	(67)
At end of the year	<b>1,036,830,000</b>	1,036,830,000	<b>103,683</b>	103,683

Note:

The Company repurchased its own shares through the Stock Exchange in the year ended 31st December, 2000 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

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed shares in both years.

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 24. RESERVES

	Share premium HK\$'000	Merger reserve HK\$'000	General reserves HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>THE GROUP</b>						
At 1st January, 2000	334,189	23,444	45,596	(2,426)	378,527	779,330
Share repurchased and cancelled	(332)	–	–	–	–	(332)
Goodwill arising an acquisition of subsidiaries	–	–	(4,880)	–	–	(4,880)
Transfer	–	–	22,635	–	(22,635)	–
Net profit for the year	–	–	–	–	181,645	181,645
Dividends paid (note 11)	–	–	–	–	(15,552)	(15,552)
At 31st December, 2000	333,857	23,444	63,351	(2,426)	521,985	940,211
At 1st January, 2001						
As originally stated	333,857	23,444	63,351	(2,426)	501,248	919,474
Prior period adjustment (note 2)	–	–	–	–	20,737	20,737
As restated	333,857	23,444	63,351	(2,426)	521,985	940,211
Transfer	–	–	19,367	–	(19,367)	–
Exchange realignment	–	–	–	(18)	–	(18)
Net profit for the year	–	–	–	–	153,982	153,982
Dividends paid (note 11)	–	–	–	–	(36,289)	(36,289)
<b>At 31st December, 2001</b>	<b>333,857</b>	<b>23,444</b>	<b>82,718</b>	<b>(2,444)</b>	<b>620,311</b>	<b>1,057,886</b>

	Share premium HK\$'000	Contributed surplus HK\$'000	(Deficit) retained profits HK\$'000	Total HK\$'000
<b>THE COMPANY</b>				
At 1st January, 2000	334,189	242,397	(231)	576,355
Share repurchased and cancelled	(332)	–	–	(332)
Net profit for the year	–	–	38,902	38,902
Dividends paid (note 11)	–	–	(15,552)	(15,552)
At 31st December, 2000	333,857	242,397	23,119	599,373
At 1st January, 2001				
As originally stated	333,857	242,397	2,382	578,636
Prior period adjustment (note 2)	–	–	20,737	20,737
As restated	333,857	242,397	23,119	599,373
Net profit for the year	–	–	38,774	38,774
Dividends paid (note 11)	–	–	(36,289)	(36,289)
<b>At 31st December, 2001</b>	<b>333,857</b>	<b>242,397</b>	<b>25,604</b>	<b>601,858</b>

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 24. 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 a group reorganisation. Details of the group organisation are set out in the prospectus dated 15th June, 1999 issued by the Company.

The general reserves of the Group represent appropriations made by the Company's PRC subsidiaries from retained 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 are available for distribution. Included in general reserves is goodwill of HK\$4,880,000 as at 31st December, 2001 (2000 HK\$4,880,000) arising from an acquisition of subsidiaries.

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 a group reorganisation.

Under the Companies Act 1981 of Bermuda, the contributed surplus account 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, 2001 consisted of contributed surplus and retained profits totalling approximately HK\$268,001,000 (2000: HK\$265,516,000).

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 25. LOAN FROM THE SINOPEC GROUP

**THE GROUP**  
**2001 & 2000**  
HK\$'000

Sinopec Guangzhou Petrochemical Complex	140,187
---	---------

The loan is unsecured and interest-free. 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.

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

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Profit before taxation	<b>201,685</b>	264,718
Interest income	<b>(5,481)</b>	(8,948)
Interest expense	<b>6,785</b>	21,724
Depreciation on property, plant and equipment	<b>72,530</b>	81,373
Amortisation of intangible assets	<b>905</b>	348
Loss on disposal of property, plant and equipment	<b>2,776</b>	72
Impairment loss on goodwill arising on acquisition of subsidiaries	<b>2,327</b>	–
Negative goodwill released to income arising on acquisition of subsidiaries	<b>(455)</b>	–
(Increase) decrease in inventories	<b>(134,461)</b>	116,593
(Increase) decrease in trade and other receivables	<b>(3,689)</b>	253,188
(Increase) decrease in amounts due from the Sinopec Group	<b>(3,301)</b>	16,896
Increase in trade and other payables	<b>7,756</b>	40,282
Increase in amounts due to the Sinopec Group	<b>16,746</b>	23,758
Net cash inflow from operating activities	<b>164,123</b>	810,004

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 27. ACQUISITION OF SUBSIDIARIES

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
NET ASSETS ACQUIRED		
Property, plant and equipment	<b>5,977</b>	20,304
Inventories	<b>560</b>	1,008
Trade and other receivables	<b>2,195</b>	12,429
Bank balances and cash	<b>1,572</b>	2,065
Trade and other payables	<b>(3,950)</b>	(16,196)
Minority interest	–	(4,337)
	<b>6,354</b>	15,273
Goodwill	<b>2,327</b>	4,880
Negative goodwill	<b>(455)</b>	–
	<b>8,226</b>	20,153
SATISFIED BY:		
Cash consideration paid/to be paid in 2001	<b>8,226</b>	13,364
Cash consideration paid in 2000	–	6,789
	<b>8,226</b>	20,153
Net cash outflow arising on acquisition:		
Cash consideration	<b>8,226</b>	6,789
Bank balances and cash acquired	<b>(1,572)</b>	(2,065)
Net outflow of cash and cash equivalents in respect of purchase of subsidiaries	<b>6,654</b>	4,724

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

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	<b>Share capital and share premium</b>	<b>Bank borrowings with original maturity of more than three months</b>	<b>Loan from the Sinopec Group</b>
	HK\$'000	HK\$'000	HK\$'000
At 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
New borrowings raised	–	121,637	–
Repayment	–	(107,469)	–
At 31st December, 2001	437,540	124,908	140,187

### 29. PLEDGE OF ASSETS

At 31st December, 2000, certain of the Group's leasehold land and buildings with an aggregate net book value of approximately HK\$31,000,000 and short-term bank deposits and bank balance of approximately HK\$59,329,000 were pledged to banks to secure general banking facilities granted to the Group. All the pledged securities have been released during the current year.

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

### 30. CAPITAL COMMITMENTS

	<b>THE GROUP</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Capital expenditure in respect of the construction of jetty facilities:		
Contracted for but not provided in the financial statements	<b>16,322</b>	20,770
Authorised but not contracted for	–	409
	<b>16,322</b>	21,179

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



## Notes to the Financial Statements

For the year ended 31st December, 2001

### 31. OPERATING LEASE COMMITMENTS

#### The Group as lessee

Operating lease rentals charged to income statement comprises:

	2001			2000		
	Minimum	Contingent	Total	Minimum	Contingent	Total
	lease	payments		lease	payments	
	payments	payments	payments	payments	payments	payments
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Petrol station facilities	9,191	5,434	14,625	7,380	6,765	14,145
Plant and machinery	2,353	–	2,353	2,593	–	2,593
Land and buildings	759	–	759	1,827	–	1,827
	<b>12,303</b>	<b>5,434</b>	<b>17,737</b>	11,800	6,765	18,565

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2001			2000		
	Petrol	Plant and	Land and	Petrol	Plant and	Land and
	station	machinery	buildings	station	machinery	buildings
	facilities	facilities	facilities	facilities	facilities	facilities
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Within one year	8,701	2,346	1,950	7,443	1,759	2,457
In the second to fifth year inclusive	35,721	4,105	2,765	30,199	–	7,869
Over five years	100,267	–	12,230	113,539	–	24,316
	<b>144,689</b>	<b>6,451</b>	<b>16,945</b>	151,181	1,759	34,642

Operating lease payments represent rentals payable by the Group for certain of its petrol station facilities, plant and machinery and land and buildings. Leases are negotiated 5 to 48 years and rentals are fixed for 5 to 48 years. Certain rentals for the use of the petrol station facilities are determined by reference to the revenue of the relevant petrol stations for the year.

At 31st December, 2001, the Company had no commitments under non-cancellable operating leases (2000: Nil).

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 32. 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, 2001 amounted to approximately HK\$93,600,000 (2000: Nil).

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

### 33. 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. This subsidiary is 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, 2001 in respect of the retirement of its employees.

### 34. CONNECTED AND RELATED PARTY TRANSACTIONS

(i) 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 consolidated income statement are as follows:

	Notes	2001 HK\$'000	2000 HK\$'000
Crude oil sold by the Group	(i)	<b>(814,946)</b>	(2,063,661)
Crude oil purchased by the Group and related charges	(i)	–	400,411
Petroleum products sold by the Group	(i)	<b>(182,582)</b>	(93,527)
Petroleum products purchased by the Group	(i)	<b>458,382</b>	670,821
Insurance premium charged to the Group	(ii)	<b>3,893</b>	3,765
Mortgage loan guarantee fees charged to the Group	(iii)	–	624
Crude oil refining and processing fees charged to the Group	(iv)	<b>58,512</b>	34,766
Rentals charged to the Group in respect of land and buildings	(v)	<b>642</b>	866
Rentals on motor vehicles charged to the Group	(v)	<b>320</b>	247
Rentals on properties charged by the Group	(v)	<b>(48)</b>	(96)
Jetty service fees, inclusive of business tax thereon, charged by the Group	(vi)	<b>(314,137)</b>	(310,880)
Maintenance service fees charged to the Group	(vii)	<b>6,446</b>	5,286
Fuel purchased by the Group	(viii)	<b>4,879</b>	5,587
Operating fees in respect of petrol station facilities charged to the Group	(ix)	<b>5,178</b>	11,214
Trademark licence fees charged to the Group	(x)	<b>402</b>	299

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 34. CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

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. Details of the amounts which have been capitalised in construction in progress during the year are as follows:

	Notes	2001 HK\$'000	2000 HK\$'000
Cost of construction and acquisition of plant and equipment and other attributable overheads charged to the Group	(xi)	13,426	39,246

- (II) Certain banking facilities of the Group have been supported by guarantees and/or other financial undertakings provided by the Sinopec Group, at no cost to the Group.
- (III) Details of the balances with related companies are set out in the consolidated balance sheet and Notes 19, 21 and 25.

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 terms of 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 1998 and at a predetermined percentage as revised by Sinopec from time to time.
- (iii) The mortgage 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 were purchased at cost from the Sinopec Group.

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 34. CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

- (ix) The operating fees in respect of petrol stations were charged at a fixed annual fee or a fixed percentage of the revenue 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) The construction and 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\$26,400,000 (2000: HK\$43,442,000) to its minority shareholder which is also a member of the Sinopec Group.