1. ORGANISATION AND OPERATIONS

Sinopec Zhenhai Refining & Chemical Company Limited (the "Company") 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 7. The address of the registered office of the Company is as follows:

Zhenhai District, Ningbo Municipality
Zhejiang Province, the PRC

As of 31st December, 2001, the Company and its subsidiaries had 9,600 (2000 – 10,034) 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.

2. CHANGE IN ACCOUNTING POLICIES

Following the introduction of International Accounting Standards ("IAS") No. 39 "Financial Instruments: Recognition and Measurement", available-for-sale investments are carried at fair value and all derivative financial instruments have been recognised as assets or liabilities. There is no significant financial impact caused by adopting the standard on the opening balances of this financial statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies are summarised as follows:

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board, effective as of 31st December, 2001, 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.

They are prepared under the historical cost convention, except that property, plant and equipment are carried at revalued amounts (see Note 5) as disclosed in the accounting policies hereafter.

(b) Principles of consolidation

The consolidated financial statements of the Company and its subsidiaries (the "Group") include the Company and the companies that it controls. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50 per cent of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheets and income statements, respectively.

Investments in subsidiaries are accounted for using equity method in the Company's financial statements. The purchase method of accounting is used for acquired businesses. Companies 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.

Investments in associates (generally investments of between 20 per cent to 50 per cent in a company's equity) where significant influence is exercised by the Company are accounted for using the equity method. 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.

When the Group's share of losses exceeds the carrying amount of the investment, the investment is reported at nil value and recognition of losses is discontinued except to the extent of the Group's commitment.

All other investments are accounted for in accordance with IAS 39 as further disclosed in Note 3(f).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Principles of consolidation (Continued)

Intercompany balances and transactions, including intercompany profits and unrealised profits and losses are eliminated. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the associate, against the investment in the associate. Unrealised losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(c) Leasehold land

Leases of land are classified as operating leases. The prepaid lease payments are amortised over the lease period on a straight-line basis.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost or revalued amount less accumulated depreciation and accumulated impairment loss. When assets are sold or retired, their cost or revalued amount and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposals is included in the income statement.

Independent revaluations are performed on regular basis. Any increase in a valuation is credited to the revaluation surplus, unless and only to the extent it reverses a revaluation decrease of the same asset previously recognised as an expense in which case it is recognised as income. Any decrease is first offset against an increase on earlier valuation in respect of the same property and is thereafter recognised as an expense. Upon the disposal of revalued property, plant and equipment, the relevant portion of the revaluation surplus realised in respect of previous valuation is released from the property valuation surplus directly to retained earnings.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the period when the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of property, plant and equipment.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(d) **Property, plant and equipment (Continued)**

Depreciation is calculated using the straight-line method to write off the cost, after taking into account the estimated residual value of each asset over its expected useful life. The expected useful lives are as follows:

	Years
Buildings	9 to 40
Machinery and equipment	5 to 20
Motor vehicles	8 to 10

The useful lives and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Construction-in-progress represents plant and properties under construction and is stated at cost. This includes costs of construction, plant and equipment, 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. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

(e) **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.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(f) Investments

The Group adopted IAS 39 on 1st January, 2001. Accordingly, investments, other than interests in subsidiaries, associates and joint ventures which are accounted for under IAS 27, IAS 28 and IAS 31 respectively, are classified into the following categories: held-to-maturity, trading and available-for-sale. Investments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity other than loans and receivables originated by the Group are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. All other investments, other than loans and receivables originated by the Company, are classified as available-for-sale.

Held-to-maturity investments are included in non-current assets unless they mature within 12 months of the balance sheet date. Investments held for trading are included in current assets. Available-for-sale investments are classified as current assets if management intends to realise them within 12 months of the balance sheet date.

All purchases and sales of investments are recognised on the trade date.

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.

Changes in the fair values of trading investments are included in financial expense.

Available for sale investments are carried at cost less impairment because their fair value cannot be reliably measured.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method.

(g) Inventories

Inventories, including work-in-process, are valued at the lower of cost and net realisable value, after provision for obsolete items. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost, other than that of spare parts and consumables, which is calculated on a first-in-first-out basis, is determined primarily on the basis of weighted average cost. For processed inventories, cost includes the applicable allocation of fixed and variable overhead costs based on a normal operating capacity. Unrealisable inventory has been fully written off.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(h) Receivables

Receivables are stated at the fair value of the consideration given and are carried at amortised cost, after provision for impairment.

(i) Cash and cash equivalents

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

(j) Operating leases

Leases of assets, under which substantially all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

(k) 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. When discounting is used, the increase in provision reflecting the passage of time is recognised as interest expense.

Gains from the expected disposal of assets are not taken into account in measuring the provision. Property, plant and equipment that is retired from active use is carried at the lower of the carrying amount or estimated net selling price less costs of disposal.

When some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is not recognised until it is virtually certain that reimbursement will be received.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Liabilities and equity

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement on initial recognition.

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. When the rights and obligations regarding the manner of settlement of financial instruments depend on the occurrence or non-occurrence of uncertain future events or on the outcome of uncertain circumstances that are beyond the control of both the issuer and the holder, the financial instruments are classified as a liability unless the possibility of the issuer being required to settle in cash or another financial asset is remote at the time of issuance, in which case the instrument is classified as equity.

Convertible bonds are stated at amortised cost 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 net off against share premium arising from the conversion. When bonds are redeemed before the expiry date, the unamortised issuance costs are dealt with in the income statement. Convertible bonds, which contain both a liability and an equity element, are separated into two components on initial issuance based on the present value of the bonds' cash flows and each is accounted for separately.

(m) Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognised net of sales taxes and discounts.

Revenue from sales of goods are recognised when delivery has taken place and transfer of risks and rewards has been completed.

Revenue from rendering of services is recognised upon the delivery of services.

No revenue is recognised on barter transactions involving the exchange of similar goods or services.

Interest is recognised on a time proportion basis that reflects the effective yield on the asset.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(n) Government grants

Government grants in the form of subsidy or financial refunds are recognised as income in the periods when received.

(o) Income taxes

The income tax charge is based on profit for the year and considers deferred taxation. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are recognised regardless of when the timing difference is likely to reverse. Deferred tax assets and liabilities are not discounted and are classified as non-current assets (liabilities) in the balance sheet.

Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. A deferred tax asset is not recognised for temporary differences arising from the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of transaction, affects neither accounting profit nor taxable profit. At each balance sheet date, the Group reassesses unrecognised deferred tax assets and the carrying amount of deferred tax assets. The enterprise recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised.

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(o) Income taxes (Continued)

A deferred tax liability is recognised for all taxable temporary differences, unless the deferred tax liability arises from goodwill for which amortisation is not deductible for tax purposes.

As an exception, no deferred tax liability is recognised on taxable temporary differences associated with investments in subsidiaries and associates when the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(p) Research and development costs

Expenditure for research is recognised as an expense when incurred. Expenditure on development is charged against income in the period incurred except for project development costs, which comply strictly with all of the following criteria:

(i) the product or process is clearly defined and costs are separately identified and measured reliably;

(ii) the technical feasibility of the product is demonstrated;

(iii) the product or process will be sold or used in-house;

(iv) the assets will generate future economic benefits (e.g. a potential market exists for the product or its usefulness in case of internal use is demonstrated); and

(v) adequate technical, financial and other resources required for completion of the project are available.

Capitalisation of costs starts when the above criteria are first met. Expenditure recognised as an expense in previous accounting periods is not reinstated.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Foreign currency translations

Companies within the Group maintain their books and accounting records in their measurement currency – Renminbi ("RMB"), which is not a freely convertible currency. Each entity within the Group translates its foreign currency transactions and balances into its measurement currency by applying to the foreign currency amount the exchange rate between the measurement currency and the foreign currency at the date of the transaction. Exchange rate differences arising on the settlement of monetary items or on reporting monetary items at rates different from those at which they were initially recorded during the period or reported in previous financial statements are recognised in the income statement in the period in which they arise.

(r) Borrowings

Borrowing costs generally are expensed as incurred. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are substantially ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Borrowing costs may include:

(i) interest on bank overdrafts and short-term and long-term borrowings;

(ii) amortisation of discounts or premiums relating to borrowings;

(iii) amortisation of ancillary costs incurred in connection with the arrangements of borrowings;

(iv) finance charges in respect of finance leases recognised in accordance with IAS 17 "Leases"; and

(v) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowings are initially recognised at the proceeds received, net of transaction costs. They are subsequently carried at amortised costs using the effective interest rate method, the difference between net proceeds and redemption value being recognised in the net profit or loss for the period over the life of the borrowings.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(s) Employee benefits

Defined contribution plans

The Group's companies sponsor defined contribution plans based on local practices and regulations. The plans cover full-time employees and provide for contributions at 25 per cent of total salaries and benefit in kind, of which 20 per cent is borne by the Group with the remaining 5 per cent borne by the employees as stipulated by government regulations. The Group's contributions relating to defined contribution plans are charged to income in the year to which they related (see Note 32).

Termination benefits

The Group is obliged by law to pay termination indemnities in cases of group reduction in labour force. Expenses related to termination indemnities are accrued when management decides to adopt a plan that will result in future payments of termination benefits and either starts to implement the plan or communicates the plan to those affected by it in a sufficiently specific manner to raise a valid expectation that the Group will carry out the reduction plan.

(t) Impairment of assets

Financial instruments

Financial instruments are reviewed for impairment at each balance sheet date.

For financial assets carried at amortised cost, whenever it is probable that the Group will not collect all amounts due according to the contractual terms of loans, receivables or held-to-maturity investments, an impairment or bad debt loss is recognised in the income statement. Reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be objectively related to an event occurring after the write-down. Such reversal is recorded in income. However, the increased carrying amount is only recognised to the extent it does not exceed what amortised cost would have been had the impairment not been recognised.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(t) Impairment of assets (Continued)

Other assets

Other assets 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 or treated as a revaluation decrease for property, plant and equipment that are carried at revalued amount to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same asset. 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 less the costs of disposal 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 this is not possible, for the cash-generating unit to which the asset belongs.

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 have decreased. The reversal is recorded in income or as a revaluation increase. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognised to the extent it does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for that asset in prior years.

(u) 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 39.

Financial information on geographical segments is not presented as all the operations of the Group are conducted domestically.

(v) 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.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(w) **Subsequent events**

Post-year-end events that provide additional information about the Group'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.

4. **LEASEHOLD LAND**

GROUP

	2000	**2001**	
	RMB'000	***RMB'000***	***US$'000***
Cost			
Beginning of year	200,000	**213,776**	**25,829**
Additions	13,776	**7,881**	**952**
End of year	213,776	**221,657**	**26,781**
Accumulated amortisation			
Beginning of year	21,333	**25,448**	**3,075**
Additions	4,115	**4,345**	**525**
End of year	25,448	**29,793**	**3,600**
Net book value			
End of year	188,328	**191,864**	**23,181**
Beginning of year	178,667	**188,328**	**22,754**

4. **LEASEHOLD LAND (Continued)**

COMPANY

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Cost			
Beginning of year	200,000	**200,000**	**24,165**
Additions	–	**7,881**	**952**
End of year	200,000	**207,881**	**25,117**
Accumulated amortisation			
Beginning of year	21,333	**25,333**	**3,061**
Additions	4,000	**4,069**	**492**
End of year	25,333	**29,402**	**3,553**
Net book value			
End of year	174,667	**178,479**	**21,564**
Beginning of year	178,667	**174,667**	**21,104**

The leasehold land of the Group represented rentals prepaid for land use rights on lands located in the PRC for a period of 46 to 50 years from June 1994, January 1998 or August 2001.

5. PROPERTY, PLANT AND EQUIPMENT

GROUP

	2000	2001					
	Total	Buildings	Machinery and equipment	Motor vehicles	Construct-ion-in-progress	Total	
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***US$'000***
Cost/revalued amount:							
Beginning of year	9,012,792	**1,457,502**	**7,240,201**	**102,119**	**500,461**	**9,300,283**	**1,123,684**
Reclassification	(25,155)	**170,822**	**477,005**	**5,566**	**(667,622)**	**(14,229)**	**(1,719)**
Additions	594,768	**237**	**138,647**	**6,698**	**1,188,456**	**1,334,038**	**161,182**
Disposals	(282,122)	**(3,830)**	**(156,703)**	**(1,759)**	**–**	**(162,292)**	**(19,609)**
End of year	9,300,283	**1,624,731**	**7,699,150**	**112,624**	**1,021,295**	**10,457,800**	**1,263,538**
Accumulated depreciation:							
Beginning of year	2,317,254	**263,584**	**2,645,904**	**62,041**	**–**	**2,971,529**	**359,028**
Provision for the year	807,847	**91,217**	**764,926**	**12,578**	**–**	**868,721**	**104,961**
Write-back on disposals	(153,572)	**(908)**	**(118,505)**	**(1,384)**	**–**	**(120,797)**	**(14,595)**
End of year	2,971,529	**353,893**	**3,292,325**	**73,235**	**–**	**3,719,453**	**449,394**
Net book value:							
End of year	6,328,754	**1,270,838**	**4,406,825**	**39,389**	**1,021,295**	**6,738,347**	**814,144**
Beginning of year	6,695,538	**1,193,918**	**4,594,297**	**40,078**	**500,461**	**6,328,754**	**764,656**

5. **PROPERTY, PLANT AND EQUIPMENT (Continued)**

COMPANY

	2000	2001					
	Total	Buildings	Machinery and equipment	Motor vehicles	Construct-ion-in-progress	Total	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*US$'000*
Cost/revalued amount:							
Beginning of year	8,109,492	1,118,619	6,657,057	73,418	489,835	8,338,929	1,007,531
Reclassification	(11,379)	48,691	381,280	6,483	(657,417)	(220,963)	(26,697)
Additions	510,726	104	119,195	4,712	1,178,981	1,302,992	157,431
Disposals	(269,910)	(2,239)	(142,139)	(648)	–	(145,026)	(17,522)
End of year	8,338,929	1,165,175	7,015,393	83,965	1,011,399	9,275,932	1,120,743
Accumulated depreciation:							
Beginning of year	2,050,710	190,449	2,413,754	49,333	–	2,653,536	320,607
Provision for the year	751,013	75,677	700,478	9,458	–	785,613	94,920
Write-back on disposals	(148,187)	(604)	(109,256)	(510)	–	(110,370)	(13,335)
End of year	2,653,536	265,522	3,004,976	58,281	–	3,328,779	402,192
Net book value:							
End of year	5,685,393	899,653	4,010,417	25,684	1,011,399	5,947,153	718,551
Beginning of year	6,058,782	928,170	4,243,303	24,085	489,835	5,685,393	686,924

5. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) The Company was established in the PRC on 28th June, 1994 as a joint stock limited company as part of the restructuring of ZGP. On the same date, the principal business undertakings of ZGP together with relevant assets and liabilities were taken over by the Company. As required by the relevant PRC rules and regulations, a valuation of the assets and liabilities to be injected into the Company was carried out as at 31st March, 1994 by the State-owned Assets Administration Bureau and the injected assets and liabilities were reflected in the accounts using the revalued amount as cost to the Group.

In accordance with IAS 16, subsequent to this revaluation, which was based on depreciated replacement costs, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluation is performed periodically to ensure that the carrying amount does not differ materially from that would be determined using fair value at the balance sheet date. The management believes that the carrying amount of property, plant and equipment did not differ materially from that would be determined using fair value as at 31st December, 2001. An independent valuation will be performed by an independent valuer during the year ending 31st December, 2002.

IAS 16 requires the Group to disclose the carrying amount of each class of property, plant and equipment that would have been included in the financial statements had the assets been carried at cost less accumulated depreciation and impairment. However, the Group did not separately record assets that are carried at cost or at revalued amount and accordingly, is not able to disclose such information. However, management believes property, plant and equipment carried at revalued amount represented less than 15 per cent of the total net book value as of 31st December, 2001.

5. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Construction-in-progress

	Group			Company		
	2000	2001		2000	2001	
	RMB'000	***RMB'000***	***US$'000***	*RMB'000*	***RMB'000***	***US$'000***
Costs of construction	497,415	**1,019,720**	**123,205**	486,789	**1,009,824**	**122,010**
Interest and other borrowing costs capitalised	3,046	**1,575**	**190**	3,046	**1,575**	**190**
	500,461	**1,021,295**	**123,395**	489,835	**1,011,399**	**122,200**
Average capitalisation rate of borrowing costs	6.52%	**5.94%**		6.52%	**5.94%**	

6. INTANGIBLE ASSETS

GROUP AND COMPANY

	Technology know-how		
	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Cost:			
Beginning of year	44,430	**50,403**	**6,089**
Additions	11,379	**1,000**	**121**
Disposal	(5,406)	**–**	**–**
End of year	50,403	**51,403**	**6,210**
Accumulated amortisation:			
Beginning of year	16,731	**16,529**	**1,997**
Provision for the year	5,204	**5,928**	**716**
Write-back on disposal	(5,406)	**–**	**–**
End of year	16,529	**22,457**	**2,713**
Net book value:			
End of year	33,874	**28,946**	**3,497**
Beginning of year	27,699	**33,874**	**4,092**

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

7. INVESTMENTS IN SUBSIDIARIES

COMPANY

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Unlisted investments, at cost	762,127	**764,610**	**92,383**
Share of post-acquisition profits less losses	324,127	**291,746**	**35,249**
Amounts due from subsidiaries	169,691	**435,721**	**52,645**
Amounts due to subsidiaries	(504,045)	**(568,065)**	**(68,635)**
	751,900	**924,012**	**111,642**

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 end.

Details of the Company's principal subsidiaries as of 31st December, 2001 were as follows:

Name of 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)	PRC; 7th July, 1993	100% (directly held)	RMB50,000,000	Corporation (股份制)	Contractor for construction projects

7. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of 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. (寧波保税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 (寧波保税區鎮海煉化油站投資有限責任公司)	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

7. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiaries	Country of establishment and operations and date of establishment	Company's equity interest	Registered capital	Type of legal entity	Principal activities
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
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
Ningbo Hexin Computer Co., Ltd. (寧波和信計算機有限公司)	PRC; 17th July, 2001	100% (75% directly and 25% indirectly held)	RMB3,000,000	Limited liability company (有限責任公司)	Provision of computer related services
Zhenhai Jingyao Antisepsis Co., Ltd. (鎮海璟璘防腐有限公司)	PRC; 12th June, 2001	100% (indirectly held)	RMB2,800,000	Limited liability company (有限責任公司)	Provision of antisepsis services

There is no change in the Company's interest held and registered capital of its principal subsidiaries listed above during the year ended 31st December, 2001.

8. INVESTMENTS IN ASSOCIATES

GROUP

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Unlisted investments, at cost	258,265	**250,345**	**30,248**
Share of post-acquisition profits less losses	27,314	**14,859**	**1,795**
	285,579	**265,204**	**32,043**

COMPANY

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Unlisted investments, at cost	137,043	**130,534**	**15,771**
Share of post-acquisition profits less losses	19,053	**3,746**	**453**
	156,096	**134,280**	**16,224**

Details of the Group's principal associates as of 31st December, 2001 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	50%	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

8. 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
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 petrochemical products
Xiaoshan Donghai Petrochemical Associated Company (蕭山市東海石化聯營公司)	PRC; 26th February, 1992	46.5%	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	50%	RMB13,000,000	State-owned associated (全民與全民聯營)	Trading in petrochemical 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
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%	RMB90,000,000	State-owned associated (全民與全民聯營)	Pipage and storage of petroleum products

9. OTHER LONG-TERM INVESTMENTS

GROUP

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Investments in unlisted shares, at cost	173,508	**169,308**	**20,456**
Less: Provision for impairment in value	(10,360)	**(10,360)**	**(1,252)**
	163,148	**158,948**	**19,204**

COMPANY

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Investments in unlisted shares, at cost	173,208	**169,008**	**20,420**
Less: Provision for impairment in value	(10,360)	**(10,360)**	**(1,252)**
	162,848	**158,648**	**19,168**

Investments in unlisted shares represent investments in PRC incorporated companies of not more than 20 per cent of their paid-up capital. They are classified as available-for-sale investments and are carried at cost less impairment as their fair value cannot be reliably measured.

10. OTHER LONG-TERM RECEIVABLES

GROUP AND COMPANY

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Construction fee paid on behalf of employees for housing	59,787	**67,452**	**8,150**
Other deposits	39,600	**33,000**	**3,987**
	99,387	**100,452**	**12,137**

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 receivable beyond one year of the balance sheet dates.

11. INVENTORIES

GROUP

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Raw materials	812,819	**718,633**	**86,827**
Work-in-process	259,591	**191,098**	**23,089**
Finished goods	334,495	**332,433**	**40,165**
Spare parts and consumables	118,610	**120,221**	**14,526**
	1,525,515	**1,362,385**	**164,607**

COMPANY

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Raw materials	812,819	**718,633**	**86,827**
Work-in-process	259,591	**191,098**	**23,089**
Finished goods	334,495	**332,433**	**40,165**
Spare parts and consumables	12,117	**13,335**	**1,612**
	1,419,022	**1,255,499**	**151,693**

As of 31st December, 2001, the Group's and the Company's inventories of approximately RMB998,913,000 (2000 – RMB483,402,000) are stated at net realisable value.

12. TRADE RECEIVABLES, NET

GROUP

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Notes receivable	47,110	**129,040**	**15,591**
Accounts receivable	170,646	**34,409**	**4,157**
	217,756	**163,449**	**19,748**
Less: Provision for doubtful accounts	(4,942)	**(5,287)**	**(639)**
	212,814	**158,162**	**19,109**

12. TRADE RECEIVABLES, NET (Continued)

COMPANY

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Notes receivable	46,590	**124,850**	**15,085**
Accounts receivable	165,774	**26,599**	**3,214**
	212,364	**151,449**	**18,299**
Less: Provision for doubtful accounts	(3,231)	**(3,645)**	**(440)**
	209,133	**147,804**	**17,859**

Ageing analysis of trade receivables was as follows:

GROUP

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Ageing			
– not exceeding one year	210,155	**157,554**	**19,036**
– more than one year but not exceeding two years	1,967	**–**	**–**
– more than two years but not exceeding three years	3,351	**1,632**	**197**
– more than three years	2,283	**4,263**	**515**
	217,756	**163,449**	**19,748**

12. TRADE RECEIVABLES, NET (Continued)

COMPANY

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Ageing			
– not exceeding one year	206,361	**147,152**	**17,779**
– more than one year but not exceeding two years	1,967	**–**	**–**
– more than two years but not exceeding three years	3,351	**1,632**	**197**
– more than three years	685	**2,665**	**323**
	212,364	**151,449**	**18,299**

13. DUE FROM ASSOCIATES

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

14. DUE FROM/TO AFFILIATED COMPANIES

Affiliated companies refer to enterprises under the direct supervision of Sinopec (see Note 38).

Included in the amount due from affiliated companies as of 31st December, 2001 was an outstanding loan made to an affiliated company via an authorised finance company under Sinopec amounting to RMB10,000,000 (2000 – RMB20,000,000) which bears interest at 6.21 per cent per annum (2000 – 6.21 per cent per annum) and is repayable on 19th June, 2002.

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.

15. DUE TO PARENT COMPANY

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

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES, NET

GROUP

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Construction fee paid on behalf of employees for housing (see Note 10)	61,852	**105,375**	**12,732**
Other deposits	6,600	**6,600**	**797**
Interest receivable	4,130	**32**	**4**
Input VAT refund	96,385	**–**	**–**
Others	44,488	**22,017**	**2,660**
	213,455	**134,024**	**16,193**
Less: Provision for doubtful accounts	(15,000)	**(7,528)**	**(909)**
	198,455	**126,496**	**15,284**

COMPANY

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Construction fee paid on behalf of employees for housing (see Note 10)	61,852	**105,375**	**12,732**
Other deposits	6,600	**6,600**	**797**
Interest receivable	4,130	**32**	**4**
Input VAT refund	96,385	**–**	**–**
Others	31,259	**13,566**	**1,638**
	200,226	**125,573**	**15,171**
Less: Provision for doubtful accounts	(15,000)	**(7,528)**	**(909)**
	185,226	**118,045**	**14,262**

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

17. CASH AT BANKS AND ON HAND

GROUP

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Cash on hand	25	**68**	**8**
Demand deposits	928,355	**287,931**	**34,789**
Cash at banks for specific purposes			
– Payment of taxes, letters of credit, etc.	152,221	**35,783**	**4,323**
– Housing fund (see Note (a))	29,312	**29,753**	**3,595**
– Staff quarters management fund (see Note (b))	19,004	**–**	**–**
– Housing reserve (see Note (c))	129,547	**–**	**–**
	1,258,464	**353,535**	**42,715**
Time deposits with a maturity over three months	40,000	**–**	**–**
Time deposits with a maturity within three months	819,532	**89,660**	**10,833**
	2,117,996	**443,195**	**53,548**

COMPANY

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Cash on hand	8	**7**	**1**
Demand deposits	919,253	**280,116**	**33,844**
Cash at banks for specific purposes			
– Payment of taxes, letters of credit, etc.	151,492	**35,267**	**4,261**
– Housing fund (see Note (a))	29,312	**29,753**	**3,595**
– Staff quarters management fund (see Note (b))	19,004	**–**	**–**
– Housing reserve (see Note (c))	129,547	**–**	**–**
	1,248,616	**345,143**	**41,701**
Time deposits with a maturity over three months	40,000	**–**	**–**
Time deposits with a maturity within three months	819,532	**89,660**	**10,833**
	2,108,148	**434,803**	**52,534**

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 were included in the other non-current liabilities (see Note 21).

During the year ended 31st December, 2001, the Group transferred all such fund to Housing Fund Management Centre as requested by relevant government regulations.

(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 were included in other non-current liabilities (see Note 21).

During the year ended 31st December, 2001, The Group transferred all such fund to Housing Fund Management Centre as requested by relevant government regulations.

18. SHARE CAPITAL

GROUP AND COMPANY

The details of share capital were as follows:

	2000		**2001**		
	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**	**384,337**
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**	**217,481**
H shares with a par value of RMB1.00 each	723,755	723,755	**723,755**	**723,755**	**87,446**
	2,523,755	2,523,755	**2,523,755**	**2,523,755**	**304,927**

The special Renminbi-denominated shares of the Company were listed on The Stock Exchange of Hong Kong Limited on 2nd December, 1994 and are commonly referred to as "H shares". 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) appropriated funds; (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 (盈餘公積金) include statutory surplus reserve ("SSR", 法定盈餘公積金) 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.

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 (任意公積金) 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.

19. RESERVES (Continued)

(d) Retained earnings are to be carried forward for future distribution. The distribution of retained earnings/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 retained earnings determined in accordance with (i) PRC accounting standards and regulations, and (ii) IFRS or Hong Kong Statement of Standard Accounting Practice.

As of 31st December, 2001, the reserve available for distribution was approximately RMB466,349,000 (2000 – RMB311,918,000) 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.

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 Business Enterprises" (collectively referred to as "PRC GAAP") of the PRC ("Statutory Accounts") and the financial statements prepared under IFRS is as follows:

	Statutory Accounts	Financial statements under IFRS
	RMB'000	*RMB'000*
Net profit	507,724	463,999
Transfer to SSR	(54,469)	(54,469)
Transfer to PWF	(54,469)	(54,469)
Distributable profit attributable to shareholders	398,786	355,061
Retained earnings, beginning of year	223,587	434,586
Housing fund deficit transferred in	(87,385)	–
Total distributable profit	534,988	789,647
Appropriation of profit to discretionary surplus reserve	(5,545)	(5,545)
Dividends	(151,425)	(151,425)
Retained earnings, end of year	378,018	632,677

19. RESERVES (Continued)

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

	Net profit for the year ended 31st December, 2001	Net assets as at 31st December, 2001
	RMB'000	*RMB'000*
As reported in the Statutory Accounts of the Group	507,724	7,682,181
Overhaul expense using accrual in advance method under PRC GAAP but expense as incurred method under IFRS in years prior to 2001	(20,000)	–
Provision for dividends declared after balance sheet under PRC GAAP but not accounted for under IFRS	–	88,332
Reversal of depreciation expense on fixed assets written down under IFRS	25,150	34,905
To charge the utilisation of accruals which were previously reversed under IFRS to profit and loss accounts	(57,345)	(74,669)
Reversal of overstated expenses under PRC GAAP	17,670	43,555
Depreciation for idle property, plant and equipment	(12,000)	(12,000)
Deferred tax	2,800	3,879
As reported in financial statements prepared under IFRS	463,999	7,766,183

20. LONG-TERM BANK LOANS

GROUP AND COMPANY

	2001		
	Maturity dates	***RMB'000***	***US$'000***
Bank loans			
Amounts repayable within a period			
– not exceeding one year	**2002.6.18-2002.8.30**	**202,157**	**24,425**
– between one and two years	**2003.4.1-2003.10.29**	**365,000**	**44,100**
– between two and five years	**2004.4.30-2004.12.13**	**600,000**	**72,494**
		1,167,157	**141,019**
Less: Amounts repayable within one year included under current liabilities		**(202,157)**	**(24,425)**
Non-current portion		**965,000**	**116,594**

	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	6,372
– between one and two years	2002.6.18-2002.8.30	200,000	24,165
– between two and five years	2003.4.1-2004.6.29	565,000	68,265
		817,743	98,802
Less: Amounts repayable within one year included under current liabilities		(52,743)	(6,373)
Non-current portion		765,000	92,429

(a) All the long-term bank loans as of 31st December, 2001 were denominated in RMB.

(b) Bank loans of approximately RMB550,000,000 (2000 – RMB600,000,000) as of 31st December, 2001 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 (2000 – 5.94 per cent to 6.21 per cent per annum).

21. OTHER NON-CURRENT LIABILITIES

GROUP AND COMPANY

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Housing reserve (see Note 17(c))	134,592	**–**	**–**
Staff quarters management fund (see Note 17(b))	19,004	**–**	**–**
Other	19,687	**10,256**	**1,239**
	173,283	**10,256**	**1,239**

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 remains 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, 2001 and 2000, no Bonds were converted into H shares.

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 per cent. 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.

On 19th December, 2001, the Company redeemed most of the Bonds at US$189,969,000 (including redemption premium of approximately US$35,447,000) at the request of the holders of those Bonds. Another redemption payment to redeem the Bonds at US$123,000 (including redemption premium of approximately US$23,000) was paid in January 2002.

22. CONVERTIBLE BONDS (Continued)

GROUP AND COMPANY (Continued)

(b) Analysis of changes in convertible bonds

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Beginning of year	1,451,061	**1,515,341**	**183,087**
Accrued interest	102,821	**101,583**	**12,274**
Redemption payment	–	**(1,572,587)**	**(190,004)**
Interest paid	(38,541)	**(38,516)**	**(4,654)**
End of year	1,515,341	**5,821**	**703**
Less: Amounts repayable within one year included under current liabilities	–	**(1,018)**	**(123)**
Non-current portion	1,515,341	**4,803**	**580**

23. DEFERRED TAX ASSETS

Components of deferred tax assets are as follows:

GROUP AND COMPANY

	2000	Origination of temporary differences	Reversal of temporary differences	2001	
	RMB'000	*RMB'000*	*RMB'000*	***RMB'000***	***US$'000***
Overhaul expenses accrued in advance under PRC GAAP	(6,600)	–	6,600	**–**	**–**
Difference between tax base and accounting base of property, plant and equipment	7,679	–	(3,800)	**3,879**	**469**
Provisions for doubtful debts, inventory net realisable value and impairment in value of long-term investments	30,719	2,809	(2,466)	**31,062**	**3,753**
	31,798	2,809	334	**34,941**	**4,222**

24. SHORT-TERM BANK LOANS

GROUP AND COMPANY

As of 31st December, 2001, short-term bank loans were unsecured, and bore interest at rates ranging from 2.63 per cent to 5.58 per cent per annum.

25. TRADE PAYABLES

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

26. TAXES PAYABLE

GROUP

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Consumption tax payable	222,429	**67,899**	**8,204**
EIT payable	95,942	**62,026**	**7,494**
City development tax payable	14,429	**30,871**	**3,730**
Education supplementary tax payable	3,488	**17,690**	**2,137**
Business tax payable	2,595	**1,878**	**227**
VAT payable	160,534	**(18,077)**	**(2,184)**
Others	1,905	**7,895**	**954**
	501,322	**170,182**	**20,562**

COMPANY

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Consumption tax payable	222,429	**67,899**	**8,204**
EIT payable	88,778	**56,812**	**6,864**
City development tax payable	14,216	**30,614**	**3,699**
Education supplementary tax payable	3,314	**17,492**	**2,114**
Business tax payable	87	**117**	**14**
VAT payable	159,715	**(10,866)**	**(1,313)**
Others	1,738	**7,738**	**935**
	490,277	**169,806**	**20,517**

27. ACCRUALS AND OTHER PAYABLES

GROUP

	2000	2001	
	RMB'000	RMB'000	US$'000
Accrued port charges	111,313	166,051	20,063
Accrued staff salary	92,152	87,352	10,554
Accrued employee bonus	66,763	68,812	8,314
Accrued staff welfare	53,502	58,544	7,073
Advances from customers	41,583	28,378	3,429
Accrued interest expense	163	295	36
Others	60,725	72,787	8,794
	426,201	482,219	58,263

COMPANY

	2000	2001	
	RMB'000	RMB'000	US$'000
Accrued port charges	111,313	166,051	20,063
Accrued staff welfare	40,581	49,694	6,004
Accrued employee bonus	44,992	50,553	6,108
Accrued staff salary	32,933	22,154	2,677
Advances from customers	15,903	20,030	2,420
Accrued interest expense	163	295	36
Others	39,557	44,070	5,325
	285,442	352,847	42,633

Accrued staff welfare (職工福利) is made according to 14 per cent (2000 – 14 per cent) of employee salary in accordance with the government regulations.

28. REVENUE

Revenue comprised:

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Sales of goods	21,689,964	**19,827,660**	**2,395,629**
Rendering of services	51,515	**59,748**	**7,219**
Interest income			
– Bank deposits	47,232	**39,860**	**4,816**
– Others	1,204	**2,436**	**294**
Dividend income from other investments	5,629	**8,103**	**979**
	21,795,544	**19,937,807**	**2,408,937**

During the year ended 31st December, 2001, approximately 79.30 per cent (2000 – 63.62 per cent) of the Group's sales were made to five major customers.

29. FINANCE COST

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Interest income on			
– Bank deposits	47,232	**39,860**	**4,816**
– Others	1,204	**2,436**	**294**
	48,436	**42,296**	**5,110**
Interest expense on			
– Bank borrowings wholly repayable within five years	60,123	**63,618**	**7,686**
– Convertible bonds	102,821	**101,583**	**12,274**
Less: Amount capitalised as construction-in-progress	(4,952)	**(1,965)**	**(237)**
	157,992	**163,236**	**19,723**
	(109,556)	**(120,940)**	**(14,613)**

30. PROFIT BEFORE TAX

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

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
After charging			
Inventories recognised as expenses	20,107,138	**18,248,271**	**2,204,803**
Amortisation of prepaid rentals for leasehold land	4,115	**4,345**	**525**
Depreciation of property, plant and equipment	807,847	**868,721**	**104,961**
Amortisation of intangible assets	5,204	**5,928**	**716**
Net loss on disposals of property, plant and equipment	22,733	**33,121**	**4,002**
Loss on write-off of property, plant and equipment	95,301	**–**	**–**
Net loss on disposal of long-term investments	4,232	**4,725**	**571**
Repair and maintenance expenses	224,243	**225,969**	**27,302**
Writedown of inventories to net realisable value	72,814	**7,725**	**933**
Research and development expenditures	44,242	**41,441**	**5,007**
Staff costs			
– Salaries and wages	189,637	**199,049**	**24,050**
– Contribution to pension scheme (see Note 32)	75,057	**101,021**	**12,206**
– Provision for staff welfare and bonus	261,648	**255,249**	**30,840**
– Termination benefits	–	**51,200**	**6,186**
Provision for (Reversal of) bad and doubtful debts	16,231	**(7,127)**	**(861)**
Provision for impairment in value of long-term investments	10,360	**–**	**–**
Exchange loss	4,596	**7,116**	**860**
Auditors' remuneration	3,063	**3,063**	**370**

30. PROFIT BEFORE TAX (Continued)

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
After crediting			
Investment income			
– Income from disposals of short-term investments	–	**15,340**	**1,853**
– Share of profits and losses of associates	21,219	**3,106**	**375**
– Dividend income from other long-term investments	5,629	**8,103**	**979**
Exchange gain	776	**782**	**94**

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

(a) Directors' emoluments:

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Basic salaries, allowances and benefits in kind	232	**191**	**23**
Bonus*	766	**602**	**73**
Pension	93	**88**	**11**
	1,091	**881**	**107**

* *Bonus is discretionary in nature.*

For the year ended 31st December, 2001, the above emoluments were paid to 6 directors (2000 – 7), each of these individuals received less than RMB1,060,000 (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.

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

(b) Supervisors' emoluments:

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Basic salaries, allowances and benefits in kind	85	**85**	**10**
Bonus*	225	**235**	**28**
Pension	36	**43**	**5**
	346	**363**	**43**

* *Bonus is discretionary in nature.*

For the year ended 31st December, 2001, the above emoluments were paid to 3 supervisors (2000 – 3), each of these individuals received less than RMB1,060,000 (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:

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Basic salaries, allowances and benefits in kind	170	**160**	**19**
Bonus*	565	**507**	**61**
Pension	68	**73**	**9**
	803	**740**	**89**

* *Bonus is discretionary in nature.*

For the year ended 31st December, 2001, the 5 highest-paid individuals of the Group included 2 directors (2000 – 2), 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.

32. 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 total salaries and benefit in kind of its employees (see Note 3(s)). The fund will be responsible for the entire pension obligations payable to retired employees. During the year ended 31st December, 2001, the Group contributed to the central pension fund scheme of approximately RMB101,021,000 (2000 – RMB75,057,000).

33. 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 RMB69,697,000 (2000 – RMB32,028,000).

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 have ceased to be available to the Group effective 1st January 2000. During the year ended 31st December, 2000, the Group received such refund in relation to 1999 in the amount of RMB14,763,000, and recorded RMB9,452,000 as reduction to EIT of the period and RMB5,311,000 as subsidy income. The Group did not receive such refund during the year ended 31st December, 2001.

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.

33. TAXATION (Continued)

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

Details of taxation charged during the year are as follows:

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Current income tax	220,764	**228,315**	**27,585**
Reduction of income tax due to preferential treatments (see Note (a) above)	(32,028)	**(69,697)**	**(8,421)**
Deferred tax liability arising from overhaul expense accrued in advance under PRC GAAP but reversed under IFRS	(17,415)	**(6,600)**	**(797)**
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	8,300	**3,800**	**459**
– Provisions for doubtful debts, inventory net realisable value and impairment in value of long-term investments	(30,719)	**(343)**	**(42)**
Share of tax of associates	5,925	**2,555**	**309**
	154,827	**158,030**	**19,093**

33. 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:

	2000		2001		
	RMB'000		***RMB'000***	***US$'000***	
Accounting profit	575,604	100%	**622,029**	**75,154**	**100%**
Tax at the applicable tax rate of 33% (2000 – 33%) (see Note)	189,949	33%	**205,269**	**24,801**	**33%**
Tax effect of expenses that are not deductible or assessable in determining taxable profit:					
– Salaries in excess of tax allowable limit	14,904	3%	**28,387**	**3,430**	**5%**
– Others	(11,286)	(2%)	**(5,729)**	**(692)**	**(1%)**
Tax effect of income that are not taxable in determining taxable profit:					
– Investment income	(342)	–	**(6,176)**	**(746)**	**(1%)**
Tax losses of subsidiaries	808	–	**4,111**	**497**	**1%**
Reduction of income tax due to preferential treatments (see Note (a) above)	(32,028)	(5%)	**(69,697)**	**(8,421)**	**(11%)**
Income tax refund (see Note (a) above)	(9,452)	(2%)	**–**	**–**	**–**
Effect of different tax rates of certain associates and subsidiaries	1,008	–	**2,671**	**322**	**–**
Others	1,266	–	**(806)**	**(98)**	**–**
Tax expense	154,827	27%	**158,030**	**19,093**	**26%**

Note: The applicable tax rate is the aggregate of the national income tax rate of 30 per cent (2000 – 30 per cent) and the local income tax rate of 3 per cent (2000 – 3 per cent).

33. TAXATION (Continued)

(b) Value-Added Tax（增值稅）

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（營業稅）

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（消費稅）

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

(e) Surtaxes（附加稅）

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

34. NET PROFIT

The consolidated net profit included a profit of approximately RMB438,180,000 (2000 – RMB331,463,000) dealt with in the financial statements of the Company before accounting for the results of subsidiaries and associates using the equity method of accounting.

35. DIVIDENDS

Dividend comprised:

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Prior year's final cash dividend – RMB0.035 (2000 – RMB0.035) per share	88,332	**88,332**	**10,673**
Interim cash dividend – RMB0.025 (2000 – RMB0.015) per share	37,856	**63,093**	**7,623**
	126,188	**151,425**	**18,296**

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

36. EARNINGS PER SHARE

The calculation of basic earnings per share was based on consolidated net profit of approximately RMB463,999,000 (2000 – RMB420,777,000) and on the weighted average number of 2,523,754,468 shares (2000 – 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 RMB464,095,000 (2000 – RMB488,277,000) on the assumption that all unredeemed convertible bonds (see Note 22) were converted on 1st January, 2001 and on the weighted average number of approximately 2,525,357,000 shares (2000 – 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:

	2000	2001
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	**1,602,250**
Weighted average number of ordinary shares used in calculating diluted earnings per share	2,952,499,993	**2,525,356,718**

37. NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2000	2001	
	RMB'000	***RMB'000***	***US$'000***
Profit before tax	575,604	**622,029**	**75,154**
Adjustments for:			
Provision for (Reversal of) bad and doubtful debts	16,231	**(7,127)**	**(861)**
Write-down of inventories to net realisable values	67,319	**7,725**	**933**
Provision of impairment loss on long term investments	10,360	**–**	**–**
Net loss on disposal of property, plant and equipment	22,733	**33,121**	**4,002**
Loss on write-off of property, plant and equipment	95,301	**–**	**–**
Net loss on disposal of long-term investments	4,232	**4,725**	**571**
Amortisation of leasehold land	4,115	**4,345**	**525**
Depreciation of property, plant and equipment	807,847	**868,721**	**104,961**
Amortisation of intangible assets	5,204	**5,928**	**716**
Share of profits less losses from associates	(21,219)	**(3,106)**	**(375)**
Income from disposal of short-term investments	–	**(15,340)**	**(1,853)**
Dividend income from other long-term investments	(5,629)	**(8,103)**	**(979)**
Interest expense	157,992	**163,236**	**19,723**
Interest income	(48,436)	**(42,296)**	**(5,110)**
(Increase) Decrease in operating assets:			
Inventories	(760,045)	**50,498**	**6,101**
Trade receivables	(90,628)	**54,307**	**6,562**
Due from associates	4,766	**11,732**	**1,418**
Due from affiliated companies	428,217	**(175,331)**	**(21,184)**
Due from parent company	(22,287)	**–**	**–**
Prepayments, deposits and other receivables	(27,186)	**73,999**	**8,941**
Increase (Decrease) in operating liabilities:			
Trade payables	315,404	**(183,091)**	**(22,122)**
Due to affiliated companies	(35,517)	**(108,338)**	**(13,090)**
Due to parent company	52,605	**(17,605)**	**(2,127)**
Taxes payable	10,712	**(305,804)**	**(36,948)**
Accruals and other payables	100,376	**60,663**	**7,329**
Other non-current liabilities	66,971	**(163,027)**	**(19,697)**
Cash flows generated from operations	1,735,042	**931,861**	**112,590**

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

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

	2000	**2001**	
	RMB'000	***RMB'000***	***US$'000***
Increase in property, plant, equipment	569,613	**1,319,809**	**159,463**
Less:			
Decrease (Increase) in construction payable	134,509	**(66,522)**	**(8,037)**
Capitalised convertible bonds interest	(2,261)	**–**	**–**
Capitalised long-term loans interest	(2,691)	**(1,965)**	**(238)**
Donation	(2,277)	**(176)**	**(21)**
Inventories used in the construction of property, plant and equipment	–	**(104,907)**	**(12,675)**
Cash used in the construction of property, plant and equipment	696,893	**1,146,239**	**138,492**

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

(c) Analysis of changes in financing activities:

	Short-term bank loans	Long-term bank loans	Total	
	RMB'000	*RMB'000*	*RMB'000*	*US$'000*
Balance as of 1st January, 2000	205,800	811,604	1,017,404	122,925
Addition of short-term bank loans	2,520,000	–	2,520,000	304,473
Addition of long-term bank loans	–	51,200	51,200	6,186
Addition of interests on long-term bank loans	–	52,736	52,736	6,372
Repayment of short-term bank loans	(2,725,800)	–	(2,725,800)	(329,338)
Repayment of long-term bank loans	–	(40,040)	(40,040)	(4,838)
Repayment of interests on long-term bank loans	–	(57,757)	(57,757)	(6,978)
Balance as of 31st December, 2000	–	817,743	817,743	98,802
Addition of short-term bank loans	2,372,416	–	2,372,416	286,640
Addition of long-term bank loans	–	400,000	400,000	48,329
Addition of interests on long-term bank loans	–	54,759	54,759	6,617
Repayment of short-term bank loans	(2,310,000)	–	(2,310,000)	(279,100)
Repayment of long-term bank loans	–	(50,200)	(50,200)	(6,065)
Exemption of repayment of a long-term bank loan	–	(1,000)	(1,000)	(121)
Repayment of interests on long-term bank loans	–	(54,145)	(54,145)	(6,542)
Balance as of 31st December, 2001	**62,416**	**1,167,157**	**1,229,573**	**148,560**

38. 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.

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

	2000	**2001**	
	RMB'000	***RMB'000***	***US$'000***
Research and development expenditures paid and payable (Note (a))	35,000	**35,000**	**4,229**
Research and development Subventions received (Note (a))	2,792	**6,330**	**765**
Insurance premiums paid (Note (b))	35,862	**38,247**	**4,621**
Subsidy received from Sinopec (Note (c))	20,062	**13,762**	**1,663**

(a) 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, 2001, the Company should pay to Sinopec an amount of RMB35,000,000 (2000 – RMB35,000,000). Also, the Company undertakes certain research and development projects for Sinopec. During the year ended 31st December, 2001, the Company received from Sinopec an amount of approximately RMB6,330,000 (2000 – RMB2,792,000) to this effect.

(b) 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, 2001, the Group paid to Sinopec insurance premium of approximately RMB38,247,000 (2000 – RMB35,862,000) based on certain percentage of the carrying value of the Group's assets covered.

38. RELATED PARTY TRANSACTIONS (Continued)

(c) During the year ended 31st December, 2001, the Group received subsidy from Sinopec amounting to approximately RMB13,762,000 (2000 – RMB20,062,000) which was determined based on certain percentage of insurance premium paid (see Note (b) above). These subsidy can only be utilised to enhance the Group's security and safety measures and was accounted for as a reimbursement of insurance premium in the IFRS financial statements.

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

	2000	**2001**	
	RMB'000	***RMB'000***	***US$'000***
Sales	14,905,188	**15,835,677**	**1,913,307**
Purchases			
– Import of crude oil through a Sinopec group company	11,863,422	**7,131,469**	**861,642**
– Purchase of crude oil through a Sinopec group company	737,769	**–**	**–**
– Others	26,065	**91,008**	**10,996**
Service fee paid in relation to import of crude oil	102,146	**60,373**	**7,294**
Construction fees	123,381	**204,751**	**24,739**

Transactions between the Group and its associates were as follows:

	2000	**2001**	
	RMB'000	***RMB'000***	***US$'000***
Sales	322,595	**239,795**	**28,973**

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.

39. SEGMENTAL INFORMATION

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

	2001							
	Refining		Chemicals		Elimination		Total	
	RMB'000	*US$'000*	*RMB'000*	*US$'000*	*RMB'000*	*US$'000*	*RMB'000*	*US$'000*
Turnover	19,603,019	2,368,487	551,657	66,653	(327,016)	(39,511)	19,827,660	2,395,629
Cost of sales	(18,050,636)	(2,180,924)	(501,300)	(60,568)	327,016	39,511	(18,224,920)	(2,201,981)
Gross profit	1,552,383	187,563	50,357	6,085	–	–	1,602,740	193,648
Unallocated corporate expenses							(834,307)	(100,803)
Profit from operations							768,433	92,845
Finance cost							(120,940)	(14,613)
Share of profits and losses of associates	3,106	375	–	–	–	–	3,106	375
Others, net							(28,570)	(3,453)
Income tax expense							(158,030)	(19,093)
Net profit							463,999	56,061
OTHER INFORMATION								
Segment assets	9,025,057	1,090,428	317,100	38,313	–	–	9,342,157	1,128,741
Unallocated corporate assets							841,553	101,680
Total assets							10,183,710	1,230,421
Segment liabilities	1,062,279	128,348	1,697	205	–	–	1,063,976	128,553
Unallocated corporate liabilities							1,353,551	163,538
Total liabilities							2,417,527	292,091
Capital expenditure	1,305,330	157,713	23,360	2,823	–	–	1,328,690	160,536
Depreciation and amortisation	797,197	96,319	81,797	9,883	–	–	878,994	106,202

39. SEGMENTAL INFORMATION (Continued)

	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	2,597,802	562,301	67,939	(373,304)	(45,104)	21,689,964	2,620,637
Cost of sales	(19,922,543)	(2,407,093)	(554,776)	(67,030)	373,304	45,104	(20,104,015)	(2,429,019)
Gross profit	1,578,424	190,709	7,525	909	–	–	1,585,949	191,618
Unallocated corporate expenses							(906,792)	(109,561)
Profit from operations							679,157	82,057
Finance cost							(109,556)	(13,237)
Share of profits and losses of associates	21,219	2,564	–	–	–	–	21,219	2,564
Others, net							(15,216)	(1,838)
Income tax expense							(154,827)	(18,707)
Net profit							420,777	50,839
OTHER INFORMATION								
Segment assets	8,896,557	1,074,905	376,335	45,470	–	–	9,272,892	1,120,375
Unallocated corporate assets							2,323,927	280,783
Total assets							11,596,819	1,401,158
Segment liabilities	1,835,019	221,712	27,887	3,369	–	–	1,862,906	225,081
Unallocated corporate liabilities							2,283,151	275,856
Total liabilities							4,146,057	500,937
Capital expenditure	557,661	67,378	48,486	5,858	–	–	606,147	73,236
Depreciation and amortisation	736,615	89,000	80,551	9,732	–	–	817,166	98,732
Impairment loss recognised in the income statement	95,301	11,515	–	–	–	–	95,301	11,515

39. SEGMENTAL INFORMATION (Continued)

(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.

40. COMMITMENTS

The Group had significant capital commitments as follows:

	2000	**2001**	
	RMB'000	***RMB'000***	***US$'000***
Contracted but not provided for	12,660	**716,320**	**86,548**
Authorised but not contracted for	–	**6,136**	**741**
	12,660	**722,456**	**87,289**

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

41. FINANCIAL INSTRUMENTS

(a) Financial risk factors and financial risk management

The Group activities expose it to a variety of financial risks, including credit risk, liquidity risk, interest rate risk and foreign exchange risk.

(i) Credit risks

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit terms and monitoring procedures.

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

79.44 per cent of the Group's sales were made to Sinopec group companies. Credit risks with other customers were controlled by establishing credit limits and credit terms based on periodic review of their creditability.

41. **FINANCIAL INSTRUMENTS (Continued)**

(a) **Financial risk factors and financial risk management (Continued)**

(ii) Liquidity risks

The Group policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed annual credit facilities from banks to meet its commitments over the next year in accordance with its strategic plan.

(iii) Interest rate risk

All the bank loans bear fixed interest rates. The interest rates and terms of repayments of long-term and short-term bank loans are disclosed in Notes 20 and 24 respectively.

(iv) Foreign exchange risk

The Group has no significant foreign exchange risk due to limited foreign currency transactions.

(b) **Fair value estimation**

In assessing the fair value of non-trading securities and other financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date as follows:

(i) Cash and cash equivalents

The carrying amount approximates fair value because these assets either carry a current rate of interest or have a short period of time between the origination of the cash deposits and their expected maturity.

(ii) Trade receivables, other receivables, trade payables and other payables

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

(iii) Balances with related parties

No disclosure of fair values is made for balances with related parties as it is not practicable to determine their fair values with sufficient reliability since these balances are non-interest bearing and have no fixed repayment terms.

41. FINANCIAL INSTRUMENTS (Continued)

(b) Fair value estimation (Continued)

(iv) Borrowings

As of 31st December, 2001, the carrying amount of borrowings approximates fair value based on current market interest rates for comparable instruments.

(v) Other long-term receivables

No disclosure of fair value is made for construction fee paid on behalf of employees as it is not practicable to determine its fair value with sufficient reliability since the balance is non-interest bearing and has no fixed repayment terms.

The carrying amount of other deposits approximates fair value as they carry a current rate of interest.

42. 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, 2001, 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, 2001.

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.

43. SUBSEQUENT EVENTS

Pursuant to the resolution made by the Board of Directors subsequent to 31st December, 2001, the Board of Directors proposed a final dividend of RMB0.035 (2000 – RMB0.035) per share totalled approximately RMB88,332,000 (2000 – RMB88,332,000) for the year ended 31st December, 2001.

44. CONTINGENT LIABILITIES

(a) As of 31st December, 2001, the Group provided bank loan guarantee in the amount of RMB110,000,000 (2000 – RMB100,000,000) to an associate of the Group.

(b) As of 31st December, 2001, the Group's endorsed or discounted undue commercial notes receivable amounted to RMB200,000,000 (2000 – nil).

45. COMPARATIVE FIGURES

Leasehold land is separated from property, plant and equipment in the 2001 financial statements. Accordingly, comparative figures have been reclassified to conform to the current year's presentation.

46. APPROVAL OF FINANCIAL STATEMENTS

The financial statements (set out on pages 24 to 91) were approved by the board of directors on 29th March, 2002.