1. BACKGROUND AND PRINCIPAL ACTIVITIES

Sinopec Zhenhai Refining & Chemical Company Limited ("the Company") was established in the People's Republic of China ("the PRC") on 28 June 1994 as a joint stock limited company as part of a restructuring exercise to convert Zhenhai General Petrochemical Works ("ZGP"), a State-owned enterprise, into a joint stock limited 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 28 June 1994, the Company took over the business undertakings and subsidiaries of ZGP together with the relevant assets and liabilities, and issued to Sinopec Group Company 1,800,000,000 State-owned shares with a par value of RMB1.00 each.

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 Corp"), a joint stock limited company established in the PRC on 25 February 2000. Since then, Sinopec Corp is the immediate parent company and Sinopec Group Company is the ultimate parent company.

The Company and its subsidiaries (collectively "the Group") is principally engaged in the production and sale of petroleum products (including gasoline, diesel, kerosene, naphtha, liquefied petroleum gas, solvent oil and fuel oil), intermediate petrochemical products, asphalt, urea and other petrochemical products. Gasoline, diesel and kerosene are three major products of the Group. The principal activities of its principal subsidiaries are shown in note 15.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are set out below:

(a) Statement of compliance

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"). IFRS include International Accounting Standards ("IAS") and related interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of preparation

The financial statements are presented in Renminbi, rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of certain property, plant and equipment where stated in note 2(e). The accounting policies have been consistently applied by the Group and are consistent with those adopted in the previous year, except for as described in note 30(e) that land use rights are carried at historical cost less amortisation and impairment losses effective 1 January 2002. The effect of this change resulted in a decrease in the shareholders' equity as of 1 January 2002.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation *(continued)*

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

(c) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements of the Group include the financial statements of the Company and all of its principal subsidiaries. Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

(ii) Associates

Associates are those enterprises in which the Company or the Group has significant influence, but not control, over the financial and operating policies. The Company's financial statements and the Group's consolidated financial statements include the Company's and the Group's share of the total recognised gains and losses of the principal associates on an equity accounted basis respectively, from the date that significant influence commences until the date that significant influence ceases. When the Company's or the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Company or the Group has incurred obligations in respect of the associate.

(iii) Transactions eliminated on consolidation

Intra-group transactions and balances, and any material unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(iv) Goodwill

Goodwill arising on acquisition represents the excess of the cost of acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less accumulated amortisation and impairment losses (see note 2(t)). Amortisation is charged on a straight-line basis to the income statement over its estimated useful life.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Translation of foreign currencies

Transactions in foreign currencies are translated into Renminbi at the applicable exchange rates quoted by the People's Bank of China ("PBOC rates") ruling at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Renminbi at the applicable PBOC rates ruling at that date.

Foreign currency translation differences relating to funds borrowed to finance the construction of property, plant and equipment to the extent that they are regarded as an adjustment to interest costs are capitalised during the construction period. All other exchange differences are dealt with in the income statement.

(e) Property, plant and equipment

Property, plant and equipment are stated in the balance sheets at cost or valuation (see note 13(b)) less accumulated depreciation and impairment losses (see note 2(t)). Revaluation is performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

(i) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is charged to the income statement as an expense in the period in which it is incurred.

(ii) Depreciation

Depreciation is provided to write off the costs or revalued amount of property, plant and equipment over their estimated useful lives on a straight-line basis, after taking into account their estimated residual values, as follows:

Buildings	20 to 40 years
Plant, machinery, equipment and others	8 to 18 years
Motor vehicles	8 to 10 years

The depreciation period of certain plant, machinery and equipment has been revised from between 8 and 10 years to between 12 and 14 years with effect from 1 January 2002 (see note 31).

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Property, plant and equipment *(continued)*

(iii) Retirement or disposal

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net sales proceeds and the carrying amount of the assets and are recognised in the income statement on the date of retirement or disposal.

(f) Construction in progress

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses (see note 2(t)). Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the construction period.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(g) Lease prepayments

Lease prepayments represent the amount of land use rights paid to the PRC land bureau. Land use rights are carried at historical cost less amortisation and impairment losses (see note 2(t)). Amortisation is calculated on a straight-line basis over the respective periods of the rights. At 31 December 2002, lease prepayments which comprise land use rights have been presented in a separate balance sheet caption. Accordingly, the comparative amount at 31 December 2001 which was previously included in leasehold land was reclassified to conform with the current year's presentation.

(h) Investments in subsidiaries

In the Company's balance sheet, investments in subsidiaries are accounted for using the equity method.

(i) Other investments

Other investments in unlisted equity securities are stated at cost less impairment losses (see note 2(t)). A provision is made where, in the opinion of management, the carrying amount of the other investments exceeds its recoverable amount.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Inventories

Inventories, other than spare parts and consumables, are carried at the lower of cost and net realisable value. Cost includes the cost of materials computed using the weighted average method and expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of work in progress and finished goods, cost includes direct labour and an appropriate proportion of production overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sales.

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

Spare parts and consumables are stated at cost less any provision for obsolescence.

(k) Trade receivables

Trade receivables are stated at cost less allowance for doubtful accounts. An allowance for doubtful accounts is provided based upon the evaluation of the recoverability of these accounts at the balance sheet date.

(l) Cash equivalents

Cash equivalents consist of time deposits with banks with an initial term of less than three months when acquired. Cash equivalents are stated at cost, which approximates fair value.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Convertible bonds

Convertible bonds are stated at amortised cost less converted bonds. Interest expense is accrued on a 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.

(o) Revenue recognition

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes value-added tax and is after deduction of any trade discounts and returns. Revenue from the rendering of services is recognised in the income statement upon performance of the services. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

Dividend income is recognised when the shareholder's right to receive payment is established.

(p) Net financing costs

Net financing costs comprise interest expense on borrowings, interest income from bank deposits, foreign exchange gains and losses and bank charges.

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and at the rate applicable.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of net financing costs, except to the extent that they are capitalised as being directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(q) Repairs and maintenance expenses

Repairs and maintenance expenses, including cost of major overhaul, are charged to the income statement as and when they are incurred.

(r) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. The research and development costs are therefore recognised as expenses in the period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Retirement benefits

Contributions to defined contribution scheme are recognised as an expense in the income statement as incurred. Further information is set out in note 8.

(t) Impairment losses

The carrying amounts of the Group's long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the assets are discounted to their present value. The amount of the reduction is recognised as an expense in the income statement.

The Group assesses at each balance sheet date whether there is any indication that an impairment loss recognised for an asset in prior years may no longer exist. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down or write-off cease to exist, is recognised as income. The reversal is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

(u) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(v) Income tax

Income tax on the income statement for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided under the balance sheet liability method, providing for significant temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. The effect on deferred tax of any changes in tax rates is charged to income statement.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(x) Operating leases

Operating lease payments are charged to the income statement on a straight-line basis over the period of the respective leases.

(y) Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services and is subject to risks and rewards that are different from those of other segments.

3. TURNOVER

Turnover represents the sales value of goods sold to customers, net of value-added tax and is after deduction of any sales discounts and returns.

4. BUSINESS TAXES AND SURCHARGES

	2002	2001
	RMB'000	*RMB'000*
Consumption tax	**802,943**	790,634
City construction tax	**111,539**	85,690
Education surcharge	**64,128**	47,591
Others	**11,560**	13,005
Total	**990,170**	936,920

Consumption tax is levied on producers of gasoline and diesel based on an applicable tax rate applied to the volume of sales. City construction tax is levied on an entity based on an applicable tax rate applied to the total amount of value-added tax, consumption tax and business tax.

5. EMPLOYEE REDUCTION EXPENSES

In accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB51,200,000 during the year ended 31 December 2001 in respect of the voluntary resignation of approximately 430 employees. There were no employee reduction expenses incurred during the year ended 31 December 2002.

6. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

(a) Net financing costs

	2002	2001
	RMB'000	*RMB'000*
Interest expense on		
– Bank borrowings wholly repayable within five years	**85,056**	63,618
– Convertible bonds	**144**	101,583
Less: Amount capitalised as projects in progress *	**(15,915)**	(1,965)
Interest expense, net	**69,285**	163,236
Interest income	**(5,574)**	(42,296)
Net foreign exchange loss	**10,035**	6,334
Bank charges	**904**	685
Total	**74,650**	127,959

* *The borrowing costs have been capitalised at a rate of 5.22%-5.49% (2001: 5.94%-6.21%) per annum for projects in progress.*

(b) Other items

	2002	2001
	RMB'000	*RMB'000*
Cost of inventories #	**18,809,021**	18,089,718
Depreciation of property, plant and equipment #	**748,560**	874,649
Amortisation of lease prepayments	**893**	4,345
Net loss/(gain) on disposal of associates and other investments	**2,459**	(10,615)
Repairs and maintenance expenses #	**332,262**	225,969
Research and development costs	**50,248**	41,441
Staff costs #		
– Salaries, wages, bonus and other staff welfare	**613,163**	562,358
– Contributions to retirement scheme	**94,825**	101,021
Provision for impairment of other investments	**13,272**	–
Auditors' remuneration	**2,318**	3,063
Operating lease charges	**3,852**	3,852
Dividend income from other investments	**(5,983)**	(8,103)

\# *Cost of inventories includes RMB1,452,040,000 (2001: RMB1,524,100,000) relating to staff costs, depreciation of property, plant and equipment and repairs and maintenance expenses, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.*

The number of employees of the Group as at 31 December 2002 was 9,382 (2001: 9,600).

7. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

(a) Directors' emoluments

	2002	2001
	RMB'000	*RMB'000*
Directors' fees	**–**	–
Basic salaries, allowances and benefits in kind	**192**	191
Discretionary bonuses	**832**	602
Retirement scheme contributions and others	**126**	88
	1,150	881

For the year ended 31 December 2002, the above emoluments were paid to 6 directors (2001: 6), each of these individuals received less than HK$1,000,000.

The Company's independent non-executive directors received their emoluments from corporations in which they serve. No emoluments were paid to the independent non-executive directors by the Company.

(b) Supervisors' emoluments

	2002	2001
	RMB'000	*RMB'000*
Basic salaries, allowances and benefits in kind	**83**	85
Discretionary bonuses	**303**	235
Retirement scheme contributions and others	**62**	43
	448	363

For the year ended 31 December 2002, the above emoluments were paid to 3 supervisors (2001: 3), each of these individuals received less than HK$1,000,000.

7. DIRECTORS' AND SUPERVISORS' EMOLUMENTS *(continued)*

(c) Individuals with highest emoluments

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

	2002	2001
	RMB'000	*RMB'000*
Basic salaries, allowances and benefits in kind	**167**	160
Discretionary bonuses	**702**	507
Retirement scheme contributions and others	**106**	73
	975	740

For the year ended 31 December 2002, the 5 highest-paid individuals of the Company included 4 directors (2001: 2), whose emoluments had been included in note (a) above. Each of the highest-paid individuals received less than HK$1,000,000.

8. RETIREMENT SCHEME

As stipulated by the regulations of the PRC, the Group participates in a defined contribution retirement scheme organised by the Ningbo Labour Insurance Administration Department. The Group is required to make contributions to the retirement scheme at a rate of 20% of total salaries and benefits in kind of its employees. A member of the scheme is entitled to retirement benefits equal to a fixed proportion of the salary prevailing at his retirement date. The Group has no other material obligation for the payment of retirement benefits associated with this scheme beyond the annual contributions described above.

Other than the above, pursuant to a document "Lao Bu Fa 1995 No. 464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Group has set up a supplementary defined contribution retirement scheme for its employees. The assets of the scheme are held separately from those of the Group in an independent fund administered by representatives from the Group. The scheme is funded by contributions from the Group which are calculated at a rate based on the salaries and benefits in kind of its employees. The contribution rate for 2002 was 5% (2001: 5%).

9. INCOME TAX EXPENSE

Individual companies within the Group are mainly subject to Enterprise Income Tax ("EIT") at 33% on taxable income determined according to the PRC tax laws. Pursuant to the document "Cai Shui Zi 1994 No.1" issued by the Ministry of Finance and State Administration of Taxation of China issued on 29 March 1994, the Group is eligible to certain EIT preferential treatments because of its recycling of certain wasted materials. The amount of EIT refund was RMB43,077,000 (2001: RMB69,697,000).

The Group did not carry on business overseas and in Hong Kong and therefore does not incur overseas and Hong Kong Profits Tax.

9. INCOME TAX EXPENSE *(continued)*

(a) Income tax expense in the consolidated income statement represents:

	2002	2001
	RMB'000	*RMB'000*
Current tax expense		
– Current year	**426,838**	158,618
– Under provision in respect of prior years	**1,220**	–
	428,058	158,618
Deferred tax	**(15,707)**	(3,143)
Share of associates' income tax	**7,458**	2,555
Total income tax expense in consolidated income statement	**419,809**	158,030

(b) Reconciliation of effective tax rate as follows:

	2002	2001
	RMB'000	*RMB'000*
Profit from ordinary activities before taxation	**1,393,066**	622,029
Expected income tax at statutory tax rate of 33%	**459,712**	205,269
Non-deductible expenses	**15,457**	22,658
Tax exempt revenue	**(5,339)**	(6,176)
EIT preferential treatments	**(43,077)**	(69,697)
Effect of tax losses of subsidiaries and associates	**4,386**	4,111
Differential tax rate of associates	**1,147**	2,671
Under provision of deferred tax assets in respect of prior years	**(13,202)**	–
Under provision of income tax expenses in respect of prior years	**1,220**	–
Others	**(495)**	(806)
Income tax expense	**419,809**	158,030

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders of RMB973,257,000 (2001: RMB463,999,000) has been dealt with in the financial statements of the Company.

11. DIVIDENDS

(a) Dividends attributable to the year

	2002	2001
	RMB'000	*RMB'000*
Interim dividend declared and paid of RMB0.04 per share (2001: RMB0.025 per share)	**100,950**	63,093
Final dividend proposed after the balance sheet date of RMB0.08 per share (2001: RMB0.035 per share)	**201,900**	88,332
	302,850	151,425

Pursuant to a resolution passed at the directors' meeting on 17 April 2003, a final dividend of RMB201,900,357 (2001: RMB88,331,406) was proposed for shareholders' approval at the Annual General Meeting.

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2002	2001
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.035 per share (2001: RMB0.035 per share)	**88,332**	88,332

12. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders of RMB973,257,000 (2001: RMB463,999,000) and the weighted average number of ordinary shares of 2,523,754,468 (2001: 2,523,754,468) in issue during the year.

12. EARNINGS PER SHARE *(continued)*

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the adjusted profit attributable to ordinary shareholders of RMB973,353,000 (2001: RMB464,095,000) and the weighted average number of ordinary shares of 2,525,357,000 (2001: 2,525,357,000) after adjusting for the effects of all dilutive potential ordinary shares.

(i) Reconciliation of profit attributable to ordinary shareholders

	2002	2001
	RMB'000	*RMB'000*
Profit attributable to ordinary shareholders	**973,257**	463,999
After-tax effect of interest on convertible bonds	**96**	96
Adjusted profit attributable to ordinary shareholders (diluted)	**973,353**	464,095

(ii) Reconciliation of weighted average number of ordinary shares (In thousands of shares)

	2002	2001
Weighted average number of ordinary shares used in calculating basic earnings per share	**2,523,755**	2,523,755
Effect of conversion of convertible bonds	**1,602**	1,602
Weighted average number of ordinary shares used in calculating diluted earnings per share	**2,525,357**	2,525,357

13. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Plant, machinery, equipment and others	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost or valuation:				
At 1 January 2002	1,624,731	7,750,553	112,624	9,487,908
Reclassifications	(728,439)	728,439	–	–
Transfer from construction in progress *(note 14)*	9,344	1,136,117	14,786	1,160,247
Additions	534	119,331	6,785	126,650
Disposals	(9,597)	(143,034)	(4,276)	(156,907)
At 31 December 2002	**896,573**	**9,591,406**	**129,919**	**10,617,898**
Accumulated depreciation:				
At 1 January 2002	353,893	3,314,782	73,235	3,741,910
Reclassifications	(198,865)	198,865	–	–
Depreciation charge for the year	29,904	703,669	14,987	748,560
Written back on disposals	(3,470)	(92,640)	(3,537)	(99,647)
At 31 December 2002	**181,462**	**4,124,676**	**84,685**	**4,390,823**
Net book value:				
At 31 December 2002	**715,111**	**5,466,730**	**45,234**	**6,227,075**
At 31 December 2001	1,270,838	4,435,771	39,389	5,745,998

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Company

	Buildings	Plant, machinery, equipment and others	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost or valuation:				
At 1 January 2002	1,165,175	7,066,796	83,965	8,315,936
Reclassifications	(712,371)	712,371	–	–
Transfer from construction in progress *(note 14)*	5,302	993,811	13,889	1,013,002
Additions	–	117,866	3,800	121,666
Disposals	(5,099)	(123,821)	(3,761)	(132,681)
At 31 December 2002	**453,007**	**8,767,023**	**97,893**	**9,317,923**
Accumulated depreciation:				
At 1 January 2002	265,522	3,027,433	58,281	3,351,236
Reclassifications	(192,837)	192,837	–	–
Depreciation charge for the year	14,128	650,117	11,248	675,493
Written back on disposals	(1,273)	(76,167)	(2,750)	(80,190)
At 31 December 2002	**85,540**	**3,794,220**	**66,779**	**3,946,539**
Net book value:				
At 31 December 2002	**367,467**	**4,972,803**	**31,114**	**5,371,384**
At 31 December 2001	899,653	4,039,363	25,684	4,964,700

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

(a) All of the Group's buildings are located in the PRC.

(b) The Company was established in the PRC on 28 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 the 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 31 March 1994 by an independent valuer, Zhong Fa International Properties Valuation Corporation and approved by the State-owned Assets Administration Bureau. The injected assets and liabilities were reflected in the financial statements on this basis.

In accordance with IAS 16 Property, plant and equipment, 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 with sufficient regularity to ensure that the carrying amount does not differ materially from that which 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 their fair values as at 31 December 2002.

14. CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Projects in progress				
At 1 January	**851,236**	423,123	**841,340**	412,497
Additions	**1,410,073**	1,095,735	**1,261,268**	1,086,260
Transfer to property, plant and equipment *(note 13)*	**(1,160,247)**	(667,622)	**(1,013,002)**	(657,417)
At 31 December	**1,101,062**	851,236	**1,089,606**	841,340
Construction materials	**503,899**	170,059	**503,899**	170,059
	1,604,961	1,021,295	**1,593,505**	1,011,399

15. INTERESTS IN SUBSIDIARIES

	The Company	
	2002	2001
	RMB'000	*RMB'000*
Share of net assets, unlisted	**1,037,197**	1,056,356
Amounts due from subsidiaries	**422,706**	435,721
Amounts due to subsidiaries	**(576,021)**	(568,065)
	883,882	924,012

The particulars of these subsidiaries, all of which are companies established and operating in the PRC, which principally affected the results or assets of the Group at 31 December 2002 are as follows:

Name of subsidiaries	Registered capital	Percentage of equity held by the Company	Percentage of equity held by subsidiaries	Type of legal entity	Principal activities
	RMB'000				
Zhenhai Refining & Chemical Maintenance and Installation Company	30,000	100%	–	Joint stock company	Repairing and installation of industrial equipment
Ningbo Economic & Technical Development Zone Zhenhai Refining & Chemical Warehousing Company	300,000	100%	–	Joint stock company	Warehousing services
Zhenhai Refining & Chemical Engineering Company	50,000	100%	–	Joint stock company	Contractor for construction projects
Zhenhai Refining & Chemical Materials and Equipment Company	245,000	100%	–	Joint stock company	Trading in construction materials and supplies
Ningbo Bonded Area Zhenhai Refining & Chemical International Trading Company	3,000	100%	–	Joint stock company	Import and export of petrochemical products
Zhenhai Refining & Chemical Haida Development Company	40,290	100%	–	Joint stock company	Contract labour services, trading in daily necessities for employees and trading in petrochemical products

15. INTERESTS IN SUBSIDIARIES *(continued)*

Name of subsidiaries	Registered capital	Percentage of equity held by the Company	Percentage of equity held by subsidiaries	Type of legal entity	Principal activities
	RMB'000				
Ningbo Bonded Area Zhenhai Refining & Chemical Gas Stations Investment Company Limited	50,000	95%	5%	Limited liability company	Wholesale and retail of petrochemical products and warehousing services
Zhenhai Refining & Chemical Pressure Containers Examination and Maintenance Station	200	100%	–	Collective enterprise	Provision of repairs and maintenance services for containers and pipelines
Zhenhai Refining & Chemical Dong Hai Hotel	30,000	100%	–	Joint stock company	Provision of hotel and catering services
Ningbo Daxie Development Area Jinchen Commercial Company Limited	10,000	90%	10%	Limited liability company	Sales of petrochemical products, real estate development and warehousing services
Ningbo Hexin Computer Company Limited	3,000	75%	25%	Limited liability company	Provision of computer related services
Ningbo Donghai Petrochemical Company Limited	4,000	90%	10%	Limited liability company	Wholesale and retail of petrochemical products

None of the subsidiaries has issued any debt securities.

16. INTERESTS IN ASSOCIATES

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Share of net assets	**241,479**	265,204	**127,474**	134,280

16. INTERESTS IN ASSOCIATES *(continued)*

The particulars of the principal associates, which are companies established and operating in the PRC, which principally affected the results or assets of the Group at 31 December 2002 are as follows:

Name of associates	Registered capital	Percentage of equity held by the Company	Type of legal entity	Principal activities
	RMB'000			
Xiamen Luyong Petrochemical Company Limited	31,900	50%	Limited liability company	Trading in petroleum products
Zhuhai Gulf Petrochemical Company Limited	10,000	45%	Limited liability company	Trading in petroleum and petrochemical products
Nantong Donghai Petrochemical Company Limited	73,000	50%	Collective enterprise	Trading in petrochemical products
Xiaoshan Donghai Petrochemical Associated Company	15,000	50%	Collective enterprise	Trading in petroleum products
Wenzhou Donghai Petrochemical Company Limited	11,644	50%	Limited liability company	Trading in petrochemical products
Zhejiang Petroleum Products Pipage and Storage Company Limited	90,000	50%	Limited liability company	Pipage and storage of petroleum products

17. OTHER INVESTMENTS

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Other investments in unlisted shares, at cost	**169,408**	169,308	**169,108**	169,008
Less: Provision for impairment losses	**(23,632)**	(10,360)	**(23,632)**	(10,360)
	145,776	158,948	**145,476**	158,648

18. DEFERRED TAX ASSETS

The movements and components of deferred tax assets are as follows:

		The Group		
	Note	Balance at 1 January 2002	Recognised in income statement	**Balance at 31 December 2002**
		RMB'000	*RMB'000*	***RMB'000***
Current				
Provisions, primarily for receivables and inventories		27,643	2,032	**29,675**
Non-current				
Provision for other investments		3,419	4,380	**7,799**
Land use rights	*(a)*	56,320	(1,320)	**55,000**
Property, plant and equipment		3,879	10,615	**14,494**
		91,261	15,707	**106,968**

		The Company		
	Note	Balance at 1 January 2002	Recognised in income statement	**Balance at 31 December 2002**
		RMB'000	*RMB'000*	***RMB'000***
Current				
Provisions, primarily for receivables and inventories		27,643	(8,153)	**19,490**
Non-current				
Provision for other investments		3,419	4,380	**7,799**
Land use rights	*(a)*	56,320	(1,320)	**55,000**
Property, plant and equipment		3,879	10,615	**14,494**
		91,261	5,522	**96,783**

(a) As described in note 30(e) to the financial statements, land use rights are carried at historical cost less amortisation and impairment losses effective 1 January 2002. Accordingly, the surplus on the revaluation of land use rights net of deferred tax asset is reversed to shareholders' equity.

19. INVENTORIES

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials	**455,169**	718,633	**455,169**	718,633
Work in progress	**227,050**	191,098	**227,050**	191,098
Finished goods	**461,346**	332,433	**461,346**	332,433
Spare parts and consumables	**93,745**	120,221	**14,308**	13,335
	1,237,310	1,362,385	**1,157,873**	1,255,499

As 31 December 2002, the Group and the Company had inventories carried at net realisable value with carrying amount of RMB170,786,000 (2001: RMB998,913,000).

20. TRADE RECEIVABLES-THIRD PARTIES

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bills receivable	**292,488**	129,040	**285,206**	124,850
Accounts receivable	**90,275**	34,409	**77,702**	26,599
	382,763	163,449	**362,908**	151,449
Less: Allowance for doubtful accounts	**(3,797)**	(5,287)	**(3,797)**	(3,645)
	378,966	158,162	**359,111**	147,804

The ageing analysis of trade receivables-third parties (before allowance for doubtful accounts) is as follows:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Invoice date:				
Within one year	**378,966**	157,554	**359,111**	147,152
Between one and two years	**–**	–	**–**	–
Between two and three years	**–**	1,632	**–**	1,632
Over three years	**3,797**	4,263	**3,797**	2,665
	382,763	163,449	**362,908**	151,449

Sales are generally on a cash basis. Subject to negotiation, credit is generally only available for major customers with well-established trading records.

21. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Other receivables, deposits and prepayments of the Group and the Company expected to be recovered after more than one year is RMB59,786,000 (2001: RMB100,452,000).

22. AMOUNTS DUE FROM ASSOCIATES

The amounts due from associates are unsecured, interest free and have no fixed repayment terms.

23. AMOUNTS DUE FROM PARENT COMPANIES AND FELLOW SUBSIDIARIES

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade balances	**419,997**	482,111	**413,457**	467,579
Non-trade balances	**106,756**	90,389	**106,756**	90,389
	526,753	572,500	**520,213**	557,968

The amounts due from parent companies and fellow subsidiaries are unsecured, interest free and have no fixed repayment terms. All the trade and non-trade balances aged less than one year.

24. DEPOSITS WITH BANKS AND CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and in hand	**709,628**	353,535	**695,462**	345,143
Time deposits with an initial term of less than three months	**15,727**	89,660	**15,727**	89,660
Cash and cash equivalents	**725,355**	443,195	**711,189**	434,803
Time deposits with an initial term over three months	**30,000**	–	**30,000**	–
	755,355	443,195	**741,189**	434,803

25. BANK LOANS

(a) Bank loans as at 31 December 2002 were unsecured and repayable as follows:

	Note	The Group and the Company 2002	2001
		RMB'000	*RMB'000*
Within 1 year or on demand			
Short-term bank loans	*(i)*	**30,000**	62,416
Current portion of long-term bank loans		**366,800**	202,157
		396,800	264,573
After 1 year but within 2 years		**600,000**	365,000
After 2 years but within 5 years		**430,000**	600,000
		1,030,000	965,000
	(ii)	**1,426,800**	1,229,573

(i) The weighted average annual interest rates of the Group's and the Company's short-term bank loans as at 31 December 2002 was 5.01% (2001: 5.00%).

(ii) All the bank loans as at 31 December 2002 were denominated in Renminbi.

Bank loans of RMB350,000,000 (2001: RMB550,000,000) as at 31 December 2002 were guaranteed by Sinopec Group Company.

(b) The interest rates and terms of repayment of long-term bank loans are as follows:

Long-term bank loans	**Interest rate**	**Interest type**	**The Group and the Company 2002**	2001
			RMB'000	*RMB'000*
Due in 2002	6.03%	Floating	**–**	202,157
Due in 2003	5.49% – 6.21%	Floating	**366,800**	365,000
Due in 2004	5.49% – 5.94%	Floating	**600,000**	600,000
Due in 2005	5.22% – 5.49%	Floating	**430,000**	–
Total long-term bank loans		note 35(b)	**1,396,800**	1,167,157
Less: Current portion of long-term bank loans			**(366,800)**	(202,157)
Non-current portion of long-term bank loans			**1,030,000**	965,000

26. CONVERTIBLE BONDS

On 19 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 annum payable in arrears on 19 December in each year. The Bonds will be redeemed at par on 19 December 2003 unless previously converted or redeemed. 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 19 January 1997 to 19 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 31 December 2002 and 2001, 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 19 December 1999, at their principal amount, together with accrued interest to the date of redemption. Interest is accrued at an annual rate of 6.99%. The holders of the Bonds may ask the Company to redeem the Bonds, at their option on 19 December 2001, in whole or in part, at a 122.94% of the principal amount of the 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 predetermined formula.

On 19 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. During January 2002, the Company redeemed another part of the Bonds at US$123,000 (including redemption premium of approximately US$23,000).

27. TRADE PAYABLES-THIRD PARTIES

The maturity analysis of trade payables-third parties is as follows:

	The Group		**The Company**	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due within 1 month or on demand	**343,073**	353,010	**306,603**	311,730
Due after 1 month and within 6 months	**114,817**	33,399	**62,190**	33,399
	457,890	386,409	**368,793**	345,129

28. AMOUNTS DUE TO PARENT COMPANIES AND FELLOW SUBSIDIARIES

		The Group		The Company	
		2002	2001	**2002**	2001
		RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade balances	*(a)*	**127,324**	80,570	**42,389**	80,570
Non-trade balances	*(b)*	**80,293**	35,000	**80,293**	35,000
		207,617	115,570	**122,682**	115,570

(a) The maturity analysis of the trade balances included in the amounts due to parent companies and fellow subsidiaries is as follows:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due within 1 month or on demand	**52,517**	–	**42,389**	–
Due after 1 month and within 6 months	**74,807**	80,570	**–**	80,570
	127,324	80,570	**42,389**	80,570

(b) All the non-trade balances are unsecured, interest free and have no fixed repayment terms.

29. SHARE CAPITAL

	The Group and the Company	
	2002	2001
	RMB'000	*RMB'000*
Registered capital:		
1,800,000,000 State-owned shares of RMB1.00 each	**1,800,000**	1,800,000
1,381,000,000 H shares of RMB1.00 each	**1,381,000**	1,381,000
	3,181,000	3,181,000
Issued and fully paid:		
1,800,000,000 State-owned shares of RMB1.00 each	**1,800,000**	1,800,000
723,754,468 H shares of RMB1.00 each	**723,755**	723,755
	2,523,755	2,523,755

State-owned shares and H shares rank pari passu in all respects, except that the shareholders of the State-owned shares are restricted to the PRC nationals or legal persons, while the shareholders of H shares are restricted to overseas investors. In addition, dividends on the State-owned shares are payable in Renminbi, while dividends on H shares are payable in Hong Kong dollars.

30. RESERVES AND RETAINED EARNINGS

(a) According to the Articles of Association of the Company and its subsidiaries in the PRC, each of these entities is required to transfer 10% of its profit after taxation, as determined in accordance with the PRC Accounting Rules and Regulations, to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders of these entities.

The statutory surplus reserve can be used to make good its previous years' losses, if any, or to expand its production and operation, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of its registered capital.

(b) According to the Articles of Association of the Company and its subsidiaries in the PRC, each of these entities is required to transfer 5% to 10% of its profit after taxation, as determined in accordance with the PRC Accounting Rules and Regulations, to the statutory public welfare fund. This fund can only be utilised on capital items for the collective benefits of its employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than in liquidation. The transfer to this fund must be made before distribution of dividends to shareholders of these entities. The directors of the Company and its principal subsidiaries have resolved to transfer 10% (2001: 10%) of their current year's profits after taxation to the statutory public welfare fund.

(c) The transfer to the discretionary surplus reserve from profit after taxation is subject to the approval by shareholders at Annual General Meeting. Its usage is similar to that of statutory surplus reserve.

The Company has proposed not to transfer any of its profit to this reserve in respect of the financial year 2002 (2001: Nil). Certain subsidiaries have proposed to transfer RMB2,173,000 (2001: RMB5,545,000) to this reserve in respect of the financial year 2002.

(d) According to the Company's Articles of Association, the amount of retained earnings available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IFRS. At 31 December 2002, the amount of retained earnings available for distribution, which was the amount determined in accordance with the PRC Accounting Rules and Regulations, was RMB1,100,050,000 (2001: RMB530,998,000) before taking into account the current year's proposed final dividend. After the balance sheet date, the directors proposed final dividend of RMB201,900,357 (2001: RMB88,331,406) in respect of the financial year 2002.

(e) Effective 1 January 2002, land use rights which are included in lease prepayments are carried at historical cost less amortisation and impairment losses. Accordingly, the surplus on the revaluation of land use rights net of deferred tax asset was reversed to shareholders' equity at 1 January 2002. The effect of this change did not have a material impact on the Group's financial condition and results of operations in the years prior to the change. As such, certain comparative figures have been reclassified to conform with the current year's presentation.

31. CHANGE IN ACCOUNTING ESTIMATES

The Company undertook a comprehensive review of the expected useful lives of certain plant, machinery and equipment at the beginning of 2002 which has taken into consideration the depreciation method currently adopted by the domestic petrochemical industry. The Company has determined to revise the depreciation period of this plant, machinery and equipment. In this connection, the depreciation period of the main manufacturing facilities has been revised from between 8 and 10 years to between 12 and 14 years with effect from 1 January 2002.

The change had the effect of a reduction in depreciation expense by approximately RMB154 million and an increase of profit attributable to shareholders by approximately RMB103 million for the year ended 31 December 2002 and for each of the subsequent years until the assets are fully depreciated or disposed of.

32. RELATED PARTY TRANSACTIONS

Most of the transactions undertaken by the Group during the year ended 31 December 2002 have been effected with such counterparties and on such terms as have been determined by the Company's immediate parent company, Sinopec Corp, and other relevant PRC authorities. Sinopec Corp negotiates and agrees the terms of crude oil supply with suppliers on a group basis, which is then allocated among its subsidiaries, including the Group, on a discretionary basis.

(a) Major transactions between the Group with Sinopec Corp or Sinopec Group Company are as follows:

	Note	**2002**	2001
		RMB'000	*RMB'000*
Research and development expenses	*(i)*	**35,000**	35,000
Research and development subventions received	*(i)*	**4,703**	6,330
Insurance premiums	*(ii)*	**41,434**	38,247
Safety insurance fund received	*(iii)*	**19,491**	13,762
Special project fund received	*(iv)*	**5,000**	–

(i) The Group pays Sinopec Corp for research and development expenditures in accordance with the provisions in an agreement between the Group and Sinopec Corp. Also, the Group undertakes certain research and development projects for Sinopec Corp.

(ii) Pursuant to administrative measures issued by Sinopec Corp, the Group maintains insurance coverage with a subsidiary of Sinopec Group Company, which cover the Group's buildings, machinery, equipment and inventories. The insurance premium is calculated based on certain percentage of the carrying value of the Group's assets covered.

(iii) Safety insurance fund received from Sinopec Group Company can only be utilised to enhance the Group's security and safety measures and to conduct specified researches.

(iv) Special project fund received from Sinopec Corp is mainly for the installation and adoption of a new accounting software.

32. RELATED PARTY TRANSACTIONS *(continued)*

(b) Major transactions between the Group with the related companies under Sinopec Corp or Sinopec Group Company are as follows:

	2002	2001
	RMB'000	*RMB'000*
Sales of products	**14,574,876**	15,835,677
Purchase of crude oil	**5,735,090**	7,131,469
Purchase of equipment	**215,980**	91,008
Service fee charges in relation to import and export of crude oil	**29,565**	60,373
Construction and installation fees	**166,647**	204,751
Interest income	**1,185**	–
Interest expense	**131**	–

(c) Major transactions between the Group with its associates are as follows:

	2002	2001
	RMB'000	*RMB'000*
Sales of products	**387,964**	239,795

(d) Settlement account with a related company:

	2002	2001
	RMB'000	*RMB'000*
Balance of a settlement account	**419,112**	20,488

The balance of the settlement account with a related company mainly represents the proceeds from sales of certain petroleum products made to a sales subsidiary of Sinopec Corp.

Balances of amounts due from/(to) parent companies, fellow subsidiaries and associates have been disclosed on the face of the Group's consolidated balance sheet and the Company's balance sheet.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the terms of agreements governing such transactions.

33. SEGMENT REPORTING

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

	2002			
	Refining	**Chemicals**	**Elimination**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Net sales	**21,211,851**	**617,574**	**(334,928)**	**21,494,497**
Cost of sales	**(19,339,905)**	**(479,407)**	**334,928**	**(19,484,384)**
Gross profit	**1,871,946**	**138,167**	**–**	**2,010,113**
Other operating income				**54,520**
Selling and administrative expenses				**(498,348)**
Other operating expenses				**(54,123)**
Net loss on disposal of property, plant and equipment				**(54,278)**
Profit from operations				**1,457,884**
Net financing costs				**(74,650)**
Share of profits less losses from associates				**9,832**
Income tax expense				**(419,809)**
Profit attributable to shareholders				**973,257**
Other segment information				
Segment assets	**10,135,434**	**338,233**	**–**	**10,473,667**
Unallocated assets				**1,203,931**
Total assets				**11,677,598**
Segment liabilities	**1,598,744**	**349**	**–**	**1,599,093**
Unallocated liabilities				**1,631,199**
Total liabilities				**3,230,292**
Capital expenditure	**1,529,721**	**7,002**	**–**	**1,536,723**
Depreciation	**701,087**	**47,473**	**–**	**748,560**

33. SEGMENT REPORTING *(continued)*

	2001			
	Refining	Chemicals	Elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net sales	19,603,019	551,657	(327,016)	19,827,660
Cost of sales	(18,348,355)	(501,300)	327,016	(18,522,639)
Gross profit	1,254,664	50,357	–	1,305,021
Other operating income				55,207
Selling and administrative expenses				(501,619)
Other operating expenses				(27,406)
Net loss on disposal of property, plant and equipment				(33,121)
Employee reduction expenses				(51,200)
Profit from operations				746,882
Net financing costs				(127,959)
Share of profits less losses from associates				3,106
Income tax expense				(158,030)
Profit attributable to shareholders				463,999
Other segment information				
Segment assets	8,854,391	317,100	–	9,171,491
Unallocated assets				897,872
Total assets				10,069,363
Segment liabilities	1,062,279	1,697	–	1,063,976
Unallocated liabilities				1,353,551
Total liabilities				2,417,527
Capital expenditure	1,212,609	23,360	–	1,235,969
Depreciation	792,852	81,797	–	874,649

Segment information is presented in respect of the Group's business segments. The format of which is based on the Group's management and internal reporting structure. In view of the fact that the Company and its subsidiaries operate mainly in the PRC, no geographical segment information is presented.

Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by Sinopec Corp's policy.

33. SEGMENT REPORTING *(continued)*

Segment assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise cash and cash equivalents, deposits with banks, bank loans, corporate assets and liabilities.

Segment capital expenditure is the total costs incurred during the year to acquire property, plant and equipment and projects in progress that are expected to be used for more than one year.

The Group conducts the majority of its business activities in two areas, refining and chemicals. The specific products of each segment are as follows:

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

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

34 COMMITMENTS

(a) Capital commitments

Capital commitments relate primarily to construction of buildings, plant, machinery and purchase of equipment. The Group and the Company had capital commitments outstanding at 31 December 2002 not provided for in the financial statements as follows:

	The Group and the Company	
	2002	2001
	RMB'000	*RMB'000*
Authorised and contracted for	**559,299**	716,320
Authorised but not contracted for	**37,249**	6,136
	596,548	722,456

(b) Lease commitments

At 31 December 2002, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group and the Company	
	2002	2001
	RMB'000	*RMB'000*
Within 1 year	**3,560**	3,852
After 1 year but within 5 years	**8,400**	8,400
After 5 years	**87,150**	89,250
	99,110	101,502

The Group leases land in the PRC under operating leases. The leases run for an initial period of 50 years and the lease payments are fixed. None of the leases includes contingent rentals.

35. FINANCIAL INSTRUMENTS

(a) Financial risk factors and financial risk management

Financial assets of the Group and the Company include cash and cash equivalents, deposits with banks, other investments, trade and other receivables, and amounts due from parent companies and fellow subsidiaries. Financial liabilities of the Group and the Company include bank loans, trade and other payables, and amounts due to parent companies and fellow subsidiaries. The Group does not hold or issue financial instruments for trading purposes. The Group had no positions in derivative contracts that are designated and qualified as hedging instruments at 31 December 2002 and 2001.

(i) Interest rate risk

The interest rates and terms of repayment of bank loans of the Group and the Company are disclosed in note 25.

(ii) Credit risk

Deposits with banks

The Group's financial instruments do not represent a concentration of credit risk because the Group deals with a variety of major financial institutions with good credit ratings.

Trade and other receivables

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

(iii) Foreign exchange risk

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

(b) Fair value

The following table presents the carrying amount and fair value of the Group's long-term bank loans at 31 December 2002:

		2002		2001	
	Note	**Carrying amount**	**Fair value**	Carrying amount	Fair value
		RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Liabilities					
Long-term bank loans	*25(b)*	**1,396,800**	**1,371,413**	1,167,157	1,141,134

35. FINANCIAL INSTRUMENTS *(continued)*

(b) Fair value *(continued)*

The fair value of long-term bank loans are estimated based on applying a discounted cash flow using current market interest rates for similar financial instruments.

Other investments are unquoted interests. There is no quoted market price for such other investments in the PRC, and accordingly a reasonable estimate of fair value could not be made without incurring excessive costs.

The fair values of cash and cash equivalents, trade and other receivables, trade and other payables and the amounts due from/to parent companies and fellow subsidiaries are not materially different from their carrying amounts.

The carrying amounts of deposits with banks and short-term bank loans are estimated to approximate their fair values based on the nature or short-term maturity of these instruments.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

36. SUBSEQUENT EVENTS

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 11.

37. CONTINGENT LIABILITIES

(a) At 31 December 2002, the Group and the Company provided bank loan guarantees amounting to RMB130,000,000 (2001: RMB110,000,000) to an associate of the Group.

(b) At 31 December 2002, the Group and the Company discounted undue bills receivable amounting to RMB80,030,000 (2001: RMB200,000,000).

38. COMPARATIVE FIGURES

Certain comparative figures as at and for the year ended 31 December 2001 have been reclassified to conform with the current year's presentation.

39. PARENT COMPANIES

The directors consider the immediate parent company and the ultimate parent company at 31 December 2002 to be Sinopec Corp and Sinopec Group Company respectively, which are established in the PRC.