Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1. Significant Accounting Policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost.

(c) Subsidiaries and controlled enterprises

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

1. Significant Accounting Policies (continued)

(d) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

– for acquisitions before 1 January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses (see note 1(i)); and

– for acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and impairment losses (see note 1(i)).

Negative goodwill arising on acquisitions of controlled subsidiaries represents the excess of the group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

– for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and

– for acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

On disposal of a controlled subsidiary during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

1. Significant Accounting Policies (continued)

(e) Property, plant and equipment

(i) Items of property, plant and equipment (other than construction in progress) are carried in the balance sheet at cost less accumulated depreciation (see note 1(h)) and impairment losses (see note 1(i)). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Construction is progress is stated at cost less impairment losses (see note 1(i)) and is transferred to relevant classes of property, plant and equipment when the asset is substantially ready for its intended use. No depreciation is provided in respect of construction in progress.

(ii) Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement on the date of retirement or disposal.

(f) Intangible assets

Intangible assets are operating rights arising from the acquisition of petrol stations which represent payments to owners of petrol stations for the rights to operate such petrol stations. They are stated in the balance sheet at cost less accumulated amortisation (see note 1(h)) and impairment losses (see note 1(i)).

(g) Leased assets

Where the group has the use of assets under operating leases, payments made under the leases are charged to the consolidated income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the consolidated income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated income statement in the accounting period in which they are incurred.

1. Significant Accounting Policies (continued)

(h) Depreciation and amortisation

(i) Depreciation is calculated to write off the cost of property, plant and equipment over their estimated useful lives as follows:

– leasehold land and land use rights are depreciated on a straight-line basis over the remaining term of the lease;

– buildings are depreciated on a straight-line basis over the shorter of their estimated useful lives, being from 15 years to 35 years, and the unexpired terms of the leases; and

– other property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

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

(ii) Operating rights for petrol stations are amortised on a straight-line basis over the operating periods of the respective petrol stations.

1. Significant Accounting Policies (continued)

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– construction in progress;

– investments in subsidiaries (except for those accounted for at fair value under note 1(c));

– intangible assets; and

– positive goodwill (whether taken initially to reserves or recognised as an asset).

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, or are amortised over more than 20 years from the date when the asset is available for use or goodwill that is amortised over 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated income statement in the year in which the reversals are recognised.

(Expressed in Hong Kong dollars)

1. Significant Accounting Policies (continued)

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(l) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Scheme Ordinance and to the state-managed retirement benefits schemes for the employees of the group's entities in the People's Republic of China (the "PRC"), are recognised as an expense in the income statement as incurred.

1. Significant Accounting Policies (continued)

(l) Employee benefits (continued)

(iii) When the group grants employees options to acquire shares of the company at nil consideration no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(iv) Termination benefits are recognised when, and only when, the group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(m) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the company or group 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.

(Expressed in Hong Kong dollars)

1. Significant Accounting Policies (continued)

(o) Revenue recognition

Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated income statement as follows:

(i) Sale of goods

Revenue is recognised when the goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Petroleum unloading services income

Petroleum unloading services income is recognised when services are rendered. Revenue is stated net of sales taxes.

(iii) Interest income

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

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in the consolidated income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

1. Significant Accounting Policies (continued)

(p) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the consolidated income statement.

The results of branches and subsidiaries outside Hong Kong are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of an enterprise outside Hong Kong, the cumulative amount of the exchange differences which relate to that enterprise is included in the calculation of the profit or loss on disposal.

(q) Borrowing costs

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use of sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

(r) Related party

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.

(s) Dividends

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

1. Significant Accounting Policies (continued)

(t) Segment reporting

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the group's internal financial reporting system, the group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financial expenses and minority interests.

(Expressed in Hong Kong dollars)

2. Turnover

The principal activities of the group are trading of crude oil petroleum and petrochemical products, operating of a crude oil jetty and its ancillary facilities and petrol stations.

Turnover represents sales value of goods supplied to refinery customers and consumers and income from providing crude oil jetty services, net of related sales taxes. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2002	2001
	$'000	$'000
Trading of crude oil, petroleum and petrochemical products	**4,808,948**	4,832,192
Retail sales of petroleum products	**1,136,136**	814,185
Crude oil jetty services	**307,011**	305,560
	6,252,095	5,951,937

Turnover includes a write bank of provision for PRC business tax totalling $22,281,000 (2001: $nil) made in the previous years. The directors consider that such provision is no longer required.

3. Other Revenue

	2002	2001
	$'000	$'000
Interest income	**2,958**	5,481
Petroleum unloading services income	**5,342**	–
Write back of provision for bad debts	**–**	5,000
Others	**5,527**	11,551
	13,827	22,032

4. Profit from Ordinary Activities before Taxation

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

		2002	2001
		$'000	$'000
(a)	Finance costs:		
	Interest on bank advances	**6,866**	6,387
	Interest on other loans	**–**	398
		6,866	6,785
(b)	Personnel costs:		
	Salaries, wages and other benefits	**46,347**	38,943
	Contributions to defined contribution plans	**3,728**	2,479
		50,075	41,422
(c)	Other items:		
	Cost of inventories	**5,790,110**	5,553,231
	Amortisation of intangible assets	**1,653**	905
	Auditors' remuneration		
	– current year	**800**	700
	– underprovision/(overprovision) in prior year	**539**	(500)
	Depreciation	**74,327**	72,530
	Impairment loss on goodwill	**–**	2,327
	Negative goodwill released to income	**–**	(455)
	Loss on disposal of fixed assets	**2,700**	2,776
	Operating lease charges:		
	– petrol station facilities	**10,010**	14,625
	– plant and machinery	**1,355**	2,353
	– land and buildings	**2,876**	759
	– vessel (net of sub-lease rental receivable of $92,344,000)	**10,890**	–

5. Taxation

(a) Taxation in the consolidated income statement represents:

	2002	2001
	$'000	$'000
Provision for Hong Kong Profits Tax for the year (note (i))	**273**	–
Overprovision in respect of prior years	**(700)**	(1,314)
	(427)	(1,314)
PRC income tax calculated at the applicable rates:		
– current year	**20,435**	6,756
– reversal of provision in respect of prior years (note (ii))	**–**	(15,111)
	20,435	(8,355)
Tax provision/(reversal of tax provision)	**20,008**	(9,669)

One of the company's subsidiaries established in the PRC, which commenced operations in March 1997, enjoys full tax exemption for its first five profit making years and a tax reduction of 50% for the next five years in respect of its jetty operations. The income tax rate applicable to this PRC subsidiary is 15%. The year 2002 is the sixth year that the subsidiary started to have a taxable profit. Accordingly, the subsidiary is subject to a 50% reduction in applicable income tax rate, which is 7.5%.

Notes:

(i) The provision for Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profits for the year ended 31 December 2002. No provision for Hong Kong Profits Tax was made in 2001 as the subsidiary involved in the Hong Kong operations sustained a loss for taxation purposes during 2001.

(ii) The company's subsidiary incorporated in the Bahamas, which was engaged in the crude oil trading business in the PRC, ceased business during 2001 and became inactive thereafter. Deemed income tax on the crude oil trading business was provided for in the previous years. The directors considered that the related PRC tax liability would not be crystallised and consequently the provisions made in the previous years were released to the consolidated income statement during 2001.

5. Taxation (continued)

(b) Taxation in the consolidated balance sheet represents:

	2002	2001
	$'000	$'000
Provision for Hong Kong Profits Tax and PRC Income Tax for the year	**20,708**	6,756
Provisional Hong Kong Profits Tax and PRC Income Tax paid	**(14,364)**	(6,823)
	6,344	(67)
Balance of Profits Tax provision relating to prior years	**(767)**	–
Tax payable/(recoverable)	**5,577**	(67)

(c) No provision for deferred taxation has been made as the effect of all timing difference is not material.

6. Directors' Remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2002	2001
	$'000	$'000
Fees	**4,677**	3,994
Salaries and other emoluments	**608**	638
	5,285	4,632

Included in the directors' remuneration were fees of $200,000 (2001: $180,000) paid to independent non-executive directors during the year.

Other emoluments disclosed above included the estimated rateable value of certain of the group's properties provided to certain directors of the company as rent-free accommodation. The aggregate rateable value of such accommodation was approximately $185,000 (2001: $189,000) for the year.

6. Directors' Remuneration (continued)

The remuneration of the directors is within the following bands:

	2002 Number of directors	2001 Number of directors
Nil to $1,000,000	**8**	8
$1,000,001 to $1,500,000	**2**	2

During the two years ended 31 December 2001 and 2002, no emoluments were paid by the group to any of the directors as an inducement to join or upon joining the group or as compensation for loss of office. In addition, during the two years ended 31 December 2001 and 2002, an independent non-executive director waived his emoluments amounting to $90,000 and $100,000 respectively.

7. Individuals with Highest Emoluments

The five highest paid individuals of the group for both years are all directors of the company and details of their emoluments are set out in note 6.

8. Profit Attributable to Shareholders

The consolidated profit attributable to shareholders includes a loss of $3,036,000 (2001: $1,226,000) which has been dealt with in the financial statements of the company.

Reconciliation of the above amount to the company's profit for the year:

	2002 $'000	2001 $'000
Amount of consolidated profit attributable to shareholders dealt with as a loss in the company's financial statements	**(3,036)**	(1,226)
Final dividends from a subsidiary attributable to the profits of the previous financial year, approved and paid during the year	**60,000**	40,000
Company's profit for the year (note 27)	**56,964**	38,774

9. Dividend Paid

(a) Dividends attributable to the year

	2002	2001
	$'000	$'000
Interim dividend declared and paid of $1.5 cents (2001: $1.5 cents) per share	**15,552**	15,552
Final dividend proposed after the balance sheet date of $1.5 cents (2001: $1.5 cents) per share	**15,552**	15,552
	31,104	31,104

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
	$'000	$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of $1.5 cents (2001: $2.0 cents) per share	**15,552**	20,737

10. Earnings per Share

The calculation of the basic earnings per share is based on the profit attributable to shareholders of approximately $148,491,000 (2001: $153,982,000) and on 1,036,830,000 (2001: 1,036,830,000) ordinary shares in issue throughout the year.

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

(Expressed in Hong Kong dollars)

11. Change in Accounting Policy

Translation of financial statements of the overseas subsidiaries

In prior years, the results of the subsidiaries outside Hong Kong were translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. With effect from 1 January 2002, in order to comply with Statement of Standard Accounting Practice 11 (revised) issued by the Hong Kong Society of Accountants, the group translates the results of the subsidiaries outside Hong Kong at the average exchange rate for the year. The effect of this change in accounting policy is not material and, therefore, the opening balances have not been restated.

12. Segment Reporting

Segment information is presented in respect of the group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the group's internal financial reporting.

Business segments

For management purposes, the group is currently organised into three operating divisions, namely trading of crude oil, petroleum and petrochemical products, retail sales of petroleum products, and the rendering of crude oil jetty services.

	Trading of crude oil, petroleum and petrochemical products		Retail sales of petroleum products		Crude oil jetty services		Unallocated		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue										
Revenue from external customers	**4,808,948**	4,832,192	**1,136,136**	814,185	**307,011**	305,560	**–**	–	**6,252,095**	5,951,937
Other revenue from external customers	**1,985**	7,596	**8,552**	6,712	**332**	2,243	**2,958**	5,481	**13,827**	22,032
Total	**4,810,933**	4,839,788	**1,144,688**	820,897	**307,343**	307,803	**2,958**	5,481	**6,265,922**	5,973,969

12. Segment Reporting (continued)

	Trading of crude oil, petroleum and petrochemical products		Retail sales of petroleum products		Crude oil jetty services		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Segment result	**16,532**	3,781	**31,518**	6,684	**194,156**	196,163	**242,206**	206,628
Unallocated interest income							**2,958**	5,481
Unallocated corporate expenses							**(7,154)**	(3,639)
Profit from operations							**238,010**	208,470
Finance costs							**(6,866)**	(6,785)
Taxation							**(20,008)**	9,669
Minority interests							**(62,645)**	(57,372)
Profit attributable to shareholders							**148,491**	153,982
Other information								
Depreciation & amortisation for the year	**1,320**	1,265	**7,862**	7,121	**66,798**	65,049		

12. Segment Reporting (continued)

	Trading of crude oil, petroleum and petrochemical products		Retail sales of petroleum products		Crude oil jetty services		Inter-segment elimination		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Segment assets	**843,527**	596,449	**226,249**	141,603	**1,444,833**	1,451,369	**(513,453)**	(534,504)	**2,001,156**	1,654,917
Unallocated assets									**323,076**	268,104
Total assets									**2,324,232**	1,923,021
Segment liabilities	**(175,368)**	(147,555)	**(141,301)**	(116,137)	**(482,825)**	(456,279)	**513,453**	534,504	**(286,041)**	(185,467)
Unallocated liabilities									**(434,030)**	(296,632)
Total liabilities									**(720,071)**	(482,099)
Capital expenditure incurred during the year	**21**	444	**72,827**	25,466	**114,663**	67,389				

From 2002, the group has been reorganised into three operating divisions such that operation of petrol stations previously included in trading of crude oil, petroleum and petrochemical products is now reported as separate segments for management purposes. Comparative figures have been reclassified to conform to this change.

Geographical segments

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

(Expressed in Hong Kong dollars)

13. Property, Plant and Equipment

The group

	Leasehold land, land use rights and buildings $'000	Leasehold improvements $'000	Jetty structures $'000	Jetty facilities $'000	Plant and machinery $'000	Furniture, fixtures and equipment $'000	Motor vehicles and vessels $'000	Construction in progress $'000	Total $'000
Cost:									
At 1 January 2002	297,109	4,167	335,655	766,744	151,632	22,482	57,429	38,667	1,673,885
Additions									
– through acquisition of subsidiaries	14,969	1,505	–	–	5,392	19	156	–	22,041
– others	279	–	–	577	5,427	654	2,215	113,357	122,509
Transfer	21,009	–	–	97,349	17,788	230	–	(136,376)	–
Disposal	(651)	–	–	(485)	(4,909)	(214)	(4,179)	–	(10,438)
At 31 December 2002	332,715	5,672	335,655	864,185	175,330	23,171	55,621	15,648	1,807,997
Depreciation:									
At 1 January 2002	56,183	897	61,009	137,794	50,552	7,583	14,205	–	328,223
Charge for the year	12,901	619	12,739	32,679	9,197	2,768	3,424	–	74,327
Written back on disposals	(69)	–	–	(49)	(777)	(127)	(2,425)	–	(3,447)
At 31 December 2002	69,015	1,516	73,748	170,424	58,972	10,224	15,204	–	399,103
Net book value:									
At 31 December 2002	263,700	4,156	261,907	693,761	116,358	12,947	40,417	15,648	1,408,894
At 31 December 2001	240,926	3,270	274,646	628,950	101,080	14,899	43,224	38,667	1,345,662

13. Property, Plant and Equipment (continued)

The analysis of net book value of leasehold land, land use rights and buildings is as follows:

The group

	2002	2001
	$'000	$'000
Long leases in Hong Kong	**43,169**	42,758
Medium-term leases outside Hong Kong	**220,531**	198,168
	263,700	240,926

14. Intangible Assets

The group

	Petrol stations' operating rights
	$'000
Cost:	
At 1 January 2002	14,399
Additions	
– New purchase	4,033
– Through acquisition of subsidiaries	38,785
At 31 December 2002	57,217
Accumulated amortisation:	
At 1 January 2002	1,253
Charge for the year	1,653
At 31 December 2002	2,906
Net book value:	
At 31 December 2002	54,311
At 31 December 2001	13,146

(Expressed in Hong Kong dollars)

15. Investments in Subsidiaries

	2002 $'000	2001 $'000
Unlisted investments, at cost	**242,597**	242,597
Amounts due from subsidiaries	**413,379**	388,730
	655,976	631,327

The amounts due from subsidiaries are unsecured and interest free. The amounts will not be repayable within twelve months from the balance sheet date and, accordingly, the balances are classified as non-current.

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the group. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the group's financial statements.

Name of company	Place of incorporation/ establishment	Particulars of issued and paid up share capital/ registered capital	Proportion for ownership interest: group's effective interest	held by the company	held by subsidiaries	Principal activities and place of operation
Hua De Petrochemical Co. Ltd.*	The PRC	Registered capital US$79,518,200	70%	–	70%	Operation of a crude oil jetty and ancillary facilities and petrol stations in the PRC
Kantons Petroleum Co. Ltd. (in members' voluntary liquidation) (note (a))	Commonwealth of the Bahamas	30,000 ordinary shares of US$1 each	100%	100%	–	Inactive
Sinomart KTS Development Limited	Hong Kong	50 ordinary shares of HK$1 each (note (b))	100%	100%	–	Trading of crude oil, petroleum and petrochemical products in Hong Kong

15. Investments in Subsidiaries (continued)

Name of company	Place of incorporation/ establishment	Particulars of issued and paid up share capital/ registered capital	Proportion for ownership interest: group's effective interest	held by the Company	held by subsidiaries	Principal activities and place of operation
Kantons International Investment Limited	British Virgin Islands	3,000,000 ordinary shares of US$1 each	100%	100%	–	Investment holding in Hong Kong
Kantons Gas Station Investment & Management Co. Ltd., Guangzhou Bonded Division	The PRC	Registered capital RMB100,000,000	63%	–	90%	Investment holding and operation of petrol stations in the PRC

* Sino-foreign owned enterprise established in the PRC.

Note: (a) Kantons Petroleum Co. Ltd (in members' voluntary liquidation) commenced members' voluntary liquidation during the financial year. The liquidation process was completed on 28 January 2003.

(b) Sinomart KTS Development Limited also has in issue fully paid 10,000 non-voting deferred shares of $1 each, holders of which practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution on winding up.

16. Inventories

	The group	
	2002	2001
	$'000	$'000
Crude oil and spare parts	**35,447**	3,602
Petroleum and petrochemical products	**181,824**	146,558
	217,271	150,160

Included in Pertroleum and petrochemical products are inventories of $nil (2001: $78,867,000), stated net of general provision, made in order to state these inventories at the lower of their cost and estimated net realisable value. The amount of reversal of a write-down of inventories to estimated net realisable value, recognised in the consolidated income statement as a reduction in the amount of inventories recognised as an expense during the year, is $3,500,000 (2001: $nil), being provision made in 2001. This reversal arose due to an increase in the estimated net realisable value of certain petrochemical products.

(Expressed in Hong Kong dollars)

17. Investment

	The group	
	2002	2001
	$'000	$'000
Unlisted investment, at cost	**485**	485

The group has entered into an agreement with a related company to dispose of its unlisted investment at a consideration which represents the cost paid by the group. According to the terms of the agreement, the completion of the disposal is subject to the approval of the relevant authorities in the PRC, which is in the process of being obtained.

18. Trade and Other Receivables

	The group		The company	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Dividend receivable from a subsidiary	**–**	–	**100,000**	80,000
Trade receivables	**106,871**	26,443	**–**	–
Deposits and prepayments	**23,436**	33,187	**–**	–
	130,307	59,630	**100,000**	80,000

All of the trade and other receivables are expected to be recovered within one year.

18. Trade and Other Receivables (continued)

Included in trade and other receivables are trade debtors with the following ageing analysis:

	The group	
	2002	2001
	$'000	$'000
Current	**95,141**	26,253
1 to 3 months overdue	**10,392**	45
More than 3 months overdue but less than 12 months overdue	**1,338**	145
	106,871	26,443

Debts are due within 30 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balance before any further credit is granted.

19. Amounts due from/to holding companies and fellow subsidiaries

The amounts due from/to holding companies and fellow subsidiaries mainly represent balances arising from trading transactions and are unsecured, interest free and are repayable on demand.

20. Cash and Cash Equivalents

	The group		The company	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Deposits with banks and other financial institutions	**–**	116,713	**–**	–
Cash at bank and in hand	**268,279**	137,692	**7**	7
	268,279	254,405	**7**	7

(Expressed in Hong Kong dollars)

21. Trade and Other Payables

	The group		The company	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Trade payables	**164,008**	15,968	**–**	–
Creditors and accrued charges	**115,187**	120,428	**500**	300
	279,195	136,396	**500**	300

All of the trade and other payables are expected to be settled within one year.

Included in trade and other payables are trade creditors with the following ageing analysis:

	The group	
	2002	2001
	$'000	$'000
Due within 1 month or on demand	**162,627**	15,123
Due after 1 month but within 3 months	**300**	–
Due after 3 months but within 6 months	**1,081**	845
	164,008	15,968

22. Unsecured Bank Loans

As at 31 December 2002, the unsecured bank loans were repayable as follows:

	The group	
	2002	2001
	$'000	$'000
Within 1 year	**258,600**	124,908

23. Employee Retirement Benefits

The group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the scheme vest immediately.

The company's subsidiaries established in the PRC participate in the central pension fund scheme organised by the relevant local government authorities in the PRC. These subsidiaries are required to make contributions to the retirement schemes at a certain percentage of the basic salaries of its employees.

The group does not have any other pension schemes for its employees in respect of its subsidiaries elsewhere. The group does not have any other obligations other than the contributions described above.

24. Equity Compensation Benefits

The company has a share option scheme (the "scheme") which was adopted on 27 May 1999 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 26 May 2009. Under the scheme, the Board of Directors of the company may grant options to eligible employees, including directors of the company and its subsidiaries, to subscribe for shares in the company.

Options granted must be taken up within 21 days from the date of grant, upon payment of $1 per option. Options may be exercised at any time from the date of acceptance of the grant of the share option to the earlier of the date on which such options lapse under early termination and the 10th anniversary of the date of grant. The exercise price is determined by the directors of the company, and will not be less than the higher of the nominal value of the shares and 80% of the average closing price of the shares for the five business days immediately preceding the date of grant.

No options were granted under the scheme since its inception.

(Expressed in Hong Kong dollars)

25. Loans from holding company and fellow subsidiary

The loans are unsecured and interest-free. The holding company and fellow subsidiary have indicated that, without prejudice to the group's rights to repay the advance at any time, they do not intend to demand repayment of the advance within twelve months from the balance sheet date and accordingly the amount is shown as a non-current liability.

26. Share Capital

	2002		2001	
	Number of shares ('000)	**2002 $'000**	Number of shares ('000)	2001 $'000
Authorised:				
Ordinary shares of $0.1 each	**3,000,000**	**300,000**	3,000,000	300,000
Issued and fully paid:				
At 1 January and 31 December	**1,036,830**	**103,683**	1,036,830	103,683

(Expressed in Hong Kong dollars)

27. Reserves

The group

	Share premium $'000	Merger reserve $'000	General reserves $'000	Exchange reserve $'000	Retained profits $'000	Total $'000
At 1 January 2001						
– as previously reported	333,857	23,444	63,351	(2,426)	501,248	919,474
– prior period adjustment	–	–	–	–	20,737	20,737
– as restated	333,857	23,444	63,351	(2,426)	521,985	940,211
Dividends approved in respect of the previous year (note 9(b))	–	–	–	–	(20,737)	(20,737)
Transfer	–	–	19,367	–	(19,367)	–
Exchange differences on translation of financial statements of the overseas subsidiaries	–	–	–	(18)	–	(18)
Profit for the year	–	–	–	–	153,982	153,982
Dividends declared in respect of the current year (note 9(a))	–	–	–	–	(15,552)	(15,552)
At 31 December 2001	333,857	23,444	82,718	(2,444)	620,311	1,057,886

27. Reserves (continued)

The group

	Share premium $'000	Merger reserve $'000	General reserves $'000	Exchange reserve $'000	Retained profits $'000	Total $'000
At 1 January 2002	333,857	23,444	82,718	(2,444)	620,311	1,057,886
Dividends approved in respect of the previous year (note 9(b))	–	–	–	–	(15,552)	(15,552)
Transfer	–	–	31,686	–	(31,686)	–
Exchange differences on translation of financial statements of the overseas subsidiaries	–	–	–	1,445	–	1,445
Profit for the year	–	–	–	–	148,491	148,491
Dividends declared in respect of the current year (note 9(a))	–	–	–	–	(15,552)	(15,552)
At 31 December 2002	333,857	23,444	114,404	(999)	706,012	1,176,718

The merger reserve of the group represents the difference between the nominal amount of the share capital of the subsidiaries acquired and the nominal value of the share capital of the company issued for the acquisition under a group reorganisation carried out in 1999.

27. Reserves (continued)

The general reserves of the group represent appropriations made by the company's PRC subsidiaries from retained profits to a discretionary surplus reserve and an enterprise development fund, pursuant to the relevant PRC laws and regulations applicable to Sino-foreign equity joint ventures. The percentages of appropriations are determined annually by the directors of the relevant subsidiaries. The discretionary surplus reserve can be utilised to offset prior years' losses or convert into paid up capital. The enterprise development fund can be used for the future development of the enterprise or convert into paid up capital. Neither the discretionary surplus reserve nor the enterprise development fund are available for distribution. Included in general reserves is goodwill of $4,880,000 as at 31 December 2002 (2001: $4,880,000) arising from the acquisition of subsidiaries before 2001.

The company

	Share premium	**Contributed surplus**	**Retained profits**	**Total**
	$'000	$'000	$'000	$'000
At 1 January 2001				
– as previously reported	333,857	242,397	2,382	578,636
– prior period adjustment	–	–	20,737	20,737
– as restated	333,857	242,397	23,119	599,373
Dividends approved in respect of the previous year (note 9(b))	–	–	(20,737)	(20,737)
Profit for the year (note 8)	–	–	38,774	38,774
Dividends declared in respect of the current year (note 9(a))	–	–	(15,552)	(15,552)
At 31 December 2001	333,857	242,397	25,604	601,858
At 1 January 2002	333,857	242,397	25,604	601,858
Dividends approved in respect of the previous year (note 9(b))	–	–	(15,552)	(15,552)
Profit for the year (note 8)	–	–	56,964	56,964
Dividends declared in respect of the current year (note 9(a))	–	–	(15,552)	(15,552)
At 31 December 2002	333,857	242,397	51,464	627,718

(Expressed in Hong Kong dollars)

27. Reserves (continued)

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

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

(i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

At 31 December 2002, the aggregate amount of reserves available for distribution to shareholders of the company was $293,861,000 (2001: $268,001,000). After the balance sheet date the directors proposed a final dividend of 1.5 cents per share (2001: 1.5 cents per share), amounting to $15,552,000 (2001: $15,552,000). This dividend has not been recognised as a liability at the balance sheet date.

(Expressed in Hong Kong dollars)

28. Acquisition of Subsidiaries

During the year, the group acquired several subsidiaries for total considerations of $62,248,000, satisfied in cash.

	2002 $'000	2001 $'000
Net assets acquired		
Property, plant and equipment	**22,041**	5,977
Intangible assets	**38,785**	–
Inventories	**5,047**	560
Trade and other receivables	**14,374**	2,195
Cash at bank and in hand	**5,067**	1,572
Trade and other payables	**(18,696)**	(3,950)
Minority interests	**(4,370)**	–
Net identifiable assets and liabilities	**62,248**	6,354
Goodwill	**–**	2,327
Negative goodwill	**–**	(455)
Total purchase consideration, satisfied in cash	**62,248**	8,226
Less: cash of subsidiaries acquired	**(5,067)**	(1,572)
Net cash outflow in respect of the purchase of subsidiaries	**57,181**	6,654

29. Commitments

(a) Capital commitments outstanding at 31 December 2002 not provided for in the financial statements were as follows:

	The group	
	2002	2001
	$'000	$'000
Contracted for	**43,895**	16,322
Authorised but not contracted for	**–**	–
	43,895	16,322

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

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

	2002			2001		
	Petrol station facilities	**Plant and machinery**	**Land and buildings**	Petrol station facilities	Plant and machinery	Land and buildings
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Within 1 year	**3,847**	**5,607**	**2,877**	8,701	2,346	1,950
After 1 year but within 5 years	**16,830**	**–**	**3,881**	35,721	4,105	2,765
After 5 years	**75,512**	**–**	**11,232**	100,267	–	12,230
	96,189	**5,607**	**17,990**	144,689	6,451	16,945

The group leases a number of petrol station facilities, plant and machinery and land and buildings. Leases for petrol station facilities are generally run for a period of 20 years and rentals are mostly fixed during the lease period. Certain of the petrol station facilities to be determined by reference to the revenue of the relevant petrol stations are not included in the above future minimum lease payments disclosures.

30. Contingent Liabilities

At 31 December 2002, there were contingent liabilities in respect of banking facilities utilised by certain subsidiaries and guaranteed by the company amounting to approximately $180,563,000 (2001: $93,600,000).

31. Material Related Party Transactions

(a) During the year, the group had the following significant transactions with its holding companies and fellow subsidiaries. Details of the amounts which have been charged/(credited) to the consolidated income statement are as follows:

	Note	**2002 $'000**	2001 $'000
Crude oil sold by the group	(i)	**(1,746,775)**	(814,946)
Crude oil purchased by the group and related charges	(i)	**1,106,616**	–
Petroleum products sold by the group	(i)	**(297,227)**	(182,582)
Petroleum products purchased by the group	(i)	**724,129**	458,382
Petrochemical products purchased by the group	(i)	**7,716**	–
Insurance premium charged to the group	(ii)	**4,259**	3,893
Crude oil refining and processing fees charged to the group	(iii)	**90,907**	58,512
Rentals charged to the group in respect of land and buildings and motor vehicle	(iv)	**1,071**	962
Jetty service fees charged by the group	(v)	**(305,736)**	(314,137)
Maintenance service fees charged to the group	(vi)	**2,245**	6,446
Fuel purchased by the group	(vii)	**5,330**	4,879
Operating lease payments in respect of petrol station facilities charged to the group	(viii)	**3,085**	5,178
Trademark licence fees charged to the group	(ix)	**100**	402
Transportation service fees charged to the group	(x)	**6,393**	–
Petroleum unloading service fee charged by the group	(xi)	**(2,786)**	–

31. Material Related Party Transactions (continued)

In addition, the group had the following transactions with its fellow subsidiaries in connection with the construction of the crude oil jetty of the group:

	Note	2002 $'000	2001 $'000
Cost of construction and acquisition of plant and equipment and other attributable overheads charged to the group	(xii)	**3,583**	13,426

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

(i) The crude oil and petroleum products trading transactions were carried out in accordance with the terms of the relevant sales and purchase agreements and on terms agreed between the parties having regard to commercial practice of the crude oil industry and international market conditions during the year the transactions were entered into.

(ii) The insurance premium was calculated by reference to the provisions of a document jointly issued by its ultimate holding company and the Ministry of Finance in the PRC in 1998 and at a predetermined percentage as revised by its ultimate holding company from time to time.

(iii) The group engaged the intermediate holding company to refine and process crude oil into various types of petroleum products on behalf of the group. The crude oil refining and processing fees were charged in accordance with the terms of the relevant refining and processing agreements and at US$17 per tonne of crude oil processed.

(iv) The rentals on properties and motor vehicles were charged at a fixed monthly amount in accordance with the terms of the relevant rental agreements.

(v) The jetty service fees were charged in accordance with the relevant service agreement and at rates based on the State-prescribed price regulated and standardised by the Ministry of Communications and government-approved prices approved by the Guangdong Price Bureau in the PRC.

(vi) The maintenance service fees, which relate principally to after-sale services for plant and machinery purchased from or installed by the fellow subsidiaries, were charged in accordance with the terms of the relevant maintenance service agreements.

31. Material Related Party Transactions (continued)

(vii) The fuel were purchased at cost from the intermediate holding company.

(viii) The operating lease payments in respect of petrol stations were charged at a fixed annual fee or with reference to the revenue of the relevant petrol stations in accordance with the terms of the relevant operating agreements for the operation of the petrol stations.

(ix) The trademark licence fees were charged at a fixed annual amount in accordance with the terms of the relevant agreement.

(x) Transportation service fees were charged by a fellow subsidiary for delivery of petroleum products to the groups' petrol stations. The transportation service fees were charged at Rmb23 per tonne which is in accordance with the price governing by Guangdong Price Bureau in the PRC.

(xi) Petroleum unloading service fee was charged to the intermediate holding company for unloading of petroleum products from storage tank to delivery truck. The unit price charged by the group is in accordance with the price governing by Guangdong Price Bureau in the PRC.

(xii) The construction and acquisition of plant and equipment for the crude oil jetty of the group and other attributable overheads were charged in accordance with the terms of the relevant construction and purchase agreements.

(b) Certain banking facilities of the group have been supported by guarantees and/or other financial undertakings provided by the holding companies, at no cost to the group.

(c) The balances with related companies are set out in the consolidated balance sheet and notes 19 and 25.

(d) The group also acquired certain petrol stations from a fellow subsidiary for a total consideration $49,815,000 during the year. These petrol stations were previously leased and operated by the group before the acquisition. The total future minimum lease payments under the operating leases were $23,190,000. Such operating leases were terminated at the same time.

(e) In addition, a subsidiary of the company paid a dividend of approximately $46,805,000 (2001: $26,400,000) to its minority shareholder which is a fellow subsidiary group.

32. Comparative Figures

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (revised 2001) "Cash flow statement". As a result, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the consolidated cash flow statement. Comparative figures have been reclassified to conform with the current year's presentation.

In addition, certain comparative figures have been reclassified as follows.

– an amount of $14,128,000 previously included in costs of sales and services rendered in 2001 has been reclassified to distribution costs ;and

– an amount of $31,536,000 previously included in amounts due from holding companies and fellow subsidiaries has been reclassified to non-current loans from holding company and fellow subsidiary.

33. Ultimate Holding Company

The directors consider the ultimate holding company at 31 December 2002 to be China Petrochemical Corporation, a company established under the laws of the PRC.