

## Notes on the financial statements

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

### 1. Significant accounting policies

**(a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which include 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 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 of 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.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the income statement.

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any 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.

## Notes on the financial statements

For the year ended 31 December 2003  
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### 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 recognised in the income statement (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 accumulated amortisation and any 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.

In respect of any negative goodwill not yet recognised in the consolidated income statement:

- for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill.

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.

#### (e) Fixed assets

- (i) Items of property, plant and equipment are stated 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 in 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.

## Notes on the financial statements

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

### 1. Significant accounting policies (Continued)

#### (e) Fixed assets (Continued)

- (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 enterprise. 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 income statement on the date of retirement or disposal.

#### (f) Intangible assets (other than goodwill)

Operating rights arising from the acquisition of petrol stations represent payments to owners of petrol stations for the rights to operate such petrol stations, which 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

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the 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 income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

#### (h) Amortisation and depreciation

- (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

## Notes on the financial statements

For the year ended 31 December 2003  
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### 1. Significant accounting policies (Continued)

#### (h) Amortisation and depreciation (Continued)

- 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.

#### (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 in the income statement whenever the carrying amount of such an asset (including positive goodwill taken directly to reserves) 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).

## Notes on the financial statements

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

### 1. Significant accounting policies (Continued)

#### (i) Impairment of assets (Continued)

##### (ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable 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 income statement in the year in which the reversals are recognised.

#### (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.

## Notes on the financial statements

For the year ended 31 December 2003  
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### 1. Significant accounting policies (Continued)

#### (l) Employee benefits (Continued)

- (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.
- (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) Income tax

- (i) Income tax comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

## Notes on the financial statements

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

### 1. Significant accounting policies (Continued)

#### (m) Income tax (Continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

#### (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.

## Notes on the financial statements

For the year ended 31 December 2003  
(Expressed in Hong Kong dollars)

### 1. Significant accounting policies (Continued)

#### (n) Provisions and contingent liabilities (Continued)

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.

#### (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 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) *Crude oil jetty services income and petroleum unloading service income*

Crude oil jetty services income and petroleum unloading service income are 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 the rate applicable.

#### (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 income statement.

The results of enterprises 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 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.



## Notes on the financial statements

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

### 1. Significant accounting policies (Continued)

**(q) Borrowing costs (Continued)**

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 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 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.

**(s) Dividends**

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

**(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 financing expenses and minority interests.

## Notes on the financial statements

For the year ended 31 December 2003

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### 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:

	2003 \$'000	2002 \$'000
Trading of crude oil, petroleum and petrochemical products	6,173,813	4,808,948
Retail sales of petroleum products	1,206,609	1,136,136
Crude oil jetty services	321,266	307,011
	<b>7,701,688</b>	<b>6,252,095</b>

Turnover for the year ended 31 December 2002, included a write back of provision for PRC business tax totalling \$22,281,000 made in previous years. Cost of sales for the year ended 31 December 2003, included a reversal of overprovision of processing charge of \$23,282,000 (2002: \$Nil), no longer payable.

### 3. Other revenue

	2003 \$'000	2002 \$'000
Interest income	3,780	2,958
Petroleum unloading services income	4,244	5,342
Others	8,774	5,527
	<b>16,798</b>	<b>13,827</b>

## Notes on the financial statements

For the year ended 31 December 2003

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### 4. Profit from ordinary activities before taxation

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

	2003 \$'000	2002 \$'000
(a) Finance costs:		
Interest on bank advances	18,193	6,866
(b) Staff costs:		
Salaries, wages and other benefits	52,015	46,347
Contribution to defined contribution plans	3,626	3,728
	<b>55,641</b>	<b>50,075</b>
(c) Other items:		
Cost of inventories	7,234,613	5,790,110
Amortisation of intangible assets	6,568	1,653
Auditors' remuneration		
– current year	900	800
– underprovision in prior year	–	539
Depreciation	81,405	74,327
Loss on disposal of fixed assets	1,769	2,700
Operating lease charges:		
– petrol station facilities	10,735	10,010
– plant and machinery	1,462	1,355
– land and buildings	–	2,876
– vessel (2002: net of sub-lease rental receivable of \$92,344,000)	–	10,890

## Notes on the financial statements

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### 5. Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2003 \$'000	2002 \$'000
<b>Current tax – Provision for Hong Kong Profits Tax</b>		
Tax for the year	1,800	273
Over-provision in respect of prior years	–	(700)
	<b>1,800</b>	<b>(427)</b>
<b>Current tax – Outside Hong Kong</b>		
Tax for the year	19,639	20,435
Under-provision in respect of prior years	439	–
	<b>20,078</b>	<b>20,435</b>
	<b>21,878</b>	<b>20,008</b>

In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase is taken into account in the preparation of the Group's 2003 financial statements. Accordingly, the provision for Hong Kong Profits Tax for 2003 is calculated at 17.5% (2002: 16%) of the estimated assessable profits for the year. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

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 2003 is the seventh 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%.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2003 \$'000	2002 \$'000
Profit before tax	220,758	231,144
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	37,070	34,993
Tax effect of concession	(15,263)	(14,112)
Tax effect of non-deductible expenses	1,353	1,196
Tax effect of non-taxable revenue	(1,721)	(1,369)
Under/(over)-provision in previous years	439	(700)
Actual tax expense	<b>21,878</b>	<b>20,008</b>

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### 6. Directors' remuneration

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

	<b>2003</b>	2002
	<b>\$'000</b>	\$'000
Fees	<b>4,900</b>	4,677
Salaries and other emoluments	<b>683</b>	608
	<b>5,583</b>	5,285

Included in the Directors' remuneration were fees of \$200,000 (2002: \$200,000) 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 as rent-free accommodation. The aggregate rateable value of such accommodation was approximately \$208,000 (2002: \$185,000) for the year.

The remuneration of the Directors is within the following bands:

	<b>2003</b>	2002
	<b>Number of</b>	Number of
	<b>Directors</b>	Directors
Nil to \$1,000,000	<b>7</b>	8
\$1,000,001 to \$1,500,000	<b>3</b>	2

During the year ended 31 December 2002 and 2003, 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 year ended 31 December 2002 and 2003, an independent non-executive Director waived his emoluments amounted to \$100,000 and \$Nil respectively.

### 7. Individuals with highest emoluments

The five highest paid individuals of the Group for both years are all Directors and details of their emoluments are set out in note 6 above.

## Notes on the financial statements

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### 8. Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a profit of \$85,040,000 (2002: loss of \$3,036,000) 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:

	2003 \$'000	2002 \$'000
Amount of consolidated profit attributable to shareholders dealt with as a loss in the Company's financial statements	85,040	(3,036)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	–	60,000
Company's profit for the year (note 28)	<b>85,040</b>	56,964

### 9. Dividend paid

#### (a) Dividends attributable to the year

	2003 \$'000	2002 \$'000
Interim dividend declared and paid of \$1.5 cents (2002: \$1.5 cents) per share (note 28)	15,552	15,552
Final dividend proposed after the balance sheet date of \$1.5 cents (2002: \$1.5 cents) per share	15,552	15,552
	<b>31,104</b>	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

	2003 \$'000	2002 \$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of \$1.5 cents (2002: \$1.5 cents) (note 28)	15,552	15,552

## Notes on the financial statements

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### 10. Earning per share

The calculation of the basic earnings per share is based on the profit attributable to shareholders of approximately \$138,591,000 (2002: \$148,491,000) and on 1,036,830,000 (2002: 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.

### 11. Changes in accounting policies

In prior years, deferred tax liabilities were 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 were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) issued by the Hong Kong Society of Accountants, the Group adopted a new policy for deferred tax as set out in note 1(m).

The effect of this change in accounting policy is not material and, therefore the opening balances have not been restated.

## Notes on the financial statements

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### 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		Retail sales of		Crude oil jetty services		Inter-segment elimination		Unallocated		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>												
Revenue from external customers	6,173,813	4,808,948	1,206,609	1,136,136	321,266	307,011	-	-	-	-	7,701,688	6,252,095
Inter-segment revenue	-	-	-	-	3,257	-	(3,257)	-	-	-	-	-
Other revenue from external customers	911	1,985	11,852	8,552	255	332	-	-	3,780	2,958	16,798	13,827
<b>Total</b>	<b>6,174,724</b>	<b>4,810,933</b>	<b>1,218,461</b>	<b>1,144,688</b>	<b>324,778</b>	<b>307,343</b>	<b>(3,257)</b>	<b>-</b>	<b>3,780</b>	<b>2,958</b>	<b>7,718,486</b>	<b>6,265,922</b>
Segment result	21,343	16,532	19,879	31,518	203,994	194,156	(2,020)	-	-	-	243,196	242,206
Unallocated interest income											3,780	2,958
Unallocated corporate expenses											(8,025)	(7,154)
Profit from operations											238,951	238,010
Finance costs											(18,193)	(6,866)
Income tax											(21,878)	(20,008)
Minority interests											(60,289)	(62,645)
Profit attributable to shareholders											138,591	148,491
Depreciation and amortisation for the year	1,341	1,320	17,186	7,862	69,446	66,798						



## Notes on the financial statements

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

### 12. Segment reporting (Continued)

#### Business segments (Continued)

	Trading of crude oil, petroleum and petrochemical products		Retail sales of petroleum products		Crude oil jetty services		Inter-segment elimination		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment assets	718,945	843,527	236,605	226,249	1,534,255	1,444,833	(416,751)	(513,453)	2,073,054	2,001,156
Unallocated assets									263,588	323,076
Total assets									2,336,642	2,324,232
Segment liabilities	(83,407)	(175,368)	(102,422)	(141,301)	(420,516)	(482,825)	416,751	513,453	(189,594)	(286,041)
Unallocated liabilities									(402,544)	(434,030)
Total liabilities									(592,138)	(720,071)
Capital expenditure incurred during the year	86	21	51,613	72,827	114,242	114,663				

#### Geographical segments

Substantially all the Group's activities are based in the PRC, 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.

## Notes on the financial statements

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

### 13. Fixed assets

#### 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
<b>Cost:</b>									
At 1 January 2003	332,715	5,672	335,655	864,185	175,330	23,171	55,621	15,648	1,807,997
Additions									
- through acquisition									
of subsidiaries	9,668	-	-	-	2,501	-	-	-	12,169
- others	10,391	-	-	784	4,099	656	580	112,129	128,639
Transfer	-	-	-	673	276	203	-	(1,152)	-
Disposals	(11,030)	-	-	(1)	(2,424)	(1,248)	(1,014)	-	(15,717)
At 31 December 2003	341,744	5,672	335,655	865,641	179,782	22,782	55,187	126,625	1,933,088
<b>Depreciation:</b>									
At 1 January 2003	69,015	1,516	73,748	170,424	58,972	10,224	15,204	-	399,103
Charge for the year	13,304	623	117	48,812	11,156	3,679	3,714	-	81,405
Written back on disposal	(1,941)	-	-	-	(1,236)	(440)	(162)	-	(3,779)
At 31 December 2003	80,378	2,139	73,865	219,236	68,892	13,463	18,756	-	476,729
<b>Net book value:</b>									
At 31 December 2003	261,366	3,533	261,790	646,405	110,890	9,319	36,431	126,625	1,456,359
At 31 December 2002	263,700	4,156	261,907	693,761	116,358	12,947	40,417	15,648	1,408,894

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

	2003 \$'000	2002 \$'000
Long leases in Hong Kong	42,088	43,169
Medium-term leases outside Hong Kong	219,278	220,531
	<b>261,366</b>	<b>263,700</b>

## Notes on the financial statements

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

### 14. Intangible assets

#### The Group

	Petrol station operating rights \$'000
<b>Cost:</b>	
At 1 January 2003	57,217
Additions through acquisition of subsidiaries	25,133
Disposals	(6,956)
At 31 December 2003	75,394
<b>Accumulated amortisation:</b>	
At 1 January 2003	2,906
Charge for the year	6,568
Written back on disposal	(2,343)
At 31 December 2003	7,131
<b>Net book value:</b>	
At 31 December 2003	68,263
At 31 December 2002	54,311

The amortisation charge for the year has been included in "administrative expenses" in the consolidated income statement.

### 15. Investments in subsidiaries

	The Company	
	2003 \$'000	2002 \$'000
Unlisted investments, at cost	114,738	242,597
Amounts due from subsidiaries	629,661	413,379
	<b>744,399</b>	655,976

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.

## Notes on the financial statements

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

### 15. Investments in subsidiaries (Continued)

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			Principal activities and place of operation
			Group's effective interest	held by the Company	held by subsidiaries	
Hua De Petrochemical Company Limited *	The PRC	Registered capital US\$85,918,000	70%	–	70%	Operation of a crude oil jetty and ancillary facilities
Sinomart KTS Development Limited	Hong Kong	50 ordinary shares of \$1 each (note (b))	100%	100%	–	Trading of crude oil, petroleum and petrochemical products
Kantons International Investment Limited	British Virgin Islands	3,000,000 ordinary shares of US\$1 each	100%	100%	–	Investment holding
Kantons Gas Station Investment & Management Co Ltd #	The PRC	Registered capital Rmb145,000,000	63%	–	90%	Investment holding and operation of petrol stations

\* A sino-foreign owned enterprise established in the PRC.

# The company is a limited liability company established in the PRC.

*Notes:*

(a) Kantons Petroleum Company Limited completed the members' voluntary liquidation 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.

## Notes on the financial statements

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

### 16. Inventories

	The Group	
	2003	2002
	\$'000	\$'000
Crude oil and spare parts	94,680	35,447
Petroleum and petrochemical products	67,298	181,824
	<b>161,978</b>	<b>217,271</b>

None of the inventories is stated at 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 expenses during the year, is \$nil (2002: \$3,500,000).

### 17. Investment

	The Group	
	2003	2002
	\$'000	\$'000
Unlisted investment, at cost	–	485

### 18. Trade and other receivables

	The Group		The Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Dividend receivable from a subsidiary	–	–	100,000	100,000
Trade receivables	43,412	106,871	–	–
Deposits and prepayments	38,260	23,436	–	–
	<b>81,672</b>	<b>130,307</b>	<b>100,000</b>	<b>100,000</b>

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

## Notes on the financial statements

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

### 18. Trade and other receivables (Continued)

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

	The Group	
	2003 \$'000	2002 \$'000
Current	37,882	95,141
1 to 3 months overdue	2,402	10,392
More than 3 months overdue but less than 12 months overdue	3,128	1,338
	<b>43,412</b>	<b>106,871</b>

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	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Cash at bank and in hand	221,104	268,279	7	7

### 21. Trade and other payables

	The Group		The Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Bills payable	35,317	–	–	–
Trade payables	69,331	164,008	–	–
Creditors and accrued charges	69,796	115,187	1,101	500
	<b>174,444</b>	<b>279,195</b>	<b>1,101</b>	<b>500</b>

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

## Notes on the financial statements

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

### 21. Trade and other payables (Continued)

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

	The Group	
	2003	2002
	\$'000	\$'000
Due within 1 month or on demand	63,462	162,627
Due after 1 month but within 3 months	41,058	300
Due after 3 months but within 6 months	128	1,081
	<b>104,648</b>	<b>164,008</b>

### 22. Unsecured bank loans

As at 31 December 2003, the unsecured bank loans were repayable as follows:

	The Group	
	2003	2002
	\$'000	\$'000
Within 1 year	226,367	258,600

### 23. Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

	The Group	
	2003	2002
	\$'000	\$'000
Provision for Hong Kong Profits Tax for the year	1,800	273
Provisional Profits Tax paid	–	(205)
	<b>1,800</b>	<b>68</b>
Balance of PRC income tax payable	5,041	6,276
Balance of Profits Tax provision relating to prior years	(517)	(767)
	<b>6,324</b>	<b>5,577</b>

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

## Notes on the financial statements

For the year ended 31 December 2003  
(Expressed in Hong Kong dollars)

### 24. 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 pension fund schemes organised by the relevant local government authorities in the PRC. These subsidiaries are required to make contribution to the retirement scheme at a certain percentage of the basic salaries of their 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.

### 25. 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 the Directors and eligible employees, and will expire on 26 May 2009. Under the Scheme, the Directors may grant option to eligible employees, including Directors 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, 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.



## Notes on the financial statements

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

### 26. 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 advances at any time, they do not intend to demand repayment of the advances within twelve months from the balance sheet date and accordingly the amounts are shown as non-current liabilities.

### 27. Share capital

	2003		2002	
	Number of shares ( <i>'000</i> )	Amount \$ <i>'000</i>	Number of shares ( <i>'000</i> )	Amount \$ <i>'000</i>
<b>Authorised:</b>				
Ordinary shares of \$0.1 each	3,000,000	300,000	3,000,000	300,000
<b>Issued and fully paid:</b>				
At 1 January and 31 December	1,036,830	103,683	1,036,830	103,683

## Notes on the financial statements

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

### 28. Reserves

#### 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
Final 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
Interim 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
At 1 January 2003	333,857	23,444	114,404	(999)	706,012	1,176,718
Final dividends approved in respect of the previous year (note 9(b))	-	-	-	-	(15,552)	(15,552)
Transfer	-	-	30,033	-	(30,033)	-
Exchange differences on translation of financial statements of the overseas subsidiaries	-	-	-	207	-	207
Profit for the year	-	-	-	-	138,591	138,591
Interim dividends declared in respect of the current year (note 9(a))	-	-	-	-	(15,552)	(15,552)
At 31 December 2003	338,857	23,444	144,437	(792)	783,466	1,284,412

## Notes on the financial statements

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

### 28. Reserves (Continued)

#### The Group (Continued)

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

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 the general reserves is goodwill of \$4,880,000 as at 31 December 2003 (2002: \$4,880,000) arising from the acquisition of subsidiaries before 2001.

#### The Company

	Share premium \$'000	Contributed surplus \$'000	Retained profits \$'000	Total \$'000
At 1 January 2002	333,857	242,397	25,604	601,858
Final 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
Interim 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
At 1 January 2003	333,857	242,397	51,464	627,718
Final dividends approved in respect of the previous year (note 9(b))	–	–	(15,552)	(15,552)
Profit for the year (note 8)	–	–	85,040	85,040
Interim dividends declared in respect of the current year (note 9(a))	–	–	(15,552)	(15,552)
At 31 December 2003	333,857	242,397	105,400	681,654

## Notes on the financial statements

For the year ended 31 December 2003  
(Expressed in Hong Kong dollars)

### 28. Reserves (Continued)

#### The Company (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 2003, the aggregate amount of reserves available for distribution to shareholders of the Company was \$347,797,000 (2002: \$293,861,000). After the balance sheet date the Directors proposed a final dividend of 1.5 cents per share (2002: 1.5 cents per share), amounting to \$15,552,000 (2002: \$15,552,000). This dividend has not been recognised as a liability at the balance sheet date.

### 29. Acquisition of subsidiaries

During the year, the Group acquired several subsidiaries for a total consideration of \$38,602,000, satisfied in cash.

	2003 \$'000	2002 \$'000
<b>Net assets acquired</b>		
Fixed assets	12,169	22,041
Intangible assets	25,133	38,785
Inventories	1,373	5,047
Trade and other receivables	3,205	14,374
Cash at bank and in hand	8,102	5,067
Trade and other payables	(10,706)	(18,696)
Minority interests	(674)	(4,370)
Net identifiable assets and liabilities	<b>38,602</b>	62,248
Total purchase prices paid, satisfied in cash	<b>38,602</b>	62,248
Less: cash of subsidiaries acquired	<b>(8,102)</b>	(5,067)
Net cash outflow in respect of the purchase of subsidiaries	<b>30,500</b>	57,181

## Notes on the financial statements

For the year ended 31 December 2003  
(Expressed in Hong Kong dollars)

### 30. Commitments

- (a) Capital commitments outstanding at 31 December 2003 not provided for in the financial statements were as follows:

	The Group	
	2003 \$'000	2002 \$'000
Contracted for	51,233	43,895
Authorised but not contracted for	219,580	–
	<b>270,813</b>	43,895

- (b) At 31 December 2003, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group and the Company					
	Petrol station facilities \$'000	2003 Plant and machinery \$'000	Land and buildings \$'000	Petrol station facilities \$'000	2002 Plant and machinery \$'000	Land and buildings \$'000
Within 1 year	2,854	696	2,290	3,847	5,607	2,877
After 1 year but within 5 years	10,918	2,785	2,123	16,830	–	3,881
After 5 years	29,857	2,785	11,162	75,512	–	11,232
	<b>43,629</b>	<b>6,266</b>	<b>15,575</b>	96,189	5,607	17,990

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. Lease payments of certain petrol station facilities to be determined by reference to the revenue of the relevant petrol stations have not been included in the above future minimum lease payments disclosures.

### 31. Contingent liabilities

At 31 December 2003, there were contingent liabilities in respect of banking facilities utilised by certain subsidiaries and guaranteed by the Company amounting to approximately \$99,014,000 (2002: \$180,563,000).

## Notes on the financial statements

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

### 32. 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:

	2003 \$'000	2002 \$'000
Crude oil sold by the Group (note (i))	<b>(2,084,665)</b>	(1,746,775)
Crude oil purchased by the Group and related charges (note (i))	<b>1,105,945</b>	1,106,616
Petroleum products sold by the Group (note (i))	<b>(303,958)</b>	(297,227)
Petroleum products purchased by the Group (note (i))	<b>1,101,095</b>	724,129
Petrochemical products purchased by the Group (note (i))	–	7,716
Insurance premium charged to the Group (note (ii))	<b>4,142</b>	4,259
Crude oil refining and processing fees charged to the Group (note (iii))	<b>52,968</b>	90,907
Rentals charged to the Group in respect of land and buildings and motor vehicle (note (iv))	<b>145</b>	1,071
Jetty service fees, charged by the Group (note (v))	<b>(278,377)</b>	(305,736)
Maintenance service fees charged to the Group (note (vi))	<b>916</b>	2,245
Fuel purchased by the Group (note (vii))	<b>6,593</b>	5,330
Operating lease payments in respect of petrol station facilities charged to the Group (note (viii))	<b>2,448</b>	3,085
Trademark licence fees charged to the Group (note (ix))	–	100
Transportation service fees charged to the Group (note (x))	<b>9,641</b>	6,393
Petroleum unloading services fee charged by the Group (note (xi))	<b>(2,822)</b>	(2,786)

## Notes on the financial statements

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

### 32. 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:

	2003 \$'000	2002 \$'000
Cost of construction and acquisition of plant and equipment and other attributable overheads charged to the Group (note (xii))	<b>23,863</b>	3,583

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.
- (vii) The fuel were purchased at cost from the intermediate holding company.
- (viii) The operating fees 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 fee were charged at Rmb23 per tonne which is in accordance with the price governing by Guangdong Price Bureau in the PRC.

## Notes on the financial statements

For the year ended 31 December 2003  
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### 32. Material related party transactions (Continued)

- (xi) Petroleum unloading services 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 26.
  - (d) On 30 June 2003, (1) 廣州保稅區冠德油站投資管理有限公司 (Kantons Gas Station Investment & Management Co. Ltd.) ("KGSIM"), an indirect subsidiary of the Group and 珠海市景星華德石化有限公司 (Zhuhai City Jingxing Huade Petrochemical Co., Ltd.), a subsidiary of KGSIM, entered into an acquisition agreement with 廣州經濟技術開發區中穗石油化工發展有限公司 (Zhong Sui Petrochemical Development Co. GETDD) ("Zhong Sui") and 廣州經濟技術開發區中穗石化水陸運銷公司 (Zhong Sui Petrochemical Land and Water Transportation Company, GETDD) in respect of the acquisition of 廣州經濟技術開發區中穗石油化工產品有限公司 (Zhong Sui Petrochemical Products Co., Ltd.) for an aggregate consideration of approximately \$28.53 million and (2) KGSIM entered into an acquisition agreement with Zhong Sui in respect of the acquisition of 廣州白雲區羅崗航天加油站 (Guangzhou City Baiyun District Luogang Hangtian Petrol Station) for a consideration of \$5.38 million. Zhong Sui is a wholly owned subsidiary of Sinopec Guangzhou Petrochemical Complex, which in turn is wholly owned by China Petrochemical Corporation, the ultimate controlling shareholder of the Company.
  - (e) On 13 November 2003, Hua De Petrochemical Co. Ltd., an indirect subsidiary of the Group, contracted with 廣州中元石油化工工程有限公司 (Guangzhou Zhong Yuan Petrochemical Engineering Co. Ltd.), an indirect wholly owned subsidiary of China Petrochemical Corporation, for construction and installation of two crude oil storage tanks and relevant facilities in Huizhou, the PRC for a consideration of approximately \$35.85 million.
  - (f) In addition, a subsidiary of the Company paid a dividend of approximately \$32,521,000 (2002: \$46,805,000) to its minority shareholder which is a fellow subsidiary of the Group.

### 33. Presentation of statement of changes in equity

The Group has opted to present the statement of changes in equity instead of statement of recognised gains and losses for better presentation of information.

### 34. Ultimate holding company

The Directors consider the ultimate holding company at 31 December 2003 to be China Petroleum & Chemical Corporation, which is established in the PRC.