

CORPORATE INFORMATION

Executive Directors

Mr. Hong Zhi Ming (Chairman)
Mr. Yang Shu Shan (Deputy Chairman)
Mr. Dai Zhao Ming
Mr. Ye Zhi Jun (Managing Director)
Mr. Lai Yong Fu

Non-executive Directors

Mr. Guan Qing Jie
Mr. Li Yue Ling

Independent Non-executive Directors

Mr. Wong Po Yan
Ms. Tam Wai Chu, Maria

Audit Committee Members

Mr. Wong Po Yan
Ms. Tam Wai Chu, Maria

Company Secretary

Mr. Lai Yang Chau, Eugene

Auditors

KPMG
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

Legal Advisers in Hong Kong

Boughton Peterson Yang Anderson
4009 Gloucester Tower
The Landmark
11 Pedder Street
Central, Hong Kong

Statutory Address

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Place of Business in

Hong Kong

1608 Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

Hong Kong Branch Share Registrar and Transfer Office

Secretaries Limited
5th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

Listing Information

The Stock Exchange of Hong Kong Limited
Stock Code: 0934

The Board of Directors of Sinopec Kantons Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2002, together with the comparative figures for the corresponding period last year, as follows:

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2002

(Expressed in Hong Kong dollars)

| | Note | Six months ended 30 June | |
|--|------|-----------------------------|----------------|
| | | 2002 \$'000 | 2001 \$'000 |
| Turnover | 2 | 2,449,681 | 3,231,766 |
| Cost of sales | | (2,268,669) | (3,062,144) |
| | | <u>181,012</u> | <u>169,622</u> |
| Other revenue | | 3,084 | 5,756 |
| Selling and administrative expenses | | (49,364) | (40,917) |
| | | <u>134,732</u> | <u>134,461</u> |
| Profit from operations | | 134,732 | 134,461 |
| Finance cost | | (4,069) | (3,314) |
| | | <u>130,663</u> | <u>131,147</u> |
| Profit from ordinary activities before taxation | 3 | 130,663 | 131,147 |
| Taxation | 4 | (9,841) | 9,365 |
| | | <u>120,822</u> | <u>140,512</u> |
| Profit from ordinary activities after taxation | | 120,822 | 140,512 |
| Minority interests | | (28,463) | (29,169) |
| | | <u>92,359</u> | <u>111,343</u> |
| Profit attributable to shareholders | | 92,359 | 111,343 |
| Dividends | 5 | (15,552) | (20,737) |
| | | <u>76,807</u> | <u>90,606</u> |
| Retained profit for the period | | 76,807 | 90,606 |
| Earnings per share | 6 | 8.91 cents | 10.74 cents |

The notes on pages 7 to 14 form part of this interim financial report.

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2002

(Expressed in Hong Kong dollars)

| | Six months ended 30 June | |
|---|-----------------------------|-----------------------|
| | 2002 | 2001 |
| Note | \$'000 | \$'000 |
| Exchange differences arising on translation of operations in the People's Republic of China not recognised in the consolidated income statement | – | 440 |
| Net profit for the period | <u>92,359</u> | <u>111,343</u> |
| Total recognised gains and losses | <u><u>92,359</u></u> | <u><u>111,783</u></u> |

The notes on pages 7 to 14 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

AT 30 JUNE 2002

(Expressed in Hong Kong dollars)

| | | At 30 June 2002 \$'000 | At 31 December 2001 \$'000 |
|--|----|------------------------------|----------------------------------|
| Non-current assets | | | |
| Property, plant and equipment | | 1,352,756 | 1,345,662 |
| Intangible assets | | 13,968 | 13,146 |
| | | <u>1,366,724</u> | <u>1,358,808</u> |
| Current assets | | | |
| Inventories | 7 | 90,720 | 150,160 |
| Investment in a security | | 485 | 485 |
| Trade and other receivables | 8 | 88,210 | 59,630 |
| Amounts due from Sinopec Group | | 92,899 | 67,930 |
| Taxation recoverable | | – | 67 |
| Cash and cash equivalents | | 283,980 | 254,405 |
| | | <u>556,294</u> | <u>532,677</u> |
| Current liabilities | | | |
| Trade and other payables | 9 | 98,017 | 136,396 |
| Amounts due to Sinopec Group | | 62,137 | 49,072 |
| Taxation payable | | 5,172 | – |
| Short term bank loans | | 65,445 | 124,908 |
| | | <u>230,771</u> | <u>310,376</u> |
| Net current assets | | <u>325,523</u> | <u>222,301</u> |
| Total assets less current liabilities | | <u>1,692,247</u> | <u>1,581,109</u> |
| Non-current liabilities | | | |
| Loan from the Sinopec Group | 10 | 140,187 | 140,187 |
| Minority interests | | <u>313,684</u> | <u>279,353</u> |
| NET ASSETS | | <u>1,238,376</u> | <u>1,161,569</u> |

CONSOLIDATED BALANCE SHEET (UNAUDITED)

AT 30 JUNE 2002 (CONTINUED)

(Expressed in Hong Kong dollars)

| | | At 30 June 2002 \$'000 | At 31 December 2001 \$'000 |
|-----------------------------|----|------------------------------|----------------------------------|
| CAPITAL AND RESERVES | | | |
| Share capital | 11 | 103,683 | 103,683 |
| Reserves | 12 | <u>1,134,693</u> | <u>1,057,886</u> |
| | | <u>1,238,376</u> | <u>1,161,569</u> |

The notes on pages 7 to 14 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2002

(Expressed in Hong Kong dollars)

| | Six months ended 30 June | |
|--|--------------------------|-----------------------|
| | 2002 | 2001 |
| | \$'000 | \$'000 |
| Net cash inflow from operating activities | 148,468 | 46,773 |
| Net cash (used in)/provided by investing activities | (45,677) | 23,330 |
| Net cash used in financing activities | <u>(73,216)</u> | <u>(78,407)</u> |
| Increase/(decrease) in cash and cash equivalents | 29,575 | (8,304) |
| Cash and cash equivalents at 1 January | <u>254,405</u> | <u>203,240</u> |
| Cash and cash equivalents at 30 June | <u><u>283,980</u></u> | <u><u>194,936</u></u> |
| Analysis of the balances of cash and cash equivalents | | |
| Cash at bank and in hand | 210,365 | 152,833 |
| Deposits with banks and other financial institutions maturing within three months | <u>73,615</u> | <u>42,103</u> |
| | <u><u>283,980</u></u> | <u><u>194,936</u></u> |

The notes on pages 7 to 14 form part of this interim financial report.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1. BASIS OF PREPARATION

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants ("HKSA"). KPMG's independent review report to the board of directors is included on page 20.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the HKSA.

The financial information relating to the financial year ended 31 December 2001 included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2001 are available from the Company's registered office. The previous auditors, Deloitte Touche Tohmatsu, have expressed an unqualified opinion on those financial statements in their report dated 28 March 2002.

The same accounting policies adopted in the 2001 annual financial statements have been applied to the interim financial report, with the exception of changes in accounting policy to comply with revised Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA, which are mandatory for accounting periods beginning on or after 1 January 2002, as set out below.

- (i) On adoption of SSAP 11 (revised) "Foreign currency translation", the income statements of subsidiaries denominated in foreign currencies are translated at the weighted average exchange rate during the period. In previous years, these were translated at the exchange rates ruling at the balance sheet date. The financial effect of such change is not material to the Group.
- (ii) On adoption of SSAP 15 (revised) "Cash flow statements", presentations of cash flow statement have been changed to conform with the requirements of this revised SSAP.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2001 annual financial statements.

2. SEGMENTAL INFORMATION

An analysis of the Group's turnover and operating profit by business segment is as follows:

| | Group turnover | | Contribution to profit/(loss) from operations | |
|--|--------------------------|------------------|---|----------------|
| | Six months ended 30 June | | Six months ended 30 June | |
| | 2002 \$'000 | 2001 \$'000 | 2002 \$'000 | 2001 \$'000 |
| Trading of crude oil, petroleum and petrochemical products | 1,859,715 | 2,693,305 | 36,388 | 35,044 |
| Operation of service stations | 448,546 | 389,148 | 12,915 | (389) |
| Crude oil jetty services rendered | 141,420 | 149,313 | 88,174 | 101,474 |
| | <u>2,449,681</u> | <u>3,231,766</u> | 137,477 | 136,129 |
| Other group expenses | | | (2,745) | (1,668) |
| | | | <u>134,732</u> | <u>134,461</u> |

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 a separate segment for management purposes. Comparative figures have been reclassified to conform to this change.

Substantially all the Group's activities are based in the People's Republic of China (the "PRC"), including Hong Kong and Macau, and more than 90% of the Group's turnover and contribution to profit from operations are derived from the PRC for both periods. Accordingly, no geographical segmental information is presented.

Turnover includes a write back of provision for deemed PRC business tax amounting to \$22,280,657 (2001: nil) made in previous years. The directors consider that this provision is no longer required.

3. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging:

| | Six months ended 30 June | |
|-------------------------|--------------------------|--------------|
| | 2002 | 2001 |
| | \$'000 | \$'000 |
| Cost of inventories | 2,221,055 | 3,012,118 |
| Interest on borrowings | 4,069 | 3,314 |
| Depreciation | 38,125 | 35,693 |
| Operating lease charges | <u>7,587</u> | <u>6,392</u> |

The operating lease charges include contingent rental charges for the use of certain petrol stations facilities amounting to \$3,578,700 (2001: \$3,299,200).

4. TAXATION

| | Six months ended 30 June | |
|--|--------------------------|-----------------|
| | 2002 | 2001 |
| | \$'000 | \$'000 |
| Hong Kong taxation | | |
| – Provision for Hong Kong Profits Tax for the period | 1,545 | 2,893 |
| – Over-provision in respect of prior year | <u>(700)</u> | <u>–</u> |
| | <u>845</u> | <u>2,893</u> |
| PRC income tax | | |
| – Current period | 8,996 | 2,853 |
| – Over-provision in previous years (note c) | <u>–</u> | <u>(15,111)</u> |
| | <u>8,996</u> | <u>(12,258)</u> |
| | <u>9,841</u> | <u>(9,365)</u> |

Notes:

a) The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16% (2001: 16%) to the profits for the six months ended 30 June 2002.

b) PRC income tax is calculated at applicable rates prevailing.

One of the Company's subsidiaries established in the PRC was granted certain tax relief, under which it was entitled to full tax exemption for its first five profit making years and a tax reduction of 50% in the next five years in respect of its jetty operations. Starting from 1 January 2002, this subsidiary was required to pay tax at the reduced rate of 7.5% for the next five years.

c) The Company's subsidiary incorporated in the Bahamas, which was engaged in the crude oil trading business in the PRC, ceased business in 2001 and became inactive thereafter. The directors no longer considered that deemed PRC income tax liabilities made in previous years would crystallise in respect of the crude oil trading business and consequently released the provisions made in previous years to the consolidated income statement for the six months ended 30 June 2001.

d) There was no significant unprovided deferred taxation for the period or at the balance sheet date.

5. DIVIDENDS

| | Six months ended 30 June | |
|---|--------------------------|---------------|
| | 2002 | 2001 |
| | \$'000 | \$'000 |
| Final dividend in respect of 2001 of 1.5 cents per share (2000: 2 cents per share) | <u>15,552</u> | <u>20,737</u> |

Pursuant to the shareholders' approval at the Annual General Meeting held on 10 May 2002, a final dividend of 1.5 cents per share totalling \$15,552,000 in respect of the year ended 31 December 2001 was paid on 31 May 2002.

The Board of Directors declared an interim dividend of 1.5 cents per share totalling \$15,552,000 in respect of the six months ended 30 June 2002 (2001: 1.5 cents per share, totalling \$15,552,000). This dividend has not been recognised as a liability at 30 June 2002.

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholder of \$92,359,000 (2001: \$111,343,000) and the number of 1,036,830,000 ordinary shares (2001: 1,036,830,000) in issue during the period.

Diluted earnings per share has not been presented because there were no dilutive potential ordinary shares in issue for both period.

7. INVENTORIES

Included in inventories are finished goods of \$nil (at 31 December 2001: \$78,867,000), stated net of a 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 period, is \$3,500,000 (2001: \$nil). This reversal arose due to an increase in the estimated net realisable value of certain petrochemical products.

8. TRADE AND OTHER RECEIVABLES

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

| | At 30 June 2002 \$'000 | At 31 December 2001 \$'000 |
|---|---------------------------------------|----------------------------------|
| Current | 48,378 | 26,253 |
| 1 to 3 months | 7,385 | 45 |
| More than 3 months but less than 12 months | 4,303 | 145 |
| Total trade receivables | 60,066 | 26,443 |
| Deposits, prepayments and other receivables | 28,144 | 33,187 |
| | <u>88,210</u> | <u>59,630</u> |

The Group generally allows an average of 30 days to its crude oil trading customers and petrol station customers who satisfy credit evaluation.

9. TRADE AND OTHER PAYABLES

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

| | At 30 June 2002 \$'000 | At 31 December 2001 \$'000 |
|--|------------------------------|----------------------------------|
| Trade payables: | | |
| – due within 1 month or on demand | 11,114 | 15,123 |
| – due after 1 month but within 3 months | 150 | – |
| – due after 3 months but within 6 months | 7,797 | 845 |
| | <u>19,061</u> | <u>15,968</u> |
| Total trade payables | 19,061 | 15,968 |
| Other payables and accrued charges | 78,956 | 120,428 |
| | <u>98,017</u> | <u>136,396</u> |

10. LOAN FROM THE SINOPEC GROUP

This is a loan from Sinopec Guangzhou Petrochemical Complex, a subsidiary of the Group's ultimate holding company, China Petrochemical Corporation. The loan is unsecured and interest-free. Sinopec Guangzhou Petrochemical Complex has indicated that, without prejudice to the Group's rights to repay the loan at any time, it does not intend to demand repayment of the loan and accordingly the amount is shown as a non-current liability.

11. SHARE CAPITAL

| | No. of shares ('000) | \$'000 |
|-------------------------------|--------------------------|----------------|
| Issued and fully paid: | | |
| At 1 January and 30 June 2002 | 1,036,830 | 103,683 |
| | <u>1,036,830</u> | <u>103,683</u> |

12. RESERVES

| | 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 |
| Profit for the period | - | - | - | - | 92,359 | 92,359 |
| Dividends | - | - | - | - | (15,552) | (15,552) |
| | <u>333,857</u> | <u>23,444</u> | <u>82,718</u> | <u>(2,444)</u> | <u>697,118</u> | <u>1,134,693</u> |
| At 30 June 2002 | <u>333,857</u> | <u>23,444</u> | <u>82,718</u> | <u>(2,444)</u> | <u>697,118</u> | <u>1,134,693</u> |

13. COMMITMENTS

(a) Commitments under operating leases

Operating lease payments represent rental payable by the Group for certain of its petrol station facilities, plant and machinery and land and buildings. Leases are generally negotiated 20 years and rentals are fixed during the lease period. The total future minimum lease payments under non-cancellable leases are payable as follows:

| | At 30 June 2002 \$'000 | At 31 December 2001 \$'000 |
|---------------------------------|------------------------------|----------------------------------|
| Within 1 year | 13,112 | 12,997 |
| After 1 year but within 5 years | 40,193 | 42,591 |
| After 5 years | <u>108,281</u> | <u>112,497</u> |

Certain rentals for the use of the petrol station facilities to be determined by reference to the revenue of the relevant petrol stations are not included in the above.

(b) Capital commitments outstanding not provided for

| | At 30 June 2002 \$'000 | At 31 December 2001 \$'000 |
|----------------|------------------------------|----------------------------------|
| Contracted for | <u>2,136</u> | <u>16,322</u> |

14. MATERIAL RELATED PARTY TRANSACTIONS

- (a) During the period, the Group had transactions with China Petrochemical Corporation and its subsidiaries (together referred to "Sinopec Group") which were carried out in the ordinary course of business. Details of the material related party transactions with Sinopec Group charged/(credited) to the consolidated income statement are as follows:

| | Six months ended 30 June | |
|--|-----------------------------|----------------|
| | 2002 \$'000 | 2001 \$'000 |
| Crude oil sold by the Group | (670,103) | (381,146) |
| Petrochemical products sold by the Group | (55,211) | (78,638) |
| Petroleum products purchased by the Group | 291,655 | 138,882 |
| Crude oil refining and processing fees charged to the Group | 7,140 | 27,680 |
| Jetty service fees charged by the Group | (141,420) | (149,313) |

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

INTERIM DIVIDENDS

The Board declared an interim dividend of 1.5 cents per share (2001: 1.5 cents) payable to the shareholders of the Company whose names appear on the Register of Members of the Company on 13 September 2002.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 10 September 2002 to Friday, 13 September 2002 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement of the interim dividend declared, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Secretaries Limited, 5/F Wing On Centre, 111 Connaught Road Central, Hong Kong for registration not later than 4:00 p.m. on Monday, 9 September 2002. Dividend will be despatched to shareholders on or about 8 October 2002 in the form of cheques.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF RESULTS AND PROSPECTS

For the six months ended 30 June 2002, the Group recorded a total turnover of \$2,450,000,000, representing a decrease of 24.2% from the same period last year. The profit after tax amounted to \$121,000,000, down 14.2% as compared with the same period last year. Profit attributable to shareholders amounted to \$92,000,000, down 17.1% as compared with the same period last year.

During the first half of 2002, the Huizhou Crude Oil Jetty transmitted 3,110,000 tonnes of crude oil, representing a decrease of 1.0% from the same period last year. The volume of crude oil stored decreased by 24.5% as compared with the same period last year. As a result, turnover amounted to \$141,000,000 and profit after tax amounted to approximately \$82,000,000, down 5.4% and 18.0% respectively from the same period last year. The management of the Group considers that, with the increase in processing volume of refineries and crude oil purchases in the second half of 2002, there should be some increase in oil jetty turnover in the second half of the year.

As of 30 June 2002, turnover contributed by the Group's petrol stations was approximately \$449,000,000, up 15.4% as compared with the same period last year. The profit after tax amounted to approximately \$11,000,000, reversing the downward trend resulting from a sluggish market last year. This was mainly due to the recovery of the finished oil product market and the rise in the gross profit margin of petrol stations.

During the first half of this year, the Group's sales of crude oil totalled 1,150,000 tonnes and sales revenue amounted to \$1,523,000,000, representing a decrease of 26.3% and 35.3% respectively over the same period last year; the sales of petrochemical products amounted to 168,000 tonnes and sales revenue totalled \$336,000,000, representing a decrease of 9.6% and 1.5% respectively over the same period last year. A decline in the price of crude oil on the international market and a decrease in the processing volume of refineries are the main reasons for the decrease in the Group's turnover. Despite the Group's sales of crude oil dropped apparently, its operating profit was about the same as compared with the same period last year. This was mainly due to a write back of the previous years' provision for deemed PRC business tax amounting to \$22,000,000 to the income statement during the period.

During the first half of the year, the U.S. economy was recovering slowly and the world economy remained in the doldrums. The turnover of the Group declined compared with the same period last year. However, the results achieved in the period under review (profit attributable to shareholders amounted to 60% of that of the previous year as a whole) were not attained easily, given the backdrop of a slack global economy.

Looking forward, the Group will continue to uphold the principles of financial soundness, strict management and governance, good operation and proper control, so as to strengthen the development of all aspects of business and enhance the Company's value and the returns to shareholders. In its trading business, the Group plans to consolidate the oil products, further the development of the market for petrochemical products and increase their contribution to profits. The Group also intends to make more investments in building projects that may offer long term efficiency growth. Currently, efforts will be focused on the construction of oil storage tanks with a storage capacity of millions of cubic metres at the Huizhou Crude Oil Jetty and also the related channel dredge works. At the same time, the Group will closely monitor the petrol stations business and raise its management standards in a bid to increase its profitability. With the global economic recovery and the continuous rapid economic growth of the PRC, the management of the Group is cautiously optimistic that the business environment will improve and is confident of attaining healthy and stable results.

LIQUIDITY AND SOURCE OF FINANCE

The Group continued to maintain a healthy financial position. As at 30 June 2002, cash and bank balances amounted to \$284,000,000 (at 31 December 2001: \$254,000,000). As at 30 June 2002, the Group has bank borrowings of \$65,000,000 (at 31 December 2001: \$125,000,000), all of which were short term bank borrowings.

As at 30 June 2002, the current ratio of the Group (current assets to current liabilities) was 2.41 (at 31 December 2001: 1.72) and gearing ratio (total liabilities to total assets) was 19.3% (at 31 December 2001: 23.8%).

CONTINGENT LIABILITIES AND PLEDGED ASSETS

As at 30 June 2002, the Group did not have any contingent liabilities and pledged assets.

CHANGE OF DIRECTORS

Mr. Lai Yong Fu has been appointed as executive director of the Company on 26 August 2002. On the same date, Mr. Zhan Hai Tao has resigned from the office of executive director.

EXCHANGE RISK

As the Group's operations are principally in the PRC, including Hong Kong and Macau, and all assets and liabilities are denominated either in Renminbi, Hong Kong dollars and US dollars, the directors believe that the operations of the Group are not subject to significant foreign exchange risk.

EMPLOYEES AND EMOLUMENT POLICIES

As at 30 June 2002, the Group had a total of 1,166 employees, which is at approximately the same level as it was at the beginning of the year. The Group's emolument policies are formulated on the performance of individual employee and on the basis of the salary trend's in various regions. Subject to the profit of the Group and the performance of the employees, the Group may also provide discretionary bonus to its employees as an incentive for their further contribution.

SHARE OPTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 27th May 1999 and will expire on 26th 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.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time. The number of shares in respect of which options may be granted to any individual in aggregate is not permitted to exceed 25% of the shares of the Company in issue and which may fall to be issued under the Scheme at any point in time.

Options granted must be taken up within 21 days from the date of grant, upon payment of HK\$1.00 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.

INTERESTS OF DIRECTORS AND SENIOR MANAGEMENT IN SHARES

As of 30 June 2002, none of the directors, senior management or their related parties held, beneficially or non-beneficially, any of the shares issued by the Company or any of its associated companies which were required to be recorded in the register of directors' interests in compliance with Section 29 of the Securities (Disclosure of Interests) Ordinance. The Company also has not granted to any directors, senior management or their spouses or children under 18 years of age any right to subscribe for the Company's shares.

SUBSTANTIAL SHAREHOLDERS

As of 30 June 2002, shareholders holding shares representing 10% or more of the Company's share capital in issue as recorded in the Register of Substantial Shareholders' Interests maintained by the Company and their reported interests pursuant to provisions of Section 16(1) of the Securities (Disclosure of Interests) Ordinance are as follows:

| Name | Number of Ordinary Shares (Percentage of total shares in issue) |
|---------------------------------------|--|
| Sinopec Kantons International Limited | 750,000,000 (72.34%) |

Note: The entire issued share capital of Sinopec Kantons International Limited was held by China Petrochemical International Company Limited. The entire registered capital of China Petrochemical International Company Limited was held by China Petroleum & Chemical Corporation. The controlling interest in the registered capital of China Petroleum & Chemical Corporation was held by China Petrochemical Corporation.

PURCHASE, SALE AND REDEMPTION OF SHARES

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities.

AUDIT COMMITTEE

The Audit Committee has reviewed and discussed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim report for the six months ended 30 June 2002.

CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice set forth in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the period under review.

By order of the Board
Hong Zhi Ming
Chairman

Hong Kong, 26 August 2002

INDEPENDENT REVIEW REPORT

To the Board of Directors of Sinopec Kantons Holdings Limited

INTRODUCTION

We have been instructed by the company to review the interim financial report set out on pages 2 to 14.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2002.

KPMG

Certified Public Accountants

Hong Kong, 26 August 2002