Corporate Information

Executive Directors
Mr. Yang Shu Shan *(Chairman)*
Mr. Pan Xin Rong *(Deputy Chairman)*
Mr. Zhu Jian Min
Mr. Zhou Feng
Mr. Ye Zhi Jun *(Managing Director)*
Mr. Ge Han Hua

Non-executive Directors
Mr. Yang Mo Fei

Independent Non-executive Directors
Mr. Wong Po Yan
Ms. Tam Wai Chu, Maria
Mr. Fong Chung, Mark

Audit Committee Members
Mr. Wong Po Yan
Ms. Tam Wai Chu, Maria
Mr. Fong Chung, Mark

Company Secretary
Mr. Lai Yang Chau, Eugene

Qualified Accountant
Mr. Chan Kim Fai, Ivan

Auditors
KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

Legal Advisers in Hong Kong
Coudert Brothers
39th Floor, 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
G/F Bank of East Asia Harbour View
Centre
56 Gloucester Road
Wanchai
Hong Kong

Listing Information
The Stock Exchange of Hong Kong Limited
Stock Code: 0934

The board of directors (the "Directors") of Sinopec Kantons Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2005, together with the comparative figures for the corresponding period last year, as follows:

Consolidated Income Statement (Unaudited)

for the six months ended 30 June 2005

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2005 $'000	Six months ended 30 June 2004 $'000
Turnover	3	**6,467,437**	3,091,030
Cost of sales		**(6,302,474)**	(2,893,296)
Gross profit		**164,963**	197,734
Other revenue	3	**14,969**	6,769
Selling and administrative expenses		**(73,021)**	(76,692)
Profit from operations		**106,911**	127,811
Finance costs		**(9,182)**	(7,955)
Profit before taxation	4	**97,729**	119,856
Income tax	5	**(11,421)**	(14,842)
Profit after taxation		**86,308**	105,014
Attributable to:			
– Equity holders of the parent	13	**64,003**	73,324
– Minority interests	13	**22,305**	31,690
Profit after taxation	13	**86,308**	105,014
Earnings per share – basic	7	**6.17 cents**	7.07 cents

The notes on pages 7 to 23 form part of this interim financial report.

Consolidated Balance Sheet (Unaudited)

at 30 June 2005

(Expressed in Hong Kong dollars)

	Note	**At 30 June 2005 $'000**	At 31 December 2004 $'000 (restated)
Non-current assets			
Fixed assets		**1,442,906**	1,480,096
Interest in leasehold land held for own use under operating lease		**93,726**	92,959
Intangible assets	8	**79,683**	84,750
		1,616,315	1,657,805
Current assets			
Inventories	9	**425,309**	415,778
Trade and other receivables	10	**128,958**	161,910
Amounts due from holding companies and fellow subsidiaries	12	**199,325**	171,346
Cash and cash equivalents		**203,103**	118,909
		956,695	867,943
Current liabilities			
Trade and other payables	11	**319,228**	244,980
Amount due to holding companies and fellow subsidiaries	12	**47,999**	31,106
Loan from fellow subsidiary		**–**	4,431
Unsecured bank loans and overdrafts		**140,553**	300,653
Current taxation		**15,951**	12,104
		523,731	593,274
Net current assets		**432,964**	274,669
Total assets less current liabilities		**2,049,279**	1,932,474
Non-current liabilities			
Interest-bearing borrowings		**43,408**	–
		2,005,871	1,932,474

Consolidated Balance Sheet (Unaudited)

at 30 June 2005

(Expressed in Hong Kong dollars)

	Note	At 30 June 2005 $'000	At 31 December 2004 $'000 (restated)
Capital and reserves			
Share capital	13	**103,683**	103,683
Reserves		**1,455,455**	1,407,004
Total equity attributable to equity holders of the parent		**1,559,138**	1,510,687
Minority interests	13	**446,733**	421,787
TOTAL EQUITY	13	**2,005,871**	1,932,474

The notes on pages 7 to 23 form part of this interim financial report.

Consolidated Statement of Changes in Equity (Unaudited)

for the six months ended 30 June 2005

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2005 $'000	2004 $'000
Total equity at 1 January:			
Attributable to equity holders of the parent	13	**1,510,687**	1,388,095
Minority interests	13	**421,787**	356,409
At 1 January	13	**1,932,474**	1,744,504
Net income for the period recognised directly in equity:			
Exchange difference on translation of financial statements of entities outside Hong Kong not recognised in the income statement		**–**	(385)
Net profit for the period:			
Total recognised income and expense for the period			
Attributable to:			
– Equity holders of the parent	13	**64,003**	73,324
– Minority interests	13	**22,305**	31,690
	13	**86,308**	105,014
Dividends declared	6	**(15,552)**	(15,552)
Movements in shareholders' equity arising from capital transactions with equity holders of the parent:			
– Minority interests arising from acquisition of subsidiary during the period	13	**2,641**	1,927
Total equity at 30 June		**2,005,871**	1,835,508

The notes on pages 7 to 23 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement (Unaudited)

for the six months ended 30 June 2005

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2005	2004
	$'000	$'000
Cash generated from/(used in) operations	**235,026**	(256,998)
Tax paid	**(7,574)**	(10,956)
Net cash generated from/(used in) operating activities	**227,452**	(267,954)
Net cash generated from/(used in) investing activities	**2,598**	(84,216)
Net cash (used in)/generated from financing activities	**(145,856)**	420,563
Net increase in cash and cash equivalents	**84,194**	68,393
Cash and cash equivalents at 1 January	**118,909**	221,104
Effect of foreign exchange rate changes	**–**	(385)
Cash and cash equivalents at 30 June	**203,103**	289,112

The notes on pages 7 to 23 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 has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issuance on 12 September 2005.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes 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 2004 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The 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 HKICPA. KPMG's independent review report to the Board of Directors is included on pages 31 to 32.

Notes on the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

1 BASIS OF PREPARATION *(Continued)*

The financial information relating to the financial year ended 31 December 2004 that is included in the interim financial report as being previously reported information 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 2004 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 18 March 2005.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs, which term collectively includes HKASs and Interpretations that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Directors have determined the accounting policies to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2005, on the basis of HKFRSs currently in issue.

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2005 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of this interim report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1 January 2005 which have been reflected in this interim financial report.

Notes on the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

In prior periods:

– positive or negative goodwill which arose prior to 1 January 2001 was taken directly to reserves at the time it arose, and was not recognised in the income statement until disposal or impairment of the acquired business;

– positive goodwill which arose on or after 1 January 2001 was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment; and

– negative goodwill which arose on or after 1 January 2001 was amortised over the weighted average useful life of the depreciable/ amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

With effect from 1 January 2005, in accordance with HKFRS 3 and HKAS 36, the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

Notes on the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets) *(Continued)*

Also with effect from 1 January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the income statement as it arises.

The new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. As a result, comparative amounts have not been restated, the cumulative amount of amortisation as at 1 January 2005 has been offset against the cost of the goodwill and no amortisation charge for goodwill has been recognised in the income statement for the six months ended 30 June 2005.

Also in accordance with the transitional arrangements under HKFRS 3, goodwill which had previously been taken directly to reserves (i.e. goodwill which arose before 1 January 2001) will not be recognised in the income statement on disposal or impairment of the acquired business, or under any other circumstances.

The change in policy relating to negative goodwill has no significant effect on the interim financial report.

Notes on the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) Retranslation of goodwill relating to a net investment in a foreign operation (HKAS 21, The effects of changes in foreign exchange rates)

In prior years, goodwill was recognised directly in equity or carried at cost less amortisation and impairment as described in note 2(a).

With effect from 1 January 2005, in order to comply with HKAS 21, any goodwill arising on the acquisition of a foreign operation is treated as an asset of the foreign operation. Thus it is expressed in the functional currency of that foreign operation and is retranslated at the closing rate at each balance sheet date. Any resulting exchange difference is taken directly to the exchange reserves, together with any other differences arising from the re-translation of the net assets of the foreign operation.

In accordance with the transitional provisions in HKAS 21, this new policy has not been adopted retrospectively and will only be applied to acquisitions occurring on or after 1 January 2005. The change in policy relating to the exchange difference has no significant effect on the interim financial report.

(c) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders.

Notes on the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(c) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements) *(Continued)*

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the parent.

The presentation of minority interests in the consolidated balance sheet, income statement and statement of changes in equity for the comparative period has been restated accordingly.

(d) Leasehold land and buildings held for own use (HKAS 17, Leases)

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and accumulated impairment losses.

With the adoption of HKAS 17 as from 1 January 2005, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be separately identified from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Any pre-paid land premiums for acquiring the land leases, or other lease payments, are amortised on a straight line basis over the lease term. The amortisation charge for the period is recognised in the income statement immediately.

Notes on the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(d) Leasehold land and buildings held for own use (HKAS 17, Leases) *(Continued)*

Any buildings held for own use which are situated on such land leases continue to be presented as part of fixed assets.

The new accounting policy has been adopted retrospectively, with the opening balances of fixed assets and the comparative information adjusted for the amounts relating to prior periods. Accordingly, payments for land use rights amounted to $66,555,000 and $92,959,000 as at 1 January 2004 and 2005 respectively have been reclassified from fixed assets to interest in leasehold land held for own use under operating lease.

3 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.

Notes on the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

3 SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

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

	Trading of crude oil, petroleum and petrochemical products		Retail sales of petroleum products		Crude oil jetty services		Inter-segment elimination		Unallocated		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue												
Revenue from external customers	**5,400,742**	2,275,063	**916,513**	648,823	**150,182**	167,144	**–**	–	**–**	–	**6,467,437**	3,091,030
Inter-segment revenue	**–**	–	**–**	–	**1,249**	2,771	**(1,249)**	(2,771)	**–**	–	**–**	–
Other revenue from external customers	**–**	626	**13,572**	3,746	**62**	195	**–**	–	**1,335**	2,202	**14,969**	6,769
Total	**5,400,742**	2,275,689	**930,085**	652,569	**151,493**	170,110	**(1,249)**	(2,771)	**1,335**	2,202	**6,482,406**	3,097,799
											Consolidated	
											2005	2004
											$'000	$'000
Segment result	**29,334**	22,912	**5,265**	7,140	**79,168**	112,731	**(474)**	(1,718)			**113,293**	141,065
Unallocated interest income											**1,335**	2,202
Unallocated corporate expenses											**(7,717)**	(15,456)
Profit from operations											**106,911**	127,811

Geographical segments

Substantially all the Group's activities are based in the People's Republic of China (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 for both periods.

Notes on the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

4 PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2005	2004
	$'000	$'000
Interest on borrowings	**9,182**	7,955
Depreciation	**46,839**	40,864
Operating lease charges in respect of properties	**6,940**	6,934
Interest income	**(1,335)**	(2,203)

The operating lease charges include contingent rental charges for the use of certain petrol station facilities amounting to $2,458,237 (2004: $1,939,948).

5 INCOME TAX

	Six months ended 30 June	
	2005	2004
	$'000	$'000
Current tax – Provision for Hong Kong Profits Tax		
Tax for the period	**4,800**	3,300
Under-provision in respect of prior years	**–**	99
	4,800	3,399
Current tax – Outside Hong Kong		
Tax for the period	**6,621**	11,443
Total income tax expense	**11,421**	14,842

Notes on the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

5 INCOME TAX *(Continued)*

Notes:

(a) The provision for Hong Kong Profits Tax for 2005 is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the period.

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

(c) No provision for deferred taxation has been made for the period ended 30 June 2005 as the effect of all temporary differences is not material.

6 DIVIDENDS

Dividends attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2005	2004
	$'000	$'000
Final dividend in respect of the financial year ended 31 December 2004, approved and paid during the following interim period, of 1.5 cents per share (2004: 1.5 cents per share)	**15,552**	15,552

Pursuant to the shareholders' approval at the Annual General Meeting of the Company held on 28 April 2005, a final dividend of 1.5 cents per share totalling $15,552,000 in respect of the year ended 31 December 2004 was paid on 18 May 2005.

Pursuant to the board meeting held on 12 September 2005, the Directors declared an interim dividend of 1.5 cents per share totalling $15,552,000 in respect of the six months ended 30 June 2005 (2004: 1.5 cents per share, totalling $15,552,000). This dividend has not been recognised as a liability at 30 June 2005.

Notes on the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

7 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent of $64,003,000 (six months ended 30 June 2004: $73,324,000) and the number of 1,036,830,000 (2004: 1,036,830,000) ordinary shares 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 periods.

8 INTANGIBLE ASSETS

Intangible assets represent operating rights of petrol stations.

9 INVENTORIES

	At 30 June 2005 $'000	At 31 December 2004 $'000
Crude oil and spare parts	**205,386**	190,946
Petroleum and petrochemical products	**219,923**	224,832
	425,309	415,778

Notes on the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

10 TRADE AND OTHER RECEIVABLES

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

	At 30 June 2005 $'000	At 31 December 2004 $'000
Trade receivables:		
– current	**76,196**	111,954
– 1 to 3 months overdue	**4,604**	9,938
– more than 3 months overdue but less than 12 months overdue	**799**	868
Total trade receivables	**81,599**	122,760
Deposits, prepayments and other receivables	**47,359**	39,150
	128,958	161,910

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.

Notes on the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

11 TRADE AND OTHER PAYABLES

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

	At 30 June 2005 $'000	At 31 December 2004 $'000
Trade payables:		
– due within 1 month or on demand	**22,961**	26,105
– due after 1 month but within 3 months	**129,439**	66,115
– due after 3 months but within 6 months	**28,066**	2,838
Total creditors and bills payables	**180,466**	95,058
Other payables and accrued charges	**138,762**	149,922
	319,228	244,980

12 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.

Notes on the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

13 CAPITAL AND RESERVES

	Attributable to equity holders of the parent								
	Share capital $'000	Share premium $'000	Merger reserve $'000	General reserve $'000	Exchange reserves $'000	Retained profits $'000	Total $'000	Minority interests $'000	Total equity $'000
At 1 January 2005	103,683	333,857	23,444	177,314	(1,179)	873,568	1,510,687	421,787	1,932,474
Final dividends approved in respect of the previous year	–	–	–	–	–	(15,552)	(15,552)	–	(15,552)
Profit for the period	–	–	–	–	–	64,003	64,003	22,305	86,308
Minority interests arising from acquisition of subsidiary during the period	–	–	–	–	–	–	–	2,641	2,641
At 30 June 2005	103,683	333,857	23,444	177,314	(1,179)	922,019	1,559,138	446,733	2,005,871

14 COMMITMENTS

(a) Capital commitments outstanding at 30 June 2005 not provided for in the interim financial report were as follows:

	At 30 June 2005 $'000	At 31 December 2004 $'000
Contracted for	**19,660**	23,402

These capital commitments mainly relate to construction of oil storage tanks.

Notes on the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

14 COMMITMENTS *(Continued)*

(b) Commitments under operating leases

At 30 June 2005, the total future minimum lease payment under non-cancellable operating leases are payable as follows:

	At 30 June 2005 $'000	At 31 December 2004 $'000
Within 1 year	**2,976**	2,700
After 1 year but within 5 years	**15,193**	10,532
After 5 years	**30,163**	32,857
	48,332	46,089

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 payment disclosures.

15 CONTINGENT LIABILITIES

At 30 June 2005, there were contingent liabilities in respect of banking facilities utilised by certain subsidiaries and guaranteed by the Company amounting to approximately $116,636,000 (31 December 2004: $138,607,000).

Notes on the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

16 MATERIAL RELATED PARTY TRANSACTIONS

(a) During the period, the Group had transactions with its holding companies and fellow subsidiaries which were carried out in the ordinary course of business. Details of the material related party transactions charged/ (credited) to the consolidated income statement are as follows:

	Six months ended 30 June	
	2005	2004
	$'000	$'000
Crude oil sold by the Group	**(2,999,741)**	(949,613)
Crude oil purchased by the Group and related charges	**2,257,847**	923,217
Petroleum products sold by the Group	**(887,602)**	(445,480)
Petrochemical products sold by the Group	**(68,059)**	(16,717)
Petroleum products purchased by the Group for petrol stations	**666,940**	503,428
Petroleum products purchased by the Group for general trade	**111,507**	–
Crude oil refining and processing fees charged to the Group	**21,447**	23,010
Jetty service fees, charged by the Group	**(151,023)**	(171,271)
Cost of construction and acquisition of plant and equipment and other attributable overheads charged to the Group	**2,617**	12,397

(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.

Notes on the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

16 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) The Group operates in an economic regime currently predominated by state-controlled entities. Apart from transactions with the Group's holding companies and fellow subsidiaries, the Group also conducts a significant part of its business activities with entities directly or indirectly owned or controlled by the PRC government and numerous government authorities and agencies (collectively referred to as "state-controlled entities") in the ordinary course of business. These transactions mainly include trading of crude oil and petroleum and petrochemical products and are carried out at terms similar to those that would be entered into with non-state-controlled entities. Although a significant part of the Group's activities are with other state-controlled entities, the Group believes that it has provided meaningful disclosure of related party transactions above.

Interim dividend

The Directors recommend the payment of an interim dividend of 1.5 cents per share to shareholders whose names appear on the register of members of the Company on 7 October 2005.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 4 October 2005 (Tuesday) to 7 October 2005 (Friday) (both days inclusive) during which period no transfer of shares can be registered. In order to qualify for the proposed interim dividend, all share transfers, accompanied by the relevant share certificates, must be lodged with Secretaries Limited, the branch share registrars of the Company in Hong Kong, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 3 October 2005 (Monday). The cheques for dividend payment will be sent on 13 October 2005.

Management Discussion and Analysis

REVIEW OF RESULTS AND PROSPECTS

For the six month period ended 30 June 2005, the Group's turnover totalled HK$6.467 billion, representing an increase of 109.3% over the corresponding period last year. Profit attributable to shareholders was HK$64 million, a decrease of 12.33% compared to the same period in the previous year. The decrease in profit was mainly the result of reduced business as a major customer of the Company temporarily stopped its operation for maintenance.

During the first half of 2005, Sinopec Guangzhou Branch stopped its operation for maintenance and as a result, business of the Huizhou Crude Oil Jetty was significantly lowered. Among these, transmitted crude oil was decreased by 14% from last year to 3.29 million tonnes; crude oil loading was 3.30 million tonnes, representing a decrease of 12% from the same period last year; daily average crude oil storage also recorded a decrease of 5.36% from the corresponding period in the previous year. The jetty segment recorded turnover of HK$154 million and net profit after tax of HK$73 million for the first half year, representing a decrease of 12% and 30% respectively compared to the corresponding period last year.

For the period ended 30 June 2005, the Group's petrol stations product sales totalled approximately 0.25 million tonnes, representing a growth rate of over 20% over the same period last year. Turnover was approximately HK$0.95 billion, representing a growth rate of approximately 46% from the same period last year. On the other hand, petrol stations' earning margin decreased by 36% as affected by China's oil product price adjustment mechanism for the domestic market. In spite of the fact that the petrol stations took various cost reduction measures, overall efficiency was 30% lower than the same period last year.

The Group sold 1.52 million tonnes of crude oil during the first half of 2005, realizing sales revenue of HK$3.975 billion, representing a growth rate of approximately 85% and 147% over the same period last year. Petrochemicals sales was 375 thousand tonnes, realizing sales revenue of HK$1.416 billion, representing a growth rate of approximately 37% and 109% over the same period last year. The significant growth in sales revenue was largely a result of continually higher crude oil prices. Gross profit of international trade increased HK$8.04 million over the same period last year and net profit was HK$7.12 million, generating a higher return for shareholders.

Management Discussion and Analysis

It is expected that in the second half of 2005, the world market for petroleum will still be active with China's domestic market sustaining strong demand for crude oil and oil products. The Group will continue to control risks, emphasize stable operation while capturing business opportunities and striving for higher efficiency. The Group will also focus on long term development and improving profitability in the long run. Among these, Huizhou will invest and commence the construction of a 300,000 tonnes-level berth to raise load capacity so as to meet downstream customers' need to increase productivity and at the same time to reduce lightering and related costs in order to improve the Company's profitability. In addition, the Group will explore new ways of generating profit by using the jetty's reverse transport system, to enhance the operational flexibility of the bonded oil depot and to extend the services of its jetty. The Group will pay adequate attention to changes and risks in the crude oil market, oil products market and the petrochemicals market, analyze market environment and conclude from successful past experience so as to further raise the profitability of its international trade. The Group will keep its strategic positioning while exercising prudence and conduct scientific assessment on different investment opportunities and projects.

The Group will strive for further improvement and realize higher returns for shareholders.

LIQUIDITY AND SOURCE OF FINANCE

The Group maintained a healthy financial position. As at 30 June 2005, cash on hand and bank balances totalled approximately HK$203 million (31 December 2004: HK$119 million); bank borrowings was HK$184 million (31 December 2004: HK$ 301 million) of which HK$141 million was short-term bank borrowings and HK$43 million was long-term bank borrowings.

GEARING RATIO

As at 30 June 2005, the Group's current ratio (current assets to current liabilities) was 1.83 (31 December 2004: 1.46) and gearing ratio (total liabilities to total assets) was 22.04% (31 December, 2004: 23.5%).

Management Discussion and Analysis

EXCHANGE RISK

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

EMPLOYEES AND EMOLUMENT POLICIES

At 30 June 2005, the Group had a total of 1,186 employees, basically the same as at the beginning of the year. Remuneration packages including basic salary, bonus and benefit in kind are structured by reference to market terms, trend of human resources costs in various regions and employee's contribution based on performance appraisal.

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 Directors 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.

Management Discussion and Analysis

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 date falling 10 years from 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 prior to the date of grant.

No options have been granted under the Scheme since its inception.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 30 June 2005, none of the Directors or chief executive of the Company had any interest or short position in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of SFO or as otherwise required to be notified by the Directors and the chief executive of the Company to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Code for Securities Transactions") set forth in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Management Discussion and Analysis

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, the Directors are not aware of any person (other than the Directors and chief executive of the Company) who, as at 30 June 2005, had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of SFO:

Name of Shareholder	Nature of interests	Number of ordinary shares	Capacity	Percentage to the issued share capital of the Company
Sinopec Kantons International Limited	Corporate	750,000,000	Beneficial	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.

CORPORATE GOVERNANCE

The Group has complied throughout the six months ended 30 June 2005 with the applicable provisions of the Code on Corporate Governance Practices (the "Code") in Appendix 14 to the Listing Rules.

Management Discussion and Analysis

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors of the Company. The Audit Committee has reviewed the Group's unaudited consolidated interim financial statements for the period.

REMUNERATION COMMITTEE

A Remuneration Committee was established in accordance with the requirements of the Code.

CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Code for Securities Transactions as set out in Appendix 10 to the Listing Rules for securities transactions by Directors. Having made specific enquiry of all the Directors, during the period of six months ended 30 June 2005, the Directors had complied with the standards of the Code for Securities Transactions.

By Order of the Board
Yang Shu Shan
Chairman

Hong Kong, 12 September 2005

Independent Review Report

To the Board of Directors of Sinopec Kantons Holdings Limited
(Incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 2 to 23.

Respective responsibilities of Directors and auditors

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 Hong Kong Accounting Standard 34, *Interim financial reporting* issued by the Hong Kong Institute of Certified Public Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 Institute of Certified Public 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.

Independent Review 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 2005.

Certified Public Accountants
Hong Kong, 12 September 2005