

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2005.

## PRINCIPAL PLACE OF BUSINESS

Sinopec Kantons Holdings Limited (the “company”) is a company incorporated and domiciled in Bermuda and has its registered office and principal place of business at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and 1608 Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong respectively.

## PRINCIPAL ACTIVITIES

The company acts as an investment holding company. The principal activities and other particulars of its principal subsidiaries are set out in note 15 on the financial statements.

The analysis of the principal activities and geographical locations of the operations of the company and its subsidiaries during the financial year are set out in note 12 on the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the group’s sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the group’s total	
	Sales	Purchases
The largest customer	25%	
Five largest customers in aggregate	65%	
The largest supplier		34%
Five largest suppliers in aggregate		66%

China Petrochemical Corporation (“Sinopec”), a controlling shareholder holding indirectly more than 70% of the company’s share capital, had beneficial interests in three of the five largest customers which accounted for approximately 35% of the turnover of the group and two of the five largest suppliers which accounted for approximately 20% of the purchases of the group.

## FINANCIAL STATEMENTS

The profit of the group for the year ended 31 December 2005 and the state of the company’s and the group’s affairs as at that date are set out in the financial statements on pages 18 to 66.

## TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of HK\$135,578,000 (2004: HK\$154,083,000) have been transferred to reserves. Other movements in reserves are set out in note 27 to the financial statements.

An interim dividend of HK\$1.5 cents per share (2004: HK\$1.5 cents per share) was paid on 13 October 2005. The directors now recommend the payment of a final dividend of HK\$1.5 cents per share (2004: HK\$1.5 cents per share) in respect of the year ended 31 December 2005.

## FIXED ASSETS

During the year, the group spent approximately HK\$70.8 million on constructing storage and conveyance jetty facilities situated in the People's Republic of China (the "PRC"). The group also acquired other assets at an aggregate cost of approximately HK\$7 million for business expansion. Details of movements in fixed assets are set out in note 13 to the financial statements.

## SHARE CAPITAL

Details of the share capital of the company during the year are set out in note 26 to the financial statements.

There were no purchases, sales or redemptions of the company's listed securities by the company or any of its subsidiaries during the year.

## DIRECTORS

The directors during the financial year and up to the date of this report were:

### Executive directors

Jiang Zhen Ying ( <i>Chairman</i> )	(appointed on 22 March 2006)
Yang Shu Shan ( <i>Chairman</i> )	(resigned on 22 March 2006)
Pan Xin Rong ( <i>Deputy Chairman</i> )	
Yang Dong ( <i>Deputy Chairman</i> )	(appointed on 22 March 2006)
Zhu Jian Min	
Zhou Feng	
Ye Zhi Jun ( <i>Managing Director</i> )	
Ge Han Hua	(resigned on 6 December 2005)
Han Kun	(appointed on 6 December 2005)

### Non-executive director

Yang Mo Fei

### Independent non-executive directors

Wong Po Yan  
Tam Wai Chu, Maria  
Fong Chung, Mark

In accordance with Bye-law 111 of the company's Bye-laws, Mr Pan Xin Rong, Mr Ye Zhi Jun and Ms Tam Wai Chu, Maria will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Bye-law 115 of the company's Bye-laws, Mr Jiang Zhen Ying, Mr Yang Dong and Mr Han Kun will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS' SERVICE CONTRACTS

No directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

None of the directors and chief executive of the company or any of their spouses or children under eighteen years of age has interests or short positions in the shares of the company, any of its holding companies, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance or as otherwise notified to the company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## SHARE OPTION SCHEME

The company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 27 May 1999 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 26 May 2009. Under the Scheme, the board of directors of the company may grant options to eligible employees, including directors of the company and its subsidiaries, to subscribe for shares in the company.

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 in 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. 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 of employment 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.

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the company, any of its holding companies, subsidiaries, or fellow subsidiaries a party to any arrangement to enable the directors of the company to acquire benefits by means of the acquisition of shares in or debentures of the company or any other body corporate.

## CONNECTED TRANSACTIONS

Save as disclosed in note 32 to the financial statements, there were no material transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

The company has obtained a waiver from strict compliance with the requirements of Chapter 14 of the then Listing Rules in respect of the ongoing connected transactions being the services and facilities in relation to the Huizhou Jetty, the supplies of petroleum products to the Kantons Petrol Stations, the crude oil supply and sourcing, petroleum and petrochemical products trading and the third party processing of crude oil (the "Existing Ongoing Connected Transactions"), which waiver expired on 24 June 2002 and of which the company had applied for and was granted a new waiver for three financial years ending 31 December 2004 subject to certain waiver conditions as stipulated in paragraphs 1 to 6 of the section headed "Application for Waiver" in the circular of the company dated 27 August 2002.

## CONNECTED TRANSACTIONS (Continued)

The company announced on 23 February 2005 and dispatched a circular to the shareholders on 16 March 2005 to convene a special general meeting of the company on 1 April 2005 and to approve, confirm and ratify the Existing Ongoing Connected Transactions from 1 January 2005 to 31 December 2007 for a term of 3 years in accordance with Chapter 14A of the new Listing Rules which took effect on 31 March 2004. The Existing Ongoing Connected Transactions were approved, confirmed and ratified in the special general meeting on 1 April 2005. Another special meeting of the Company was convened on 21 November 2005, pursuant to a circular dated 3 November 2005, approving the revised caps of the Existing Ongoing Connected Transactions.

These Existing Ongoing Connected Transactions have been reviewed by the Independent Non-Executive Directors of the company who have confirmed that these transactions were entered into by the group: (i) in the ordinary and usual course of business of the group (ii) either on normal commercial terms or, if applicable on terms no less favourable than terms available to or from third parties; (iii) are fair and reasonable so far as the shareholders of the group are concerned; and (iv) in accordance with the terms of the agreements governing such transactions.

The company has also obtained a waiver on the other connected transactions from strict compliance with the relevant requirements under Chapter 14 of the then Listing Rules by the Stock Exchange on 25 June 1999 for a period so long as the value of the relevant connected transaction in any financial year does not exceed 3% of the net tangible assets of the group as at the end of that year subject to certain waiver conditions as stipulated in paragraph (D)(i) of “conditions to waiver” in the section headed “Business – Connected Transactions” in the prospectus of the company dated 15 June 1999.

The independent non-executive directors of the company have confirmed that the connected transactions referred to in note 32(b) to the financial statements (including the Existing Ongoing Connected Transactions) have been entered into in the manner as stipulated in paragraph (D)(i) of “Conditions to waiver” in the section headed “Business-Connected Transactions” in the prospectus of the company dated 15 June 1999 (the “Waiver Conditions”). The directors of the company are of opinion that the above connected transactions have been entered into in the manner as stipulated in the Waiver Conditions.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, the register of interest in shares required to be maintained under Section 16(1) of the SDI Ordinance showed that the following shareholder had an interest of 5% or more in the issued share capital of the company.

	<b>Ordinary shares held</b>	<b>Approximate percentage of issued shares held</b>
Sinopec Kantons International Limited	750,000,000	72.34%

*Note:* The entire issued share capital of Sinopec Kantons International Limited is held by China Petrochemical International Company Limited. (“CPIC”). The entire registered capital of CPIC is owned by China Petroleum & Chemical Corporation (“CPCC”). The controlling interest in the registered capital of CPCC is held by China Petrochemical Corporation.

Other than as disclosed above, the company has not been notified of any other interests representing 5% or more of the company’s issued share capital as at 31 December 2005.

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the company, its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the company's Bye-laws, or the laws of Bermuda, which would oblige the company to offer new shares on a pro-rata basis to existing shareholders.

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the company and of the group as at 31 December 2005 are set out in notes 21 and 22 to the financial statements.

## FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the group for the last five financial years is set out on pages 67 and 68 of the annual report.

## RETIREMENT SCHEME

Other than operating a Mandatory Provident Fund Scheme and payments made to the PRC state-managed retirement benefits schemes, the group has not operated any other retirement scheme to cover the group's employees. Particulars of the retirement scheme is set out in note 24 to the financial statements.

## CONFIRMATION OF INDEPENDENCE

The company has received from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rules 3.13 of the Listing Rules and considers all of the independent non-executive directors to be independent.

## AUDIT COMMITTEE

The audit committee of the company was set up with written terms of reference. Currently, the audit committee comprises three independent non-executive directors and reports to the board of directors. The audit committee meets with group's senior management and external auditors regularly to review the effectiveness of the internal control systems and the interim and annual reports of the group and reports directly to the board of directors of the company.

## AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming annual general meeting.

By order of the board

**Jiang Zhen Ying**

*Chairman*

Hong Kong, 22 March 2006