

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2006.

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 20th Floor, Office Tower Convention Plaza, 1 Harbour Road, Wanchai, 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 16 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the company and its subsidiaries (the "group") during the financial year are set out in note 12 to 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	32%	
Five largest customers in aggregate	68%	
The largest supplier		35%
Five largest suppliers in aggregate		59%

China Petrochemical Corporation ("Sinopec"), a controlling shareholder holding indirectly more than 70% of the company's share capital, had beneficial interests in two of the five largest customers which accounted for approximately 44% of the turnover of the group and two of the five largest suppliers which accounted for approximately 30% of the purchases of the group.

Financial statements

The profit of the group for the year ended 31 December 2006 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 76.

Transfer to reserves

Profits attributable to shareholders, before dividends, of HK\$156,856,000 (2005: HK\$135,578,000) have been transferred to reserves. Other movements in reserves are set out in note 26 to the financial statements.

An interim dividend of HK\$1.5 cents per share (2005: HK\$1.5 cents per share) was paid on 27 October 2006. The directors now recommend the payment of a final dividend of HK\$2 cents per share (2005: HK\$1.5 cents per share) in respect of the year ended 31 December 2006.

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Fixed assets

During the year, the group spent approximately HK\$459 million on constructing storage and conveyance jetty facilities situated in the People's Republic of China (the "PRC"). Details of movements in fixed assets are set out in note 14 to the financial statements.

Share capital

Details of the share capital of the company during the year are set out in note 25 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 were:

Executive directors

Wang Li Sheng, *Chairlady* (appointed on 21 September 2006)

Jiang Zhen Ying, *Chairman* (appointed on 22 March 2006,
resigned on 21 September 2006)

Yang Shu Shan, *Chairman* (resigned on 22 March 2006)

Pan Xin Rong, *Deputy Chairman* (resigned on 2 April 2007)

Yang Dong, *Deputy Chairman* (appointed on 22 March 2006,
resigned on 2 April 2007)

Zhu Jian Min

Zhou Feng

Ye Zhi Jun, *Managing Director*

Han Kun (resigned on 2 April 2007)

Non-executive director

Yang Mo Fei (resigned on 2 April 2007)

Independent non-executive directors

Tam Wai Chu, Maria

Wong Po Yan

Fong Chung, Mark

In accordance with Bye-law 111 of the company's Bye-laws, Mr Zhou Feng and Mr Fong Chung, Mark will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

On 2 April 2007, Mr Zhu Zeng Qing was appointed as deputy chairman and an executive director of the company and Mr Tan Ke Fei was appointed as an executive director of the company.

In accordance with Bye-law 115 of the company's Bye-laws, Ms Wang Li Sheng, Mr Zhu Zeng Qing and Mr Tan Ke Fei will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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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 or short positions in the shares, underlying shares of debentures

As at 31 December 2006, none of the directors and chief executive of the company or any of their spouses or children under eighteen years of age has any interests or short positions in the shares, underlying shares and debentures of the company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which will be required to be notified to the company and the Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which will be required to be notified to the company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies to the Listing Rules.

Share capital

Details of movements during the year in the share capital of the company are set out in note 25 to the consolidated financial statements.

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 31 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 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 ended 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 (the "Circular").

The company announced on 23 February 2005 and despatched 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 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 31(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 and in paragraphs 1 to 6 of the section headed "Application for Waiver" in the Circular (collectively 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.

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Interests and short positions of substantial shareholders and other persons disclosable under the SFO

So far as is known to any director or chief executive of the company, as at 31 December 2006, shareholders who had interests or short positions in the shares or underlying shares of the company which would have to be disclosed to the company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions), or which were recorded in the register of interests required to be kept by the company under Section 336 of the SFO were as follows:

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

Note: The entire issued share capital of Sinopec Kantons International Limited is held by China Petroleum & Chemical Corporation ("Sinopec Corp"). The controlling interest in the registered capital of Sinopec Corp is held by China Petrochemical Corporation.

Save as disclosed above, the company has not been notified by any person (other than the directors or chief executive of the company) who had interests or short positions in the shares or underlying shares of the company which would have to be disclosed to the company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions), or which were recorded in the register of interests required to be kept by the company under Section 336 of the SFO.

Directors' interests in contracts

No contracts of significance to which the company, or any of 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 2006 are set out in note 21 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 77 and 78 of the annual report.

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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 23 to the financial statements.

Compliance with the Code

The company has complied throughout the year with the applicable provisions of the Code of Corporate Governance Practices as set out by the Stock Exchange in Appendix 14 to the Listing Rules.

Confirmation of independence

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

Sufficiency of public float

The company has maintained a sufficient public float throughout the year ended 31 December 2006.

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

Wang Li Sheng

Chairlady

Hong Kong, 31 March 2007