1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the group and the company. Note 2 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the company and its subsidiaries (together referred to as the "group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except for the derivative financial instruments that are stated at their fair value as explained in the accounting policies set out in note 1(e).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 34.

1 Significant accounting policies (continued)

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the group. Control exists when the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the company, whether directly or indirectly through subsidiaries, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the company. Minority interests in the results of the group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the group's interest is allocated all such profits until the minority's share of losses previously absorbed by the group has been recovered.

When the parent already controls the subsidiary, any additional investment in that subsidiary is accounted for as an equity transaction in the consolidated financial statements. Any premium or discount on subsequent purchases of equity instruments from minority interests is recognised directly in the shareholders' equity.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 1(l) or (m) depending on the nature of the liability.

In the company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)).

1 Significant accounting policies (continued)

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(i)).

Any excess of the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(e) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss.

(f) Property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(i)):

– land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease (see note 1(h));

– buildings held for own use which are situation on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(h)); and

– other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(t)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

1 Significant accounting policies (continued)

(f) Property, plant and equipment (continued)

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of their estimated useful lives, being from 15 years to 35 years, and the expired terms of the leases; and

– Leasehold improvements are depreciated over the shorter of their estimated useful lives, being 10 years from the date of completion, and the unexpired terms of the relevant leases; and

–	Jetty structures	5-30 years
–	Jetty facilities	10-30 years
–	Plant and machinery	8-20 years
–	Furniture, fixtures and equipment	5-8 years
–	Motor vehicles and vessels	5-18 years

No depreciation is provided in respect of construction in progress.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Intangible assets (other than goodwill)

Intangible assets that are acquired by the group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(i)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. Operating rights arising from the acquisition of petrol stations represent payments to owners of petrol stations for the rights to operate such petrol stations, which are amortised on a straight-line basis over the operating periods of the respective petrol stations.

The period, method of amortisation and any conclusion that the useful life of an intangible asset are reviewed annually.

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

1 Significant accounting policies (continued)

(h) Leased assets (continued)

(i) Classification of assets leased to the group

Leases which do not transfer substantially all the risks and rewards of ownership to the group are classified as operating leases except for that land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the group, or taken over from the previous leasee.

(ii) Operating lease charges

Where the group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(i) Impairment of assets

(i) Impairment of receivables

Trade and other receivables and other financial assets that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

1 Significant accounting policies (continued)

(i) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- construction in progress;
- prepaid interests in leasehold land classified as being held for own use under an operating lease;
- investments in subsidiaries;
- intangible assets; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

1 Significant accounting policies (continued)

(i) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(i)).

1 Significant accounting policies (continued)

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(q)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(o) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Scheme Ordinance and to the state-managed retirement benefits schemes for the employees of the group's entities in the People's Republic of China (the "PRC") are recognised as an expense in profit or loss as incurred.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

1 Significant accounting policies (continued)

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

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

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

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

1 Significant accounting policies (continued)

(p) Income tax (continued)

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

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

– in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income. Where the guarantee is issued by the company in respect of the banking facilities granted to its subsidiaries, the asset identified is a form of capital contribution i.e. an addition to the cost of the investment in the subsidiary.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(q)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the group under the guarantee, and (ii) the amount of that claim on the group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

1 Significant accounting policies (continued)

(q) Financial guarantees issued, provisions and contingent liabilities (continued)

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the group or the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Revenue recognition

Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Crude oil jetty services income and petroleum unloading service income

Crude oil jetty services income and petroleum unloading service income are recognised when services are rendered. Revenue is stated net of sales taxes.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

1 Significant accounting policies (continued)

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(t) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

1 Significant accounting policies (continued)

(u) Non-current assets held for sale and discontinued operations

(i) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities direcctly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the group and the company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 1.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(ii) Discontinued operations

A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, it is separately presented on the face of the income statement, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

1 Significant accounting policies (continued)

(v) Related parties

For the purposes of these financial statements, a party is considered to be related to the group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the group or exercise significant influence over the group in making financial and operating policy decisions, or has joint control over the group;

(ii) the group and the party are subject to common control;

(iii) the party is an associate of the group or a joint venture in which the group is a venturer;

(iv) the party is a member of key management personnel of the group or the group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the group or of any entity that is a related party of the group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(w) Segment reporting

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the group's internal financial reporting system, the group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

1 Significant accounting policies (continued)

(w) Segment reporting (continued)

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2 Changes in accounting policies

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the group.

Note 1 summarises the accounting policies of the group after the adoption of these developments to the extent that they are relevant to the group. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 36).

(a) Restatement of prior periods and opening balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the company's balance sheet and other significant related disclosure items as previously reported for the year ended 31 December 2005. The effects of the changes in accounting policies on the balances at 1 January 2005 and 2006 are disclosed in note 26.

2 Changes in accounting policies (continued)

(a) Restatement of prior periods and opening balances (continued)

Effect on the company's balance sheet

Balance sheet at 31 December 2005

	2005 (as previously reported) $'000	Effect of new policy increase in net assets HKAS 39 (note 2(c)) $'000	2005 (as restated) $'000
Non-current assets			
Investments in subsidiaries	744,399	51,728	796,127
Current assets			
Other receivables	100,000	–	100,000
Cash and cash equivalents	7	–	7
	100,007	–	100,007
Current liabilities			
Other payables	126,021	22,592	148,613
Net current liabilities	(26,014)	(22,592)	(48,606)
NET ASSETS	718,385	29,136	747,521
CAPITAL AND RESERVES			
Share capital	103,683	–	103,683
Reserves	614,702	29,136	643,838
TOTAL EQUITY	718,385	29,136	747,521

2 Changes in accounting policies (continued)

(b) Estimated effect of changes in accounting policies on the current period

The following tables provide estimates of the extent to which each of the line items in the company's balance sheet and other significant related disclosure items for the year ended 31 December 2006 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

Effect on the company's balance sheet

Balance sheet at 31 December 2006

	Estimated effect of new policy increase in net assets HKAS 39 (note 2(c)) $'000
Non-current assets	
Investments in subsidiaries	**65,931**
Current liabilities	
Other payables	**23,206**
Net current liabilities	**(23,206)**
NET ASSETS	**42,725**
CAPITAL AND RESERVES	
Reserves	**42,725**
TOTAL EQUITY	**42,725**

2 Changes in accounting policies (continued)

(c) Financial guarantees issued (Amendments to HKAS 39, Financial instruments: Recognition and measurement: Financial guarantee contracts)

In prior years, financial guarantees issued by the company were disclosed as contingent liabilities in accordance with HKFRS 4, Insurance contracts and HKAS 37, Provisions, contingent liabilities and contingent assets. No provisions were made in respect of these guarantees unless it was more likely than not that the guarantee would be called upon.

With effect from 1 January 2006, in order to comply with the amendments to HKAS 39 in respect of financial guarantee contracts, the group has changed its accounting policy for financial guarantees issued. Under the new policy, financial guarantees issued are accounted for as financial liabilities under HKAS 39 and measured initially at fair value, where the fair value can be reliably measured. Subsequently, they are measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that should be recognised in accordance with HKAS 37. Further details of the new policy are set out in note 1(q)(i).

The new accounting policy has been applied retrospectively by restating opening balances at 1 January 2005 and 2006 to the extent that guarantees were unexpired at those dates, with consequential adjustments to comparatives for the year ended 31 December 2005. It is not practicable to estimate the fair values and consequential effect on reported net assets of the change in accounting policies in respect of any other guarantees issued prior to 1 January 2005. The adjustments for each financial statement line affected for the years ended 31 December 2005 and 2006 are set out in notes 2(a) and (b). Details of the financial guarantees currently issued by the company to its subsidiaries are set out in note 30. The group does not provide any financial guarantee for the years ended 31 December 2005 and 2006.

3 Turnover

The principal activities of the group are trading of crude oil, petroleum and petrochemical products, operating of a crude oil jetty and its ancillary facilities and petrol stations.

Turnover represents the sales value of goods supplied to refinery customers and consumers and income from providing crude oil jetty services, net of related sales taxes. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2006	2005
	$'000	$'000
Trading of crude oil, petroleum and petrochemical products	**14,429,624**	9,701,385
Retail sales and wholesaling of petroleum products	**2,263,545**	2,140,988
Crude oil jetty services	**345,182**	308,230
	17,038,351	12,150,603

4 Other revenue

	2006	2005
	$'000	$'000
Interest income	2,809	2,599
Petroleum unloading services income	1,552	4,411
Net foreign exchange gain	5,905	8,856
Others	730	12,805
	10,996	28,671

5 Profit before taxation

Profit before taxation is arrived at after charging:

	2006	2005
	$'000	$'000
(a) Finance costs:		
Interest on bank advances and bank borrowings wholly repayable within five years	59,294	20,154
Less: Borrowing costs capitalised as construction in progress *	(12,912)	–
	46,382	20,154
Bank charges	555	447
	46,937	20,601

* The borrowing costs have been capitalised at a rate of 5.02%-6.23% per annum (2005: N/A).

	2006	2005
(b) Staff costs:		
Salaries, wages and other benefits	57,463	59,698
Contribution to defined contribution retirement plan	5,683	5,509
	63,146	65,207

5 Profit before taxation (continued)

Profit before taxation is arrived at after charging: (continued)

	2006	2005
	$'000	$'000
(c) Other items:		
Cost of inventories #	**16,650,022**	11,823,250
Amortisation of intangible assets	**9,086**	9,711
Amortisation of interests in leasehold land held for own use under operating leases	**3,481**	3,425
Auditors' remuneration	**3,500**	1,000
Depreciation #	**106,563**	93,736
Loss on disposal of fixed assets	**2,649**	725
Operating lease charges:		
– petrol station facilities	**3,007**	4,064
– machinery and vessel	**668**	1,439

Cost of inventories includes $104,313,000 (2005: $90,379,000) relating to staff costs and depreciation, which amount is also included in respective total amounts disclosed separately in note 5(b) or above for each of these types of expenses.

6 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2006	2005
	$'000	$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**3,500**	5,250
Current tax – Outside Hong Kong		
Provision for the year	**25,103**	18,524
	28,603	23,774

The provision for Hong Kong Profits Tax for 2006 is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year. Taxation for subsidiaries outside Hong Kong are charged at the appropriate current rates of taxation ruling in the relevant countries.

One of the company's subsidiaries established in the PRC, which commenced operations in March 1997, enjoys full tax exemption for its first five profit making years and a tax reduction of 50% for the next five years in respect of its jetty operations. The income tax rate applicable to this PRC subsidiary is 15%. The year 2006 is the tenth year that the subsidiary started to have a taxable profit. Accordingly, the subsidiary is subject to a 50% reduction in applicable income tax rate, which is 7.5%.

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

	2006	2005
	$'000	$'000
Profit before taxation	**230,889**	203,156
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**42,984**	30,059
Tax effect of concession	**(16,842)**	(12,777)
Tax effect of non-deductible expenses	**3,993**	7,506
Tax effect of non-taxable income	**(1,532)**	(1,014)
Actual tax expense	**28,603**	23,774

7 Directors' remuneration

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

	Directors' fee $'000	Salaries, allowances and benefits in kind $'000	2006 Total $'000
Executive directors			
Wang Li Sheng	470	–	470
Yang Shu Shan	420	–	420
Jiang Zheng Ying	940	–	940
Pan Xin Rong	1,080	–	1,080
Yang Dong	810	–	810
Zhu Jian Min	980	–	980
Zhou Feng	980	–	980
Ye Zhi Jun	–	505	505
Han Kun	–	466	466
Non-executive director			
Yang Mo Fei	–	–	–
Independent non-executive directors			
Wong Po Yan	180	–	180
Tam Wai Chu, Maria	180	–	180
Fong Chung, Mark	180	–	180
	6,220	971	7,191

7 Directors' remuneration (continued)

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

	Directors' fee $'000	Salaries, allowances and benefits in kind $'000	2005 Total $'000
Executive directors			
Yang Shu Shan	1,680	–	1,680
Pan Xin Rong	1,080	–	1,080
Zhu Jian Min	980	–	980
Zhou Feng	980	–	980
Ye Zhi Jun	–	600	600
Ge Han Hua	–	536	536
Han Kun	–	74	74
Non-executive director			
Yang Mo Fei	–	–	–
Independent non-executive directors			
Wong Po Yan	180	–	180
Tam Wai Chu, Maria	180	–	180
Fong Chung, Mark	180	–	180
	5,260	1,210	6,470

8 Individuals with highest emoluments

The five highest paid individuals of the group for both years are all directors of the company and details of their emoluments are set out in note 7 above.

9 Profit attributable to equity shareholders of the company

The consolidated profit attributable to equity shareholders of the company includes a profit of $7,139,000 (2005 (restated): $7,847,000) which has been dealt with in the financial statements of the company.

10 Dividends

(a) Dividends payable to equity shareholders of the company attributable to the year

	2006 $'000	2005 $'000
Interim dividend declared and paid of 1.5 cents per ordinary share (2005: 1.5 cents per ordinary share)	**15,552**	15,552
Final dividend proposed after the balance sheet date of 2 cents per ordinary share (2005: 1.5 cents per ordinary share)	**20,737**	15,552
	36,289	31,104

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends payable to equity shareholders of the company attributable to the previous financial year, approved and paid during the year

	2006 $'000	2005 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 1.5 cents per share (2005: 1.5 cents per share)	**15,552**	15,552

11 Earnings per share

The calculation of the basic earnings per share is based on the profit attributable to ordinary equity shareholders of the company of approximately $156,856,000 (2005: $135,578,000) and on 1,036,830,000 (2005: 1,036,830,000) ordinary shares in issue throughout the year.

Diluted earnings per share has not been presented because there were no dilutive potential ordinary shares in issue in either year.

12 Segment reporting

Segment information is presented in respect of the group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the group's internal financial reporting.

12 Segment reporting (continued)

Business segments

For management purposes, during 2006, the group was organised into three operating divisions, namely trading of crude oil, petroleum and petrochemical products, retail sales and wholesaling of petroleum products, and the rendering of crude oil jetty services.

	Trading of crude oil, petroleum and petrochemical products		Crude oil jetty services		Retail sales and wholesaling of petroleum products (discontinued operation) (note 13)		Inter-segment elimination		Unallocated		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue												
Revenue from external customers	**14,429,624**	9,701,385	**345,182**	308,230	**2,263,545**	2,140,988	**–**	–	**–**	–	**17,038,351**	12,150,603
Inter–segment revenue	**–**	–	**21,922**	9,769	**–**	–	**(21,922)**	(9,769)	**–**	–	**–**	–
Other revenue from external customers	**6,389**	8,853	**219**	218	**1,579**	17,001	**–**	–	**2,809**	2,599	**10,996**	28,671
Total	**14,436,013**	9,710,238	**367,323**	318,217	**2,265,124**	2,157,989	**(21,922)**	(9,769)	**2,809**	2,599	**17,049,347**	12,179,274
Segment result	**61,760**	39,863	**214,851**	168,443	**25,025**	10,090	**(13,592)**	(6,057)			**288,044**	212,339
Unallocated interest income											**2,809**	2,599
Unallocated corporate (expenses)/income											**(13,027)**	8,819
Profit from operations											**277,826**	223,757
Finance costs											**(46,937)**	(20,601)
Income tax											**(28,603)**	(23,774)
Gain on sale on discontinued operation											**16,079**	–
Profit for the year											**218,365**	179,382
Depreciation and amortisation for the year	**1,266**	1,439	**96,684**	84,283	**17,699**	21,150						

12 Segment reporting (continued)

Business segments (continued)

	Trading of crude oil, petroleum and petrochemical products		Crude oil jetty services		Retail sales and wholesaling of petroleum products (discontinued operation) (note 13)		Inter-segment elemination		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Segment assets	**2,011,218**	822,721	**2,105,238**	1,907,699	**–**	386,983	**(15,867)**	(465,891)	**4,100,589**	2,651,512
Unallocated assets									**70,229**	192,877
Total assets									**4,170,818**	2,844,389
Segment liabilities	**(1,202,523)**	(299,678)	**(157,145)**	(435,439)	**–**	(140,095)	**15,867**	465,891	**(1,343,801)**	(409,321)
Unallocated liabilities									**(1,135,214)**	(310,591)
Total liabilities									**(2,479,015)**	(719,912)
Capital expenditure incurred during the year	**536**	130	**454,134**	70,420	**4,026**	7,413				

Geographical segments

Substantially all the group's activities are based in the PRC and more than 90% of the group's turnover and contribution to profit from ordinary activities before taxation are derived from the PRC in both years.

13 Discontinued operations

On 10 July 2006, one of the company's subsidiary, Huade Petrochemical Company Limited ("Huade") entered into an Equity Disposal Agreement ("Disposal Agreement") with the group's holding company, China Petroleum & Chemical Corporation ("Sinopec Corp"), to dispose of its 90% equity interests in Kantons Gas Station Investment & Management Co., Limited ("KGSIMC") to Sinopec Corp. The principal business of KGSIMC and its subsidiaries is retail sales and wholesaling of petroleum products.

13 Discontinued operations (continued)

This transaction was approved by the independent shareholders of the company in a special general meeting held on 18 August 2006 and the transaction was completed in December 2006, after all the approval from the relevant PRC government and regulatory bodies were obtained.

The total consideration receivable from Sinopec Corp. in connection with this transaction amounted to $153,000,000, to be satisfied in cash. The gain on disposal of KGSIMC recognised by the group amounted to approximately $16,079,000. For the purpose of these financial statements, the results of KGSIMC are presented as discontinued operations for the years ended 31 December 2005 and 2006.

During the year ended 31 December 2006, KGSIMC had cash outflow from operating activities of $8,039,000 (2005: $22,961,000 inflow), cash used in investing activities of $2,692,000 (2005: $3,848,000) and cash used in financing activities of $9,168,000 (2005: $4,624,000).

Effect of the disposal of KGSIMC

	2006 **$'000**
Fixed assets	**139,138**
Intangible assets	**70,991**
Inventories	**128,177**
Trade and other receivables	**58,301**
Cash and cash equivalents	**36,043**
Bank loans	**(6,000)**
Trade and other payables	**(258,505)**
Exchange reserve	**(8,570)**
Minority interest	**(22,654)**
Net identified assets and liabilities	**136,921**
Proceed from sale	**153,000**
Net assets disposed of	**(136,921)**
Gain of disposal of discontinued operation	**16,079**
Consideration received, satisfied in cash*	**–**
Cash disposed of	**(36,043)**
Net cash outflow	**(36,043)**

* The consideration of $153,000,000 is to be satisfied in cash.

14 Fixed assets

(a) The group

	Buildings held for own use $'000	Leasehold improvements $'000	Jetty structures $'000	Jetty facilities $'000	Plant and machinery $'000	Furniture, fixtures and equipment $'000	Motor vehicles and vessels $'000	Construction in progress $'000	Subtotal $'000	Interest in leasehold land held for own use under operating leases $'000	Total $'000
Cost:											
At 1 January 2005	284,251	5,695	351,527	1,049,462	255,254	22,855	52,143	4,585	2,025,772	103,045	2,128,817
Additions											
– through acquisition of subsidiaries	1,511	–	–	–	696	–	–	70,793	73,000	2,471	75,471
– others	72	–	–	–	2,158	249	13	–	2,492	–	2,492
Transfer	181	–	1,603	5,420	1,594	–	–	(8,798)	–	–	–
Disposals	(1,741)	–	(59)	(330)	(6,643)	(239)	(2,892)	–	(11,904)	–	(11,904)
Exchange adjustments	6,600	163	10,058	32,258	8,065	637	1,432	1,016	60,229	2,977	63,206
At 31 December 2005	290,874	5,858	363,129	1,086,810	261,124	23,502	50,696	67,596	2,149,589	108,493	2,258,082
At 1 January 2006	290,874	5,858	363,129	1,086,810	261,124	23,502	50,696	67,596	2,149,589	108,493	2,258,082
Additions	164	506	60	–	3,790	431	994	452,751	458,696	–	458,696
Transfer	–	–	3,148	119,567	15,000	–	–	(137,715)	–	–	–
Disposals	(4,664)	–	–	–	(4,708)	(81)	(156)	–	(9,609)	–	(9,609)
Disposal of subsidiaries	(42,287)	(6,124)	–	–	(45,934)	(16,755)	(491)	–	(111,591)	(78,155)	(189,746)
Exchange adjustments	9,482	237	14,710	46,788	10,479	931	2,030	21,009	105,666	4,372	110,038
At 31 December 2006	253,569	477	381,047	1,253,165	239,751	8,028	53,073	403,641	2,592,751	34,710	2,627,461
Depreciation:											
At 1 January 2005	84,471	2,496	73,982	270,119	79,592	15,262	19,754	–	545,676	10,086	555,762
Charge for the year	11,275	699	9,310	53,707	12,602	3,279	2,864	–	93,736	3,425	97,161
Written back on disposal	(458)	–	(22)	(144)	(3,323)	(196)	(1,452)	–	(5,595)	–	(5,595)
Exchange adjustments	2,206	86	2,244	8,476	2,124	441	581	–	16,158	336	16,494
At 31 December 2005	97,494	3,281	85,514	332,158	90,995	18,786	21,747	–	649,975	13,847	663,822
At 1 January 2006	97,494	3,281	85,514	332,158	90,995	18,786	21,747	–	649,975	13,847	663,822
Charge for the year	11,056	649	9,759	65,004	11,752	2,061	2,801	–	103,082	3,481	106,563
Written back on disposal	(1,362)	–	–	–	(2,734)	(60)	(100)	–	(4,256)	–	(4,256)
Disposal of subsidiaries	(6,464)	(3,836)	–	–	(13,267)	(14,920)	(94)	–	(38,581)	(12,027)	(50,608)
Exchange adjustments	3,528	145	3,690	15,007	3,496	747	934	–	27,547	644	28,191
At 31 December 2006	104,252	239	98,963	412,169	90,242	6,614	25,288	–	737,767	5,945	743,712
Net book value:											
At 31 December 2006	149,317	238	282,084	840,996	149,509	1,414	27,785	403,641	1,854,984	28,765	1,883,749
At 31 December 2005	193,380	2,577	277,615	754,652	170,129	4,716	28,949	67,596	1,499,614	94,646	1,594,260

14 Fixed assets (continued)

(b) The analysis of net book value of buildings and interest in leasehold land held for own use under operating leases is as follows:

	2006 $'000	2005 $'000
Long leases in Hong Kong	**38,757**	39,838
Medium-term leases outside Hong Kong	**139,325**	248,188
	178,082	288,026

(c) Jetty structure leased out under operating lease

During 2006, the group granted a third party the right to use part of its jetty facilities, i.e. the dredging channel, under an operating lease arrangement. The lessee is required to pay a RMB3,000,000 rental charge to the group annually only when any vessels of the lessee with transportation volume exceeding 120,000 tonne pass through the dredging channel in a calendar year, otherwise no rental charge is payable. The lease arrangement runs for an initial period of 22 years, with an option to renew the lease after that date at which time all terms are negotiated.

15 Intangible assets

The group

	Petrol station operating rights	
	2006 $'000	2005 $'000
Cost:		
At 1 January	**105,130**	102,253
Disposal of subsidiaries	**(105,130)**	–
Exchange adjustments	**–**	2,877
At 31 December	**–**	105,130
Accumulated amortisation:		
At 1 January	**25,053**	14,783
Charge for the year	**9,086**	9,711
Disposal of subsidiaries	**(34,139)**	–
Exchange adjustments	**–**	559
At 31 December	**–**	25,053
Net book value:		
At 31 December	**–**	80,077

The amortisation charge for 2005 and 2006 was included in "administrative expenses" in the consolidated income statement.

16 Investments in subsidiaries

	The company	
	2006	2005 (restated)
	$'000	$'000
Unlisted investments, at cost	**180,669**	166,466
Amounts due from subsidiaries	**629,661**	629,661
	810,330	796,127

The amounts due from subsidiaries are unsecured, interest-free, and have no fixed repayment terms. The amounts are expected to be not repayable within twelve months from the balance sheet date and, accordingly, the balances are classified as non-current.

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the group at 31 December 2006.

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the group financial statements.

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up share capital/ registered capital	Proportion for ownership interest: group's effective interest	held by the company	held by subsidiaries	Principal activities
Huade (note (i))	The PRC	Registered capital US$93,758,200	100%	–	100%	Operation of a crude oil jetty and ancillary facilities
Sinomart KTS Development Limited ("KTS") (note (ii))	Hong Kong	50 ordinary shares of $1 each (note (ii))	100%	100%	–	Trading of crude oil, petroleum and petrochemical products
Kantons International Investment Limited ("KII")	British Virgin Islands	3,000,000 ordinary shares of US$1 each	100%	100%	–	Investment holding

Notes:

(i) Huade is a sino-foreign equity joint venture established in the PRC. The group's interests in Huade increased from 70% to 100% in December 2006, please see note 31(d) for details.

(ii) KTS also has in issue fully paid 10,000 non-voting deferred shares of $1 each, holders of which practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of KTS or to participate in any distribution on winding up.

17 Inventories

(a) Inventories in the balance sheet comprise:

	The group	
	2006	2005
	$'000	$'000
Crude oil and spare parts	**751,848**	442,818
Petroleum and petrochemical products	**145,958**	221,728
	897,806	664,546

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	The group	
	2006	2005
	$'000	$'000
Carrying amount of inventories sold	**16,650,022**	11,823,250

18 Trade and other receivables

	The group		The company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Dividend receivable from a subsidiary	**–**	–	**100,000**	100,000
Trade and bills receivable	**214,218**	71,679	**–**	–
Amounts due from holding companies and fellow subsidiaries	**1,125,843**	232,944	**–**	–
Other receivables	**18,230**	48,498	**–**	–
	1,358,291	353,121	**100,000**	100,000

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

Amounts due from holding companies and fellow subsidiaries mainly represent balances arising from trading transactions, except for the amount of $153,000,000, being the consideration receivable from Sinopec Corp. in respect of the disposal of 90% equity interests in KGSIMC as mentioned in note 13. These balances are unsecured, interest free and are repayable on demand.

18 Trade and other receivables (continued)

Included in trade and other receivables are trade debtors and bills receivables (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	The group	
	2006	2005
	$'000	$'000
Current or less than 1 month overdue	**172,056**	70,088
1 to 3 months overdue	**40,788**	999
More than 3 months overdue but less than 12 months overdue	**1,374**	592
	214,218	71,679

The group's credit policy is set out in note 28(a).

19 Cash and cash equivalents

	The group		The company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Cash at bank and in hand	**30,972**	152,385	**16**	7

20 Trade and other payables

	The group		The company	
	2006	2005	**2006**	2005 (restated)
	$'000	$'000	**$'000**	$'000
Amounts due to subsidiaries	**–**	–	**159,294**	125,922
Bills payable	**100,519**	120,638	**–**	–
Trade payables	**29,018**	9,873	**–**	–
Amounts due to holding companies and fellow subsidiaries	**1,071,139**	266,618	**–**	–
Financial guarantee issued	**–**	–	**23,206**	22,592
Creditors and accrued charges	**143,125**	130,086	**4,290**	99
	1,343,801	527,215	**186,790**	148,613

20 Trade and other payables (continued)

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

The amounts due to holding companies and fellow subsidiaries mainly represent balances arising from trading transactions, except for the amount of $594,000,000, being the consideration payable to Sinopec Guangzhou Petrochemical Complex ("GPC") for acquisition of the 30% equity interests in Huade as mentioned in note 31(d). These balances are unsecured, interest free and are repayable on demand.

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

	The group	
	2006	2005
	$'000	$'000
Due within 1 month or on demand	**36,697**	8,154
Due after 1 month but within 3 months	**49,097**	122,351
Due after 3 months but within 6 months	**43,743**	6
	129,537	130,511

21 Bank loans

At 31 December 2006, the bank loans were repayable as follows:

	The group	
	2006	2005
	$'000	$'000
Within 1 year or on demand	**1,115,987**	161,526
After 1 year but within 2 years	**–**	11,361
	1,115,987	172,887

As at 31 December 2006, the bank loans were secured as follows:

	The group	
	2006	2005
	$'000	$'000
Bank loans		
– secured	**–**	5,768
– unsecured	**1,115,987**	167,119
	1,115,987	172,887

21 Bank loans (continued)

At 31 December 2005, the banking facilities of a subsidiary were secured by its land use rights with carrying value of $13,539,000. None of the bank loans as at 31 December 2006 were secured.

Included in bank loans are the amounts denominated in the following currencies:

	The group	
	2006	2005
	$'000	$'000
United States Dollars	**USD 123,544**	USD 5,000
Hong Kong Dollars	**HKD 117,347**	HKD 128,321
Renminbi Yuan	**RMB 35,000**	RMB 6,000

22 Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

	The group	
	2006	2005
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	**3,500**	5,250
Provision for PRC Income Tax for the year	**25,103**	18,524
Provisional Profits Tax paid	**(20,318)**	(16,203)
Balance of Profits Tax provision relating to prior years	**10,942**	12,239
	19,227	19,810

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

23 Employee retirement benefits

The group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the plan vest immediately.

The company's subsidiaries established in the PRC participate in pension fund schemes organised by the relevant local government authorities in the PRC. These subsidiaries are required to make contribution to the retirement scheme at a certain percentage of the basic salaries of their employees.

The group does not have any other pension schemes for its employees in respect of its subsidiaries elsewhere. The group does not have any other obligations other than the contributions described above.

24 Equity compensation benefits

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

Options granted must be taken up within 21 days from the date of grant, upon payment of $1 per option. Options may be exercised at any time from the date of acceptance of the grant of the share option to the earlier of the date on which such options lapse under early termination 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.

25 Share capital

	2006		2005	
	Number of shares ('000)	**Amount $'000**	Number of shares ('000)	Amount $'000
Authorised:				
Ordinary shares of $0.1 each	**3,000,000**	**300,000**	3,000,000	300,000
Issued and fully paid:				
At 1 January and 31 December	**1,036,830**	**103,683**	1,036,830	103,683

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

26 Capital and reserves

(a) The group

	Attributable to equity shareholders of the company								
	Share capital $'000	Share premium $'000	Merger reserve $'000 (Note 26(c)(i))	General reserves $'000 (Note 26(c)(ii))	Exchange reserve $'000 (Note 26(c)(iii))	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)	875,282	1,512,401	422,793	1,935,194
Final dividends approved in respect of the previous year (note 10(b))	–	–	–	–	–	(15,552)	(15,552)	–	(15,552)
Addition through acquisition of subsidiary	–	–	–	–	–	–	–	2,678	2,678
Transfer	–	–	–	23,251	–	(23,251)	–	–	–
Exchange differences on translation o financial statements of the subsidiaries outside Hong Kong	–	–	–	–	38,327	–	38,327	–	38,327
Profit for the year	–	–	–	–	–	135,578	135,578	43,804	179,382
Interim dividends declared in respect of the current year (note 10(a))	–	–	–	–	–	(15,552)	(15,552)	–	(15,552)
At 31 December 2005	103,683	333,857	23,444	200,565	37,148	956,505	1,655,202	469,275	2,124,477
At 1 January 2006	**103,683**	**333,857**	**23,444**	**200,565**	**37,148**	**956,505**	**1,655,202**	**469,275**	**2,124,477**
Final dividends approved in respect of the previous year (note 10(b))	**–**	**–**	**–**	**–**	**–**	**(15,552)**	**(15,552)**	**–**	**(15,552)**
Disposal of subsidiaries (note 13)	**–**	**–**	**–**	**–**	**(8,570)**	**–**	**(8,570)**	**(22,654)**	**(31,224)**
Acquisition of minority interest in a subsidiary (note 26(c)(ii), 31(d))	**–**	**–**	**–**	**(141,279)**	**–**	**–**	**(141,279)**	**(508,130)**	**(649,409)**
Transfer	**–**	**–**	**–**	**20,377**	**–**	**(20,377)**	**–**	**–**	**–**
Exchange differences on translation of financial statements of the subsidiaries outside Hong Kong	**–**	**–**	**–**	**–**	**60,698**	**–**	**60,698**	**–**	**60,698**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**156,856**	**156,856**	**61,509**	**218,365**
Interim dividends declared in respect of the current year (note 10(a))	**–**	**–**	**–**	**–**	**–**	**(15,552)**	**(15,552)**	**–**	**(15,552)**
At 31 December 2006	**103,683**	**333,857**	**23,444**	**79,663**	**89,276**	**1,061,880**	**1,691,803**	**–**	**1,691,803**

26 Capital and reserves (continued)

(b) The company

	Share capital $'000	Share premium $'000	Contributed surplus $'000 (Note 26 (c)(iv))	Retained profits $'000	Total equity $'000
At 1 January 2005					
– as previously reported	103,683	333,857	242,397	70,556	750,493
– prior period adjustment in respect of amendments to HKAS 39: Financial guarantee contracts	–	–	–	20,285	20,285
– as restated	103,683	333,857	242,397	90,841	770,778
Final dividends approved in respect of the previous year (note 10(b))	–	–	–	(15,552)	(15,552)
Profit for the year (restated) (note 9)	–	–	–	7,847	7,847
Interim dividends declared in respect of the current year (note 10(a))	–	–	–	(15,552)	(15,552)
At 31 December 2005 (as restated)	103,683	333,857	242,397	67,584	747,521
At 1 January 2006					
– as previously reported	**103,683**	**333,857**	**242,397**	**38,448**	**718,385**
– prior period adjustment in respect of amendments to HKAS 39: Financial guarantee contracts	**–**	**–**	**–**	**29,136**	**29,136**
– as restated	**103,683**	**333,857**	**242,397**	**67,584**	**747,521**
Final dividends approved in respect of the previous year (note 10(b))	**–**	**–**	**–**	**(15,552)**	**(15,552)**
Profit for the year (note 9)	**–**	**–**	**–**	**7,139**	**7,139**
Interim dividends declared in respect of the current year (note 10(a))	**–**	**–**	**–**	**(15,552)**	**(15,552)**
At 31 December 2006	**103,683**	**333,857**	**242,397**	**43,619**	**723,556**

26 Capital and reserves (continued)

(c) Nature and purpose of reserves

(i) Merger reserve

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

(ii) General reserves

The general reserves of the group represent appropriations made by the company's PRC subsidiaries from retained profits to a discretionary surplus reserve and an enterprise development fund, pursuant to the relevant PRC laws and regulations applicable to Sino-foreign equity joint ventures. The percentages of appropriations are determined annually by the directors of the relevant subsidiaries. The discretionary surplus reserve can be utilised to offset prior years' losses or convert into paid up capital. The enterprise development fund can be used for the future development of the enterprise or converted into paid up capital. Neither the discretionary surplus reserve nor the enterprise development fund are available for distribution. Included in the general reserves are (i) the excess of the considerations of RMB594,000,000 payable to GPC over 30% of the carrying value of the net assets of Huade acquired from GPC during the year ended 31 December 2006, which reduced the general reserves by $141,279,000 (note 26(a)) and (ii) goodwill of $4,880,000 as at 31 December 2006 (2005: $4,880,000) arising from the acquisition of subsidiaries before 2001.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(s).

(iv) Contributed surplus

The contributed surplus of the company represents the difference between the aggregate shareholders' funds of the subsidiaries at the date on which the company became the holding company of the group and the nominal amount of the share capital of the company issued under a group reorganisation.

Under the Companies Act 1981 of Bermuda, the contributed surplus account of the company is available for distribution. However, a company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

(i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

(d) Distributability of reserves

At 31 December 2006, the aggregate amount of reserves available for distribution to equity shareholders of the company was $286,016,000 (2005 (restated): $309,981,000). After the balance sheet date the directors proposed a final dividend of 2 cents per share (2005: 1.5 cents per share), amounting to $20,737,000 (2005: $15,552,000). This dividend has not been recognised as a liability at the balance sheet date.

27 Acquisition of subsidiaries

For the year ended 31 December 2005, the group acquired several subsidiaries for a total consideration of $1,250,000, satisfied in cash.

	2005
	$'000
Net assets acquired	
Fixed assets	4,678
Intangible assets	–
Inventories	16,135
Trade and other receivables	9,808
Cash at bank and in hand	804
Trade and other payables	(27,497)
Minority interests	(2,678)
Net identifiable assets and liabilities	1,250
Total purchase prices paid, satisfied in cash	1,250
Less: cash of subsidiaries acquired	(804)
Net cash outflow in respect of the purchase of subsidiaries	446

28 Financial instruments

Exposure of credit, liquidity, interest rate and currency risks arises in the normal course of the group's business. These risks are limited by the group's financial management policies and practices described below.

(a) Credit risk

The group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 90 days from the date of billing. Debtors with balances that are more than 12 months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the group does not obtain collateral from customers.

At the balance sheet date, the group has a certain concentration of credit risk as 30% (2005: 25%) and 78% (2005: 65%) of the total trade and other receivables was due from the group's largest customer and the five largest customers respectively within the trading of crude oil, petroleum and petrochemical products segment.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, in the balance sheet.

28 Financial instruments (continued)

(b) Liquidity risk

Individual operating entities within the group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of short-term loans to cover expected cash demands, subject to approval by the parent company. The group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(c) Interest rate risk

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

The group

	2006				2005			
	Effective interest rate	**Total $'000**	**1 year or less $'000**	**1-2 years $'000**	Effective interest rate	Total $'000	1 year or less $'000	1-2 years $'000
Repricing dates for assets/ (liabilities) which reprice before maturity								
Cash and cash equivalents	**2.9%**	**30,972**	**30,972**	**–**	2.1%	152,385	152,385	–
Bank loans	**6.0%**	**(1,031,987)**	**(1,031,987)**	**–**	4.4%	(172,887)	(161,526)	(11,361)
		(1,001,015)	**(1,001,015)**	**–**		(20,502)	(9,141)	(11,361)
Maturity dates for assets/ (liabilities) which do not reprice before maturity								
Bank loans	**4.8%**	**(84,000)**	**(84,000)**	**–**	–	–	–	–

28 Financial instruments (continued)

(d) Foreign currency risk

The group does not undertake significant transactions in a currency other than the functional currency of each entity within the group. Funds are retained by the entities within the group for use with the respective operation. Based on this, management considers the foreign exchange exposure to be low.

On 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the PBOC. However, the unification of the exchange rate does not imply convertibility of Renminbi into United States dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other banks authorised to buy and sell foreign currencies at the exchange rates quoted by the PBOC. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

With the authorisation from the PRC government, the PBOC announced that the PRC government reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies on 21 July 2005. The exchange rate of US dollars against RMB was adjusted to 8.11 yuan per US dollar with effect from 21 July 2005.

In respect of trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the group ensures that the net exposure is kept to an acceptable level, by buying and selling foreign currencies at spot rates where necessary to address short-term imbalances.

The foreign currency bank loans are disclosed in note 21.

(e) Fair values

All financial assets and financial liabilities are not materially different from their fair values as at 31 December 2005 and 2006.

28 Financial instruments (continued)

(f) Estimation of fair value

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

(i) Bank loans

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(ii) Interest rate used for determining fair value

The market interest rates adopted are as follows:

	The group	
	2006	2005
Bank loans	**4.7% – 6.3%**	4.2% – 5.0%

29 Commitments

(a) Capital commitments outstanding at 31 December 2006 not provided for in the financial statements were as follows:

	The group	
	2006	2005
	$'000	$'000
Contracted for	**136,001**	491,413
Authorised but not contracted for	**–**	–
	136,001	491,413

29 Commitments (continued)

(b) At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The group			
	2006		2005	
	Petrol station facilities $'000	**Land and buildings $'000**	Petrol station facilities $'000	Land and buildings $'000
Within 1 year	**–**	**568**	2,654	546
After 1 year but within 5 years	**–**	**2,271**	10,513	2,183
After 5 years	**–**	**9,747**	22,542	9,915
	–	**12,586**	35,709	12,644

KGSIMC, a subsidiary disposed of by the group in December 2006, leases a number of petrol station facilities, plant and machinery, and land and buildings. Leases for petrol station facilities generally run for a period of 20 years and rentals are mostly fixed during the lease period. Lease payments of certain petrol station facilities to be determined by reference to the revenue of the relevant petrol stations have not been included in the above future minimum lease payments disclosures.

30 Contingent liabilities

Financial guarantees issued (the company)

As at the balance sheet date, the company has issued guarantees to banks in respect of banking facilities granted to its wholly owned subsidiaries, and the directors do not consider it probable that a claim will be made against the company under any of the guarantees. The maximum liability of the company at the balance sheet date under the guarantees issued is the facilities drawn down by subsidiaries of $1,080,987,000 (2005: $135,381,000).

31 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the group entered into the following material related party transactions.

(a) Key management personnel remuneration

The group has not identified any person, other than the directors of the company, having the authority and responsibility for planning, directing and controlling the activities of the group. The remuneration information of directors of the company is presented in note 7.

(b) During the year, the group had the following significant transactions with its holding companies and fellow subsidiaries. Details of the amounts which have been charged/(credited) to the consolidated income statement are as follows:

	2006	2005
	$'000	$'000
Crude oil sold by the group (note (i))	**(7,592,186)**	(3,296,755)
Crude oil purchased by the group and related charges (note (i))	**5,197,594**	2,411,533
Petroleum products sold by the group (note (i))	**(1,262,053)**	(1,410,761)
Petrochemical products sold by the group (note (i))	**(59,618)**	(85,330)
Petroleum products purchased by the group for petrol stations (note (i))	**1,891,360**	1,607,684
Petroleum products purchased by the group for general trade (note (i))	**508,720**	228,260
Insurance premium charged to the group (note (ii))	**4,313**	4,188
Crude oil refining and processing fees charged to the group (note (iii))	**62,622**	40,762
Rentals charged to the group in respect of land and buildings and motor vehicle (note (iv))	**–**	540
Jetty service fees, charged by the group (note (v))	**(338,585)**	(314,543)
Operating lease payments in respect of petrol station facilities charged to the group (note (vi))	**–**	1,274
Transportation service fees charged by the group (note (vii))	**(4,644)**	–
Petroleum unloading services fee charged by the group (note viii))	**(1,354)**	(1,867)
Gain on disposal of subsidiaries by the group (note 13)	**(16,079)**	–

31 Material related party transactions (continued)

(b) (continued)

Notes: The above transactions were conducted in accordance with the following terms:

(i) The crude oil and petroleum products trading transactions were carried out in accordance with the terms of the relevant sales and purchase agreements and on terms agreed between the parties having regard to commercial practice of the crude oil industry and international market conditions during the year the transactions were entered into.

(ii) The insurance premium was calculated by reference to the provisions of a document jointly issued by its ultimate holding company and the Ministry of Finance in the PRC in 1998 and at a predetermined percentage as revised by its ultimate holding company from time to time.

(iii) The group engaged the intermediate holding company to refine and process crude oil into various types of petroleum products on behalf of the group. The crude oil refining and processing fees were charged in accordance with the terms of the relevant refining and processing agreements and at price not lower than US$10 per tonne of crude oil processed.

(iv) The rentals on properties and motor vehicles were charged at a fixed monthly amount in accordance with the terms of the relevant rental agreements.

(v) The jetty service fees were charged in accordance with the relevant service agreement and at rates based on the State-prescribed price regulated and standardised by the Ministry of Communications and government-approved prices approved by the Guangdong Price Bureau in the PRC.

(vi) The operating fees in respect of petrol stations were charged at a fixed annual fee or with reference to the revenue of the relevant petrol stations in accordance with the terms of the relevant operating agreements for the operation of the petrol stations.

(vii) Transportation service fees were charged by a fellow subsidiary for delivery of petroleum products to the groups' petrol stations. The transportation service fee were charged at RMB22 per tonne which is in accordance with the price governing by Guangdong Price Bureau in the PRC.

(viii) Petroleum unloading services fee was charged for unloading of petroleum products from storage tank to delivery truck. The unit price charged by the group is in accordance with the price governing by Guangdong Price Bureau in the PRC.

(c) The balances with related companies are set out in the consolidated balance sheet and notes 18 and 20.

31 Material related party transactions (continued)

(d) On 10 July 2006, one of the subsidiaries of the company, KII, entered into a sale and purchase agreement with GPC, an affiliate to the company, to acquire from GPC 30% equity interests in Huade for a consideration of RMB594,000,000, to be satisfied in cash. Prior to the acquisition, the company held 70% equity interests in Huade through KII. Huade operates in the business segment of crude oil jetty services.

The above transaction was approved by the independent shareholders of the company in a special general meeting held on 18 August 2006 and the transaction was completed in December 2006, after all the approval from the relevant PRC government and regulatory bodies were obtained.

The equity interests of Huade held by the group was increased from 70% to 100%.

(e) The group disposed of all its 63% equity interest in KGSIMC to Sinopec Corp. in December 2006 for a cash consideration of RMB153,000,000, please see note 13 for details.

(f) For the year ended 31 December 2005, a subsidiary of the company paid a dividend of approximately $4,429,000 to its minority shareholder which is a fellow subsidiary of the group. No such transaction occurred during the year ended 31 December 2006.

(g) 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.

31 Material related party transactions (continued)

(h) The group operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government through its government authorities, agencies, affiliations and other organisations (collectively referred to as "state-controlled entities").

Apart from transactions with the group's holding companies and fellow subsidiaries the group has transactions with other state-controlled entities including but not limited to the following:

– sales and purchases of crude oil, petroleum and petrochemical products;

– construction work;

– rendering and receiving services; and

– use of public utilities.

These transactions are conducted in the ordinary course of the group's business on terms comparable to those with other entities that are not state-controlled. The group has established its procurement policies, pricing strategy and approval process for purchases and sales of products and services which do not depend on whether the counterparties are state-controlled entities or not.

Having considered the transactions potentially affected by related party relationships, the entity's pricing strategy, procurement policies and approval processes, and the information that would be necessary for an understanding of potential effect of the related party relationship on the financial statements, the directors are of the opinion that the following related party transactions charged/(credited) to the group and balances require disclosure of numeric details:

(i) Transactions with other state-controlled entity and construction companies

	2006	2005
	$'000	$'000
Crude oil, petroleum and petrochemical products purchased by the group	**2,395,661**	2,475,819
Crude oil, petroleum and petrochemical products sold by the group	**(4,503,007)**	(4,111,871)
Construction work performed	**338,098**	55,408

	2006	2005
	$'000	$'000
Amount due from other state-controlled entities	**119,154**	88,331
Amount due to other state-controlled entities	**(119,041)**	(8,064)

31 Material related party transactions (continued)

(h) (continued)

(ii) Transactions with state-controlled banks

The group deposits its cash with several state-controlled banks in the PRC. The group also obtains short-term and long-term loans from these banks in the ordinary course of business. The interest rates of the bank deposits and loans are regulated by the PBOC. The group's interest income from and interest expenses to these state-controlled banks in the PRC are as follows:

	2006	2005
	$'000	$'000
Interest income	**(2,267)**	(2,533)
Interest expenses	**29,707**	7,511

The amounts of cash deposited at and loans from state-controlled banks in the PRC are summarised as follows:

	2006	2005
	$'000	$'000
Cash and cash equivalents	**25,809**	145,786
Short-term loans	**(523,873)**	(38,786)

32 Immediate and ultimate controlling party

At 31 December 2006, the directors consider the immediate parent and ultimate controlling party of the group to be Sinopec Kantons International Limited and China Petrochemcial Corporation, which are established in the British Virgin Islands and a state-owned enterprise established in the PRC respectively.

33 Post balance sheet event

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which will take effect on 1 January 2008. A subsidiary of the company is registered in the Daya Bay special economic zone and hence enjoys a preferential income tax rate of 15%. From 1 January 2008, the income tax rate is expected to gradually increase to the standard rate of 25% over a five-year transition period. However, the new tax law has not set out the details as to how the existing preferential tax rate will gradually increase to the standard rate of 25%.

34 Accounting estimates and judgements

The group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The group bases the assumptions and estimates on historical experience and on various other assumptions that the group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in note 1. The group believes the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the financial statements.

Impairment for long lived assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36 "Impairment of Assets". The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, selling price and amount of operating costs. The group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, selling price and amount of operating costs.

Depreciation

Property, plant, and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Impairment for bad and doubtful debts

The group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The group bases the estimates on the ageing of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

35 Comparative figures

Certain comparative figures have been adjusted as a result of the change in accounting policies. Further details are disclosed in note 2.

36 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements.

The group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the company's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007