

中國石化



SINOPEC

**SINOPEC KANTONS HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

**INTERIM REPORT 2007**

*(Stock code: 934)*

## EXECUTIVE DIRECTORS

Ms. Wang Li Sheng (*Chairlady*)  
Mr. Zhu Zeng Qing (*Deputy Chairman*)  
Mr. Zhu Jian Min  
Mr. Zhou Feng  
Mr. Tan Ke Fei  
Mr. Ye Zhi Jun (*Managing Director*)

## INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## AUDIT COMMITTEE MEMBERS

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

## REMUNERATION COMMITTEE MEMBERS

Mr. Wong Po Yan  
Ms. Tam Wai Chu, Maria  
Mr. Fong Chung, Mark  
Ms. Wang Li Sheng  
Mr. Ye Zhi Jun

## COMPANY SECRETARY

Mr. Lai Yang Chau, Eugene

## QUALIFIED ACCOUNTANT

Mr. Chan Kim Fai, Ivan

## AUDITORS

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

## STATUTORY ADDRESS

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

20/F, Office Tower, Convention Plaza  
1 Harbour Road, Wan Chai  
Hong Kong

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

## LISTING INFORMATION

The Stock Exchange of Hong Kong Limited  
Stock Code: 0934

## Consolidated Income Statement (Unaudited)

for the six months ended 30 June 2007  
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2007 \$'000	2006 \$'000
<b>Continuing operations</b>			
<b>Turnover</b>	2	<b>10,624,244</b>	6,933,898
<b>Cost of sales</b>		<b>(10,464,554)</b>	(6,798,308)
<b>Gross profit</b>		<b>159,690</b>	135,590
<b>Other revenue</b>	2	<b>1,262</b>	1,458
<b>Selling and administrative expenses</b>		<b>(22,650)</b>	(19,052)
<b>Profit from operations</b>		<b>138,302</b>	117,996
<b>Finance costs</b>		<b>(30,243)</b>	(10,389)
<b>Profit before taxation</b>	3	<b>108,059</b>	107,607
<b>Income tax</b>	4	<b>(20,889)</b>	(10,815)
<b>Profit from continuing operations</b>		<b>87,170</b>	96,792
<b>Loss from discontinued operation</b>	13	<b>–</b>	(168)
<b>Profit for the period</b>		<b>87,170</b>	96,624
<b>Attributable to:</b>			
– Equity shareholders of the company	12	<b>87,170</b>	69,909
– Minority interests	12	<b>–</b>	26,715
<b>Profit for the period</b>	12	<b>87,170</b>	96,624
<b>Dividends payable to equity shareholders of the company attributable to the period</b>			
Interim dividend declared during the period	5	<b>15,552</b>	15,552
<b>Basic and diluted earnings/(loss) per share</b>			
– Continuing operations	6	<b>8.41 cents</b>	6.76 cents
– Discontinued operation		<b>N/A</b>	(0.02) cents

The notes on pages 7 to 24 form part of this interim financial report.

## Consolidated balance sheet (Unaudited)

at 30 June 2007  
(Expressed in Hong Kong dollars)

	Note	At 30 June 2007 \$'000	At 31 December 2006 \$'000
<b>Non-current assets</b>			
Fixed assets			
– Property, plant and equipment	7	2,071,443	1,451,343
– Construction in progress	8	53,942	403,641
– Interest in leasehold land held for own use under operating lease		28,987	28,765
		<b>2,154,372</b>	1,883,749
<b>Current assets</b>			
Inventories	9	800,285	897,806
Trade and other receivables	10	2,722,079	1,358,291
Cash and cash equivalents		82,619	30,972
		<b>3,604,983</b>	2,287,069
<b>Current liabilities</b>			
Trade and other payables	11	2,614,356	1,343,801
Unsecured bank loans		1,327,929	1,115,987
Current taxation		27,339	19,227
		<b>3,969,624</b>	2,479,015
<b>Net current liabilities</b>		<b>(364,641)</b>	(191,946)
<b>NET ASSETS</b>		<b>1,789,731</b>	1,691,803

## Consolidated balance sheet (Unaudited)

at 30 June 2007  
(Expressed in Hong Kong dollars)

	Note	At 30 June 2007 \$'000	At 31 December 2006 \$'000
<b>CAPITAL AND RESERVES</b>	12		
Share capital		<b>103,683</b>	103,683
Reserves		<b>1,686,048</b>	1,588,120
<b>TOTAL EQUITY</b>		<b>1,789,731</b>	1,691,803

The notes on pages 7 to 24 form part of this interim financial report.

## Consolidated Statement of Changes in Equity (Unaudited)

for the six months ended 30 June 2007  
(Expressed in Hong Kong dollars)

		<b>Six months ended 30 June</b>	
		<b>2007</b>	2006
		<b>\$'000</b>	\$'000
<b>Total equity at 1 January:</b>			
Attributable to:			
– Equity shareholders of the company	12	<b>1,691,803</b>	1,655,202
– Minority interests	12	-	469,275
At 1 January	12	<b>1,691,803</b>	2,124,477
<b>Net income for the period recognised directly in equity:</b>			
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong		12	<b>31,495</b>
			12,389
<b>Net profit for the period:</b>			
<b>Total recognised income and expense for the period</b>			
Attributable to:			
– Equity shareholders of the company	12	<b>81,170</b>	69,909
– Minority interests	12	-	26,715
	12	<b>81,170</b>	96,624
Dividends approved and paid during the period	5	<b>(20,737)</b>	(15,552)
<b>Total equity at 30 June</b>		<b>1,789,731</b>	2,217,938

The notes on pages 7 to 24 form part of this interim financial report.

## Condensed Consolidated Cash Flow Statement (Unaudited)

for the six months ended 30 June 2007  
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2007 \$'000	2006 \$'000
<b>Cash used in operations</b>	<b>(37,429)</b>	(133,057)
<b>Tax paid</b>	<b>(12,777)</b>	(9,531)
<b>Net cash used in operating activities</b>	<b>(50,206)</b>	(142,588)
<b>Net cash used in investing activities</b>	<b>(123,383)</b>	(207,077)
<b>Net cash generated from financing activities</b>	<b>225,695</b>	292,045
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>52,106</b>	(57,620)
<b>Cash and cash equivalents at 1 January</b>	<b>30,972</b>	152,385
<b>Effect of foreign exchange rate changes</b>	<b>(459)</b>	(4,940)
<b>Cash and cash equivalents at 30 June</b>	<b>82,619</b>	89,825

The notes on pages 7 to 24 form part of this interim financial report.

# Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2007  
(Expressed in Hong Kong dollars)

## 1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issuance on 21 September 2006.

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

In preparing this interim financial report, the significant judgements made by management in applying the group’s accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2006.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2006 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”). HKFRSs include all applicable HKFRS, HKAS and related interpretations.



# Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2007  
(Expressed in Hong Kong dollars)

## 1 BASIS OF PREPARATION (continued)

The interim financial report has been prepared in accordance with the same accounting policies as those adopted in the 2006 annual financial statements.

HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2007 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2007. The Board of Directors has determined the accounting policies expected to be adopted in the preparation of the group's annual financial statements for the year ending 31 December 2007, on the basis of HKFRSs currently in issue.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on pages 31 and 32.

The financial information relating to the financial year ended 31 December 2006 that is included in the interim financial report as being previously reported information does not constitute the company's statutory financial statements for that financial year but is derived from those financial statements. The annual financial statements for the year ended 31 December 2006 are available from the company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 31 March 2007.

# Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2007  
(Expressed in Hong Kong dollars)

## 2 SEGMENT REPORTING

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

### Business segments

For management purposes, during 2007, the group was organised into two operating divisions, namely trading of crude oil, petroleum and petrochemical products and the rendering of crude oil jetty services.

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

	Trading of crude oil, petroleum and petrochemical products		Crude oil jetty services		Inter-segment elimination		Unallocated		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>										
Revenue from external customers	10,436,621	6,769,843	187,623	164,055	-	-	-	-	10,624,244	6,933,898
Inter-segment revenue	-	-	2,459	6,380	(2,459)	(6,380)	-	-	-	-
Other revenue from external customers	65	-	228	363	-	-	969	1,095	1,262	1,458
<b>Total</b>	<b>10,436,686</b>	<b>6,769,843</b>	<b>190,310</b>	<b>170,798</b>	<b>(2,459)</b>	<b>(6,380)</b>	<b>969</b>	<b>1,095</b>	<b>10,625,506</b>	<b>6,935,356</b>

	Consolidated	
	2007 \$'000	2006 \$'000
Segment result	52,346	124,884
Unallocated interest income	967	622
Unallocated corporate expenses	(7,637)	(7,510)
<b>Profit from operations</b>	<b>138,302</b>	<b>117,996</b>

# Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2007  
(Expressed in Hong Kong dollars)

## 2 SEGMENT REPORTING (continued)

### Business segments (continued)

The segment of retail and wholesale of petroleum products was disposed of in December 2006, please refer to note 13 of this interim financial report for details.

### Geographical segments

Substantially all the group's activities are based in the People's Republic of China (the "PRC") and more than 90% of the group's turnover and contribution to profit before taxation are derived from the PRC for both periods.

## 3 PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2007	2006
	\$'000	\$'000
Interest income	(967)	(1,236)
Interest on borrowings	34,490	12,076
Amortisation charge for interest in leasehold land held for own use under operating leases	526	502
Depreciation	60,660	42,769
Operating lease charges for machinery and vessel	1,310	1,196

## Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2007  
(Expressed in Hong Kong dollars)

### 4 INCOME TAX

	Six months ended 30 June	
	2007	2006
	\$'000	\$'000
<b>Current tax – Hong Kong Profits Tax</b>		
Provision for the period	3,990	3,500
<b>Current tax – Outside Hong Kong</b>		
Provision for the period	16,899	7,315
	<b>20,889</b>	10,815

The provision for Hong Kong Profits Tax for 2007 is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the period. Taxation for subsidiaries outside Hong Kong is 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 year 2006 is the tenth year that the subsidiary started to have a taxable profit. Accordingly, the tax holiday enjoyed by this subsidiary has expired and its applicable income tax rate is 18% effective from 1 January 2007.

From 1 January 2008, as a result of the Fifth Plenary Session of the Tenth National People's Congress which passed the Corporate Income Tax Law of the People's Republic of China ("new tax law"), 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%.

No provision for deferred taxation has been made for the period ended 30 June 2007 as the effect of all temporary difference is not material.

# Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2007  
(Expressed in Hong Kong dollars)

## 5 DIVIDENDS

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

Pursuant to the board meeting held on 15 August 2007, the Directors declared an interim dividend of 1.5 cents per share totalling \$15,552,000 in respect of the six months ended 30 June 2007 (2006: 1.5 cents per share, totalling \$15,552,000). This dividend has not been recognised as a liability at 30 June 2007.

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

	Six months ended 30 June	
	2007 \$'000	2006 \$'000
Final dividend in respect of the financial year ended 31 December 2006, approved and paid during the interim period, of 2 cents per share (2006: 1.5 cents per share)	<b>20,737</b>	15,552

Pursuant to the shareholders' approval at the Annual General Meeting of the company held on 16 May 2007, a final dividend of 2 cents per share totalling \$20,737,000 in respect of the year ended 31 December 2006 was paid on 8 June 2007.

# Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2007  
(Expressed in Hong Kong dollars)

## 6 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent of \$87,170,000 (six months ended 30 June 2006: \$69,909,000) and 1,036,830,000 (2006: 1,036,830,000) ordinary shares in issue during the period.

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

## 7 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2007, the group acquired items of property, plant and equipment with a cost of \$462,000 (six months ended 30 June 2006: \$4,808,000). Items of property, plant and equipment with net book value of \$61,000 (six months ended 30 June 2006: \$9,310,000) were disposed of during the six months ended 30 June 2007, resulting in a loss on disposal of \$61,000 (six months ended 30 June 2006: \$2,367,000, all of the amount was attributable to the discontinued operation).

## 8 CONSTRUCTION IN PROGRESS

Construction in progress mainly related to a pier expansion project carried out by one of the group's subsidiaries for the expansion of the group's jetty operation in the PRC. During the six months ended 30 June 2007, jetty structures with cost of approximately \$636,000,000 (six months ended 30 June 2006: \$123,000) were completed and transferred to fixed assets. Additions to construction in progress during the period amounted to \$280,045,000 (six months ended 30 June 2006: \$211,423,000).

## Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2007  
(Expressed in Hong Kong dollars)

### 9 INVENTORIES

	<b>At 30 June 2007 \$'000</b>	At 31 December 2006 \$'000
Crude oil and spare parts	<b>608,282</b>	751,848
Petroleum and petrochemical products	<b>192,003</b>	145,958
	<b>800,285</b>	897,806

### 10 TRADE AND OTHER RECEIVABLES

	<b>At 30 June 2007 \$'000</b>	At 31 December 2006 \$'000
Trade and bills receivable	<b>405,877</b>	214,218
Amounts due from holding companies and fellow subsidiaries arising from		
– Trading transactions	<b>2,119,840</b>	941,655
– Non-trade transactions	<b>188,544</b>	184,188
Other receivables	<b>7,818</b>	18,230
	<b>2,722,079</b>	1,358,291

## Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2007  
(Expressed in Hong Kong dollars)

### 10 TRADE AND OTHER RECEIVABLES (continued)

Debts are due within 30 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balance before any further credit is granted.

The 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 China Petroleum & Chemical Corporation (“Sinopec Corp”) in respect of the disposal of the entire equity interests in one of the Group’s subsidiaries, Kantons Gas Station Investment & Management Co., Limited (“KGSIMC”) during the year ended 31 December 2006. The balance was settled on 20 July 2007.

These balances are unsecured, interest free and are repayable on demand.

Included in trade and other receivables are trade debtors, bills receivable and amounts due from holding companies and fellow subsidiary arising from trading transactions (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	<b>At 30 June 2007 \$'000</b>	At 31 December 2006 \$'000
Current or less than 1 month overdue	<b>2,426,061</b>	1,076,950
1 to 3 months overdue	<b>72,003</b>	77,549
More than 3 months overdue but less than 12 months overdue	<b>27,653</b>	1,374
	<b>2,525,717</b>	1,155,873



## Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2007  
(Expressed in Hong Kong dollars)

### 11 TRADE AND OTHER PAYABLES

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

	<b>At 30 June 2007 \$'000</b>	At 31 December 2006 \$'000
Trade and bills payable	<b>259,873</b>	129,537
Amount due to holding companies and fellow subsidiaries arising from		
– Trading transactions	<b>1,459,424</b>	433,008
– Non-trade transactions	<b>651,088</b>	638,131
Creditors and accrued charges	<b>243,971</b>	143,125
	<b>2,614,356</b>	1,343,801

The amounts due to holding companies and fellow subsidiaries mainly represent balances arising from trading transactions, except for an amount of \$594,000,000, being the consideration payable to Sinopec Guangzhou Petrochemical Complex for acquisition of the 30% equity interests in Huade Petrochemical Company Limited (“Huade”) during the year ended 31 December 2006. The balance is expected to be settled upon completion of the relevant share transfer registration procedures.

These balances are unsecured, interest free and are repayable on demand.

## Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2007  
(Expressed in Hong Kong dollars)

### 11 TRADE AND OTHER PAYABLES (Continued)

Included in trade and other payables are trade creditors, bills payable and amounts due to holding companies and fellow subsidiaries arising from trading transactions with the following ageing analysis as of the balance sheet date:

	<b>At 30 June 2007 \$'000</b>	At 31 December 2006 \$'000
Due within 1 month or on demand	<b>1,448,470</b>	469,166
Due after 1 month but within 3 months	<b>214,290</b>	49,636
Due after 3 months but within 6 months	<b>56,537</b>	43,743
	<b>1,719,297</b>	562,545

# Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2007  
(Expressed in Hong Kong dollars)

## 12 CAPITAL AND RESERVES

	Attributable to equity shareholders of the company						Minority interests	Total equity	
	Share capital	Share premium	Merger reserve	General reserves	Exchange reserve	Retained profits			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
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	-	-	-	-	-	(15,552)	(15,552)	-	(15,552)
Exchange differences on translation of financial statements of the subsidiaries outside Hong Kong	-	-	-	-	12,389	-	12,389	-	12,389
Profit for the period	-	-	-	-	-	69,909	69,909	26,715	96,624
At 30 June 2006	103,683	333,857	23,444	200,565	49,537	1,010,862	1,721,948	495,990	2,217,938
At 1 January 2007	103,683	333,857	23,444	79,663	89,276	1,061,880	1,691,803	-	1,691,803
Final dividends approved in respect of the previous year	-	-	-	-	-	(20,737)	(20,737)	-	(20,737)
Profit for the period	-	-	-	-	-	87,170	87,170	-	87,170
Exchange differences on translation of financial statements of the subsidiaries outside Hong Kong	-	-	-	-	31,495	-	31,495	-	31,495
At 30 June 2007	103,683	333,857	23,444	79,663	120,771	1,128,313	1,789,731	-	1,789,731

## Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2007  
(Expressed in Hong Kong dollars)

### 13 DISCONTINUED OPERATION

On 10 July 2006, one of the company's subsidiaries, Huade entered into an Equity Disposal Agreement with the group's holding company, Sinopec Corp, to dispose of its entire interests in KGSIMC to Sinopec Corp. The principal business of KGSIMC and its subsidiaries is retail sales and wholesaling of petroleum products.

#### Results of discontinued operation for the six months ended 30 June 2006:

	\$'000
Revenue	1,024,291
Expenses	(1,022,884)
Profit from discontinued operations before taxation	1,407
Income tax	(1,575)
Loss from discontinued operation	(168)

#### Cash flows attributable to the discontinued operation for the six months ended 30 June 2006:

	\$'000
Operating cash flows	(5,569)
Investing cash flows	(2,732)
Financing cash flows	(9,128)
Total cash flows	(17,429)

The details of such disposal transaction were disclosed in the financial statements for the year ended 31 December 2006.

# Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2007  
(Expressed in Hong Kong dollars)

## 14 COMMITMENTS

**(a) Capital commitments outstanding at 30 June 2007 not provided for in the interim financial report were as follows:**

	<b>At 30 June 2007 \$'000</b>	At 31 December 2006 \$'000
Contracted for	<b>7,240</b>	136,001

The capital commitments as at 31 December 2006 mainly relate to construction of a jetty platform and dredging channels in Huizhou Crude Oil Jetty. These construction projects have been substantially completed at 30 June 2007.

**(b) Commitments under operating lease**

At 30 June 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>At 30 June 2007 \$'000</b>	At 31 December 2006 \$'000
Within 1 year	<b>583</b>	568
After 1 year but within 5 years	<b>2,331</b>	2,271
After 5 years	<b>9,712</b>	9,747
	<b>12,626</b>	12,586

The group leases a number of plant and machinery and land and buildings with lease term generally run from five to twenty years and rentals are fixed during the lease period.

# Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2007  
(Expressed in Hong Kong dollars)

## 15 MATERIAL RELATED PARTY TRANSACTIONS

- (a) During the period, the group had the following significant transactions with its holding companies and fellow subsidiaries which were carried out in the ordinary course of business. Details of the amount which have been charged/(credited) to the consolidated income statement are as follows:

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>\$'000</b>	\$'000
Crude oil sold by the group	<b>(7,970,166)</b>	(2,949,565)
Crude oil purchased by the group and related charges	<b>7,548,277</b>	1,986,458
Petroleum products sold by the group	<b>(616,592)</b>	(771,155)
Petroleum products purchased by the group	<b>157,280</b>	414
Petrochemical products sold by the group	<b>(45,525)</b>	(48,666)
Petroleum products purchased by the group for petrol stations	-	895,474
Crude oil refining and processing fees charged to the group	<b>41,293</b>	18,924
Jetty service fees, charged by the group	<b>(185,001)</b>	(160,312)
Insurance premium charged to the group	<b>1,771</b>	2,138
Rentals charged to the group in respect of land and buildings and motor vehicle	<b>1,310</b>	150
Petroleum unloading services fee charged by the group	-	(649)

# Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2007  
(Expressed in Hong Kong dollars)

## 15 MATERIAL RELATED PARTY TRANSACTIONS (continued)

- (b) Certain banking facilities of the group have been supported by guarantees and/or other financial undertakings provided by the holding companies, at no cost to the group.
- (c) 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:

# Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2007  
(Expressed in Hong Kong dollars)

## 15 MATERIAL RELATED PARTY TRANSACTIONS (continued)

### (c) (continued)

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

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>\$'000</b>	\$'000
Crude oil, petroleum and petrochemical products purchased by the group	<b>210,674</b>	1,777,459
Crude oil, petroleum and petrochemical products sold by the group	<b>(1,384,571)</b>	(2,755,131)
Construction work performed	<b>118,315</b>	176,346
	<b>At</b>	At 31
	<b>30 June</b>	December
	<b>2007</b>	2006
	<b>\$'000</b>	\$'000
Amount due from other state-controlled entities	<b>1,754,584</b>	119,154
Amount due to other state-controlled entities	<b>(1,394,509)</b>	(119,041)



## Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2007  
(Expressed in Hong Kong dollars)

### 15 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) (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 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:

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>\$'000</b>	\$'000
Interest income received by the group	<b>(851)</b>	(1,029)
Interest expenses charged to the group	<b>17,091</b>	10,372

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

	<b>At</b>	At 31
	<b>30 June</b>	December
	<b>2007</b>	2006
	<b>\$'000</b>	\$'000
Cash and cash equivalents	<b>76,065</b>	25,809
Short-term loans	<b>(658,407)</b>	(523,873)

## Interim Dividends

The Directors recommend the payment of an interim dividend of HK\$1.5 cents per share to shareholders whose names appear on the register of members of the company on 14 September 2007.

### **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the company will be closed from 17 September 2007, (Monday) to 21 September 2007 (Friday) (both days inclusive) during which period no transfer of shares can be registered. In order to qualify for the proposed interim dividend, all share transfers, accompanied by the relevant share certificates, must be lodged with Tricor Secretaries Limited (卓佳秘書商務有限公司), the branch share registrars of the Company at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 14 September, 2007 (Friday). The cheques for dividend payment will be sent on about 28 September, 2007 (Friday).

### REVIEW OF RESULTS AND PROSPECTS

For the six months ended 30 June 2007, as a result of increase in trade amount and volume, the group's turnover from continuing operations totalled HK\$10.6 billion, representing an increase of 53.2% over the corresponding period last year. Profit attributable to shareholders from continuing operations was HK\$87.1 million, an increase of 24.7% compared to the same period in the previous year. The increase in profit was largely due to the acquisition of additional 30% of the equity interests of Huade in the second half of 2006.

During the first half of 2007, the group's jetty services operation increased significantly, and the group made appropriate adjustments to the jetty service charges effective from 1 January 2007. Crude oil transported reached 4.75 million tonnes, an increase of 36.49% when compared to the same period of last year; loading volume of crude oil was 4.88 million tonnes, representing an increase of 37.85% over the same period of last year. The jetty segment recorded a turnover of HK\$190 million and net profit after tax of HK\$75 million for the first half of the year, representing a growth of 11.11% and a decrease of 15.73% respectively compared to the corresponding period of last year.

For the period ended 30 June 2007, the group's trading business recorded a significant growth. The group sold 2.13 million tonnes of crude oil, realising a sales revenue of HK\$7.32 billion, representing an increase of 51.06% and 49.08% respectively over the same period of last year; sales of different kinds of petrochemicals was 0.47 million tonnes, realising a sales revenue of HK\$2.5 billion, an increase of 23.68% and 31.58% respectively over the same period of last year. The trading business realised a net profit of HK\$20.16 million, representing an increase of 19% over last year.

Looking forward to the second half of this year, the business volume of our jetty services is expected to increase, which is in line with the increasing refining capacity of our customers in the second half of the year. We will devote ourselves to explore the international trading segment in an environment, which is full of challenges and externally uncertainties. The group will see maximizing shareholders' benefits as its main objective, and will strictly control its risk and operate in a prudent manner, so as to increase the group's profitability from time to time.

## LIQUIDITY AND SOURCE OF FINANCE

As at 30 June 2007, cash on hand and bank balances totaled approximately HK\$82.6 million (31 December 2006: HK\$31 million); bank borrowings was HK\$1,328 million (31 December 2006: HK\$1,116 million) of which all was short-term bank borrowings.

## GEARING RATIO

As at 30 June 2007, the group's current ratio (current assets to current liabilities) was 0.91 (31 December 2006: 0.92) and gearing ratio (total liabilities to total assets) was 69% (31 December, 2006: 59%).

## EXCHANGE RISK

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

## EMPLOYEES AND EMOLUMENT POLICIES

As at 30 June 2007, the group had a total of 177 employees, basically the same as at the beginning of the year. Remuneration packages including basic salary, bonus and benefit in kind are structured by reference to market terms, trend of human resources costs in various regions and employee's contribution based on performance appraisal. Subject to the profit for the group and the performance of the employees, the group may also provide discretionary bonus to its employees as an incentive for their further contribution.

### INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 30 June 2007, none of the Directors or chief executive of the company had any interest or short position in any shares, underlying shares or debentures of the company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of SFO or as otherwise required to be notified by the Directors and the chief executive of the company to the company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set forth in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

### INTERESTS OF SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, the Directors are not aware of any person (other than Directors and chief executive of the company) who, as at 30 June 2007, had an interest or short position in the shares or underlying shares of the company as recorded in the register required to be kept by the company under section 336 of SFO:

<b>Name of Shareholder</b>	<b>Nature of interests</b>	<b>Number of ordinary shares</b>	<b>Capacity</b>	<b>Percentage to The issued share capital of the Company</b>
Sinopec Kantons International Limited	Corporate	750,000,000	Beneficial	72.34%

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

### **CORPORATE GOVERNANCE**

The group has complied throughout the six months to 30 June 2007 with the applicable provisions of the Code on Corporate Governance Practices (the “Code”) in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SHARES**

Neither the company nor any of its subsidiaries purchased, sold or redeemed any of the company’s listed securities during the period.

### **REMUNERATION COMMITTEE**

A Remuneration Committee was established in accordance with the requirements of the Code. Remuneration Committee comprises three independent non-executive directors and two executive directors, of which one of the independent non-executive directors being the chairperson of the committee.

### **AUDIT COMMITTEE**

The Audit Committee comprises three independent non-executive Directors of the Company. The Audit Committee has reviewed with the management and the external auditors the accounting principles and practices adopted by the group and discussed auditing, internal controls and financial reporting matters including the review of the financial statements.

### CODE FOR SECURITIES TRANSACTIONS

During the period of six months ended 30 June 2007, all the directors of the company confirmed that they have met with the standards of the “Code on Securities Transactions by Directors of Listed Issuers” as set out in Appendix 10 of the Listing Rules.

By Order of the Board

**Wang Li Sheng**

Chairlady

Hong Kong, 15 August 2007

## REVIEW REPORT TO THE BOARD OF DIRECTORS OF SINOPEC KANTONS HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

### INTRODUCTION

We have reviewed the interim financial report set out on pages 2 to 24 which comprises the consolidated balance sheet of Sinopec Kantons Holdings Limited as of 30 June 2007 and the related consolidated statements of income, and changes in equity and condensed consolidated statement of cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

### SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagement 2410, “Review of interim financial information performed by the independent auditor of the entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of personnel responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.



## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2007 has not been prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim financial reporting”.

## KPMG

*Certified Public Accountants*

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