SINOPEC KANTONS HOLDINGS LIMITED

(Incorporated in Bermuda with Limited Liability)
(Stock Code: 934)

Annual Report 2007

CONTENTS

CHAIRLADY'S STATEMENT

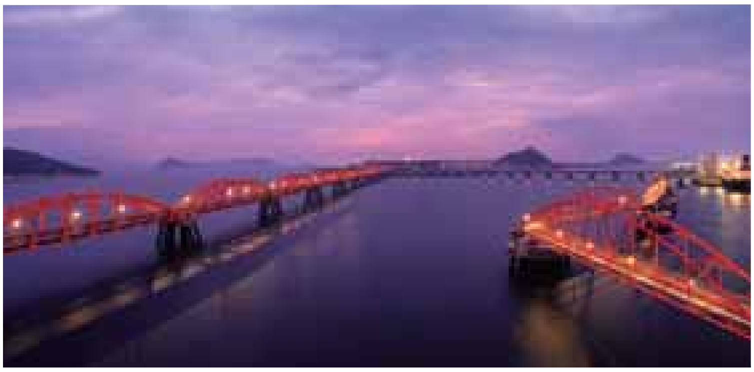
Wang Li Sheng
Chairlady

Dear Shareholders,

First of all, I would like, on behalf of the Board of Directors of Sinopec Kantons Holdings Limited, to express our cordial gratitude towards our shareholders for their prolonged care and support, and all employees of the Company for their hard working.

The year 2007 has been an extraordinary one. Under the influence of various factors, international crude oil price made historical records and exceeded US$100 per barrel, thus pushing higher the prices of petrochemical products. Furthermore, increase in depreciation following business operation of the new-built crude oil jetty berths, increase in electricity expense, among others, caused increase in costs for storage and transmission of crude oil, and gave pressure to the Group's profits. To deal with such complicated market situation, the Group strived to overcome various operational difficulties, adjusted operational strategy with flexibility, actively engaged in market development, strengthened internal management, and reduced losses caused by these factors to a minimum level through higher business volume, among others. In 2007, the Group's turnover was HK$17,365 million, representing a increase of 17.5%, as compared with last year, with net profit attributable to equity shareholders of HK$128 million, representing a decrease of 18.5%, as compared with last year.

Crude oil jetty's operation of Huade has been a major profit source for the Group. In 2007, our downstream client, Sinopec Guangzhou Branch, completed oil refining capacity expansion, increased such capacity from 7,700,000 tonnes crude per year to 13,000,000 tonnes crude per year. The Group seized this opportunity and invested in the crude oil jetty, increased our storage and transportation capacity and completed new-built large crude oil jetty berth with the capacity of 300,000 tonnes per year. At the same time, the Group dredged waterways during the year for the operation of such new jetty berths, thus formed a basis for optimizing of, reducing cost in, creating economies of scale for our crude oil transportation business. In 2007, there was a significant increase in capacity of the Group's crude oil storage and transportation, with 10,280,000 tonnes of crude oil loaded and 10,410,000 tonnes of crude oil transmitted, representing a growth of 38.2% and 38% respectively as compared to last year.

Crude oil and petrochemical products trading of Sinomart KTS has been another major business of the Group. In 2007, with a volatile international market of crude oil and petrochemical products, the Group closely monitored market changes, strived to avoid operational risks, expanded economies of scale, and achieved satisfactory operation results. In 2007, Sinomart KTS recorded $16,951 million in turnover, representing in increase of 17.5% compared to last year. With the bonded warehouse for crude oil, the Group expanded crude oil trading with flexible strategy. In 2007, trading of crude oil reached 3,400,000 tonnes, an increase of 25% as compared with last year. In the trading of petrochemical products, the Group took into account market changes and adopted appropriate and stable purchasing and selling strategies, targeting at large manufactures for purchasing and creditworthy end users for sales, so as to increase earnings of business. In 2007, sales of petrochemical products reached 92,400 tonnes, increased 13% as compared with last year. As for oil products trading, there was a shortage in oil products supply in China in 2007. The PRC government therefore took certain measures to limit export of oil products. Thus, the Group made efforts to increase processing volume of crude oil and adopted various measures to ensure export quantities of oil products. In 2007, export of processed oil products reached 458,000 tonnes, a level similar to last year.

Looking forward, opportunities and risks coexist. On the one hand, further increase of business volume of crude oil jetty in the future is limited and pressure on its operating costs will continue to exist. On the other hand, the Group, after years of development, had trained and developed an experienced team for international trade, thus formed the foundation for the Group to effectively reduce trade risk, and expanded its trading of crude oil and petrochemical products. As the only Hong Kong listed red-chip subsidiary of China Petroleum & Chemical Corporation, the Group will, with the support of the parent company, seize various market and business opportunities, thus enhance profitability of the Group, and add values for our shareholders, employees, as well as the society, with a sound operational result.

By order of the Board of Directors
Wang Li Sheng
Chairlady

Hong Kong, 20 March 2008

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and source of finance

As at 31 December 2007, cash on hand and bank balances totaled approximately HK$69 million (31 December 2006: HK$31 million); bank borrowings was approximately HK$554 million (31 December 2006: HK$1,116 million), of which all of them was short-term bank borrowings.

Gearing ratio

As at 31 December 2007, the Group's current ratio (current assets to current liabilities) was 0.89 (31 December 2006: 0.92) and gearing ratio (total liabilities to total assets) was 51% (31 December 2006: 59%).

Contingent liabilities and pledged assets

As at 31 December 2007, there were contingent liabilities in respect of banking facilities utilised by certain subsidiaries and guaranteed by the Company amounting to approximately HK$553,754,000 (31 December 2006: HK$1,080,987,000).

Exchange risk

As approved by the shareholders' extraordinary general meeting of the Company on 18 August 2006, the Company completed, in December 2006, the acquisition of 30% equity interests in Huade Petrochemical Company Limited ("Huade") held by Sinopec Guangzhou Petrochemical Complex of China Petroleum & Chemical Corporation for a consideration of RMB594,000,000, thus Huade became a wholly owned subsidiary of the Company. As the aforementioned payment of consideration shall have the approval of competent departments of PRC government, related procedures are being handled. In 2007, with the continued appreciation of Renminbi against Hong Kong dollar, and as account payable, such consideration incurred an exchange loss of HK$40,392,000 as of 31 December 2007. The Company will handle such payment procedures as soon as possible, so as to complete payment of aforementioned amount earlier.

Other than the foreign currency risk exposure mentioned above, each entities within the Group does not undertake significant transactions in a currency other than the functional currency of each entity, funds are retained by the entities within the Group for use with the respective operation.

Employees and emolument policies

As at 31 December 2007, the Group had a total of 176 employees. 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.

Corporate governance

The Group has complied throughout the year ended 31 December 2007 with the applicable provisions of the Code on Corporate Governance Practices (the" Code") in Appendix 14 to the Listing Rules.

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 of the Company (the "Remuneration Committee") was established in accordance with the requirements of the Code. The 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 Remuneration Committee.

Audit committee

The Audit Committee comprises three independent non-executive directors. 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 for the year ended 31 December 2007.

Code for securities transactions

During the year ended 31 December 2007, all the directors 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.

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2007.

Principal place of business

Sinopec Kantons Holdings Limited (the "company") is a company incorporated and domiciled in Bermuda and has its registered office and principal place of business at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and 20th Floor, Office Tower Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong respectively.

Principal activities

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

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

Major customers and suppliers

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

	Percentage of the group's total	
	Sales	**Purchases**
The largest customer	51%	
Five largest customers in aggregate	77%	
The largest supplier		55%
Five largest suppliers in aggregate		79%

China Petrochemical Corporation ("Sinopec"), a controlling shareholder holding indirectly more than 70% of the company's share capital, had beneficial interests in three of the five largest customers which accounted for approximately 68% of the turnover of the group and one of the five largest suppliers which accounted for approximately 55% of the purchases of the group.

Financial statements

The profit of the group for the year ended 31 December 2007 and the state of the company's and the group's affairs as at that date are set out in the financial statements on pages 19 to 80.

Transfer to reserves

Profits attributable to shareholders, before dividends, of HK$127,880,000 (2006: HK$156,856,000) have been transferred to reserves. Other movements in reserves are set out in note 26 to the financial statements.

An interim dividend of HK$1.5 cents per share (2006: HK$1.5 cents per share) was paid on 28 October 2007. The directors now recommend the payment of a final dividend of HK$2 cents per share (2006: HK$2 cents per share) in respect of the year ended 31 December 2007.

Fixed assets

During the year, the group spent approximately HK$266 million on constructing storage and conveyance jetty facilities situated in the People's Republic of China (the "PRC"). Details of movements in fixed assets are set out in note 14 to the financial statements.

Share capital

Details of the share capital of the company during the year are set out in note 24 to the financial statements.

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

Directors

The directors during the financial year were:

Board of Directors	Audit Committee	Remuneration Committee
Executive Directors	Fong Chung, Mark *(Chairman)*	Tam Wai Chu, Maria *(Chairlady)*
Wang Li Sheng *(Chairlady)*	Wong Po Yan	Wang Li Sheng
Zhu Zeng Qing *(Deputy Chairman)* (appointed on 2 April 2007)	Tam Wai Chu, Maria	Wong Po Yan
Pan Xin Rong *(Deputy Chairman)* (resigned on 2 April 2007)		Fong Chung, Mark
Yang Dong *(Deputy Chairman)* (resigned on 2 April 2007)		Ye Zhi Jun
Zhu Jian Min		
Tan Ke Fei (appointed on 2 April 2007)		
Zhou Feng		
Ye Zhi Jun *(Managing Director)*		
Han Kun (resigned on 2 April 2007)		
Non-executive Director		
Yang Mo Fei (resigned on 2 April 2007)		
Independent Non-executive Directors		
Wong Po Yan		
Tam Wai Chu, Maria		
Fong Chung, Mark		

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

Directors' service contracts

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

Directors' and chief executive's interests or short positions in the shares, underlying shares of debentures

As at 31 December 2007, none of the directors and chief executive of the company or any of their spouses or children under eighteen years of age has any interests or short positions in the shares, underlying shares and debentures of the company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which will be required to be notified to the company and the Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which will be required to be notified to the company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies to the Listing Rules.

Share capital

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

Share option scheme

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

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the company in issue at any point in time. The number of shares in respect of which options may be granted to any individual in aggregate is not permitted to exceed 25% of the shares in the company in issue and which may fall to be issued under the Scheme at any point in time.

Options granted must be taken up within 21 days from the date of grant upon payment of HK$1.00. Options may be exercised at any time from the date of acceptance of the grant of the share option to the earlier of the date on which such options lapse under early termination of employment and the 10th anniversary of the date of grant. The exercise price is determined by the directors of the company, and will not be less than the higher of the nominal value of the shares and 80% of the average closing price of the shares for the five business days immediately preceding the date of grant.

No options were granted under the Scheme since its inception.

Directors' right to acquire shares or debentures

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

Connected transactions

Save as disclosed in note 29 to the financial statements, there were no material transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

The company announced on 23 February 2005 and despatched a circular to the shareholders on 16 March 2005 to convene a special general meeting of the company on 1 April 2005 and to approve, confirm and ratify the ongoing connected transactions being the services and facilities in relation to the Huizhou Jetty, the supplies of petroleum products to the Kantons Petrol Stations, the crude oil supply and sourcing, petroleum and petrochemical products trading and the third party processing of crude oil (the "Existing Ongoing Connected Transactions") from 1 January 2005 to 31 December 2007 for a term of 3 years in accordance with Chapter 14A of the new Listing Rules which took effect on 31 March 2004. These Existing Ongoing Connected Transactions were approved, confirmed and ratified in the special general meeting on 1 April 2005. Another special meeting of the Company was convened on 21 November 2005, pursuant to a circular dated 3 November 2005, approving the revised caps of the Existing Ongoing Connected Transactions.

The Company announced on 27 July 2007 and despatched a circular to the shareholders on 16 August 2007 to convene a special general meeting of the company on 21 September 2007 and to approve the Existing Ongoing Connected Transactions from 1 January 2008 to 31 December 2010 and increase of the caps for crude oil supply and sourcing for the financial year ending 31 December 2007. These Existing Ongoing Connected Transactions and increase for caps were approved on 21 September 2007.

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

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

The independent non-executive directors of the company have confirmed that the other connected transactions referred to in note 29(b) to the financial statements have been entered into in the manner as stipulated in paragraph (D)(l) of "Conditions to waiver" in the section headed "Business - Connected Transactions" in the prospectus of the company dated 15 June 1999 (collectively the "Waiver Conditions"). The directors of the company are of opinion that the other connected transactions have been entered into in the manner as stipulated in the Waiver Conditions.

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

So far as is known to any director or chief executive of the company, as at 31 December 2007, shareholders who had interests or short positions in the shares or underlying shares of the company which would have to be disclosed to the company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions), or which were recorded in the register of interests required to be kept by the company under Section 336 of the SFO were as follows:

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

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

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

Directors' interests in contracts

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

Pre-emptive rights

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

Bank loans and other borrowings

Particulars of bank loans and other borrowings of the company and of the group as at 31 December 2007 are set out in note 20 to the financial statements.

Five year summary

A summary of the results and of the assets and liabilities of the group for the last five financial years is set out on pages 81 and 82 of the annual report.

Retirement scheme

Other than operating a Mandatory Provident Fund Scheme and payments made to the PRC state-managed retirement benefits schemes, the group has not operated any other retirement scheme to cover the group's employees. Particulars of the retirement scheme is set out in note 22 to the financial statements.

Compliance with the Code

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

Confirmation of independence

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

Sufficiency of public float

The company has maintained a sufficient public float throughout the year ended 31 December 2007.

Audit committee

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

Auditors

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

By order of the Board of Directors
Wang Li Sheng
Chairlady

Hong Kong, 20 March 2008

DIRECTORS AND SENIOR MANAGEMENT

Executive directors

Ms. Wang Li Sheng, aged 61, Chairlady of Sinopec Kantons Holdings Limited. Ms. Wang was a graduate of finance in Shanghai Finance Institute in September 1969. She has professional qualification of senior accountant at professor level, and possesses over 30 years' rich financial management and accounting experience in the petrochemical industry in China. She was successively deputy head, head of finance division of Zhenhai Petroleum and Petrochemical Plant of the former China Petrochemical Corporation from January 1984 to February 1991; deputy chief accountant of Zhenhai Petroleum and Petrochemical Plant of the former China Petrochemical Corporation from February 1991 to July 1994; chief accountant, executive director of Sinopec Zhenhai Refining & Chemical Company from July 1994 to February 2001 and deputy Chief Financial Officer of China Petroleum & Chemical Corporation from September 2000 to December 2007. She also served as a supervisor in the third and fourth Supervisory Board of the finance company of the former China Petrochemical Corporation since 1997. She also served as Chairlady in the fifth and sixth Supervisory Board of the finance company of China Petrochemical Corporation since 2002. Ms. Wang has been the Chairlady of Sinopec Kantons Holdings Limited since September 2006.

Mr. Zhu Zeng Qing, aged 52, Vice Chairman of Sinopec Kantons Holdings Limited. Mr. Zhu graduated from Technical College of Zhejiang Jin Hua Supply and Sales School in July 1980, and was a graduate of business management of University of Ningbo in July 2005. He has professional qualification of senior accountant and possesses very rich experience in financial management and accounting. He was successively deputy head, head of finance division of Zhenhai Refining & Chemical Company from February 1991 to November 2000; deputy chief accountant and chief accountant of Zhenhai Refining & Chemical Company from December 2000 to November 2005; and deputy officer of finance department of China Petroleum & Chemical Corporation since December 2005. Mr. Zhu has been the Vice Chairman of Sinopec Kantons Holdings Limited since April 2007.

Mr. Zhu Jian Min, aged 44, Executive Director of Sinopec Kantons Holdings Limited. Mr. Zhu graduated from China Textile University in July 1992, and has doctoral degree in industrial studies and professional qualification of senior engineer at professional level. He possesses rich experience in corporate management. He was deputy chief of long term planning division of planning department of the former China Petrochemical Corporation from June 1993 to June 1996; and assistant to general manager of Sinopec Shanghai Petrochemical Company Limited from June 1996 to June 1998; and assistant to officer of planning department of China Petrochemical Corporation from June 1998 to December 1998; and deputy general manager of China Petroleum & Chemical Corporation Consulting Ltd from January 1999 to January 2001; and deputy officer of integrated planning department of China Petroleum & Chemical Corporation from January 2001 to December 2002; and deputy officer of production operation management department of China Petroleum & Chemical Corporation since January 2003. Mr. Zhu has been the Executive Director of the Company since September 2004.

Mr. Tan Ke Fei, aged 41, Executive Director of Sinopec Kantons Holdings Limited. Mr. Tan graduated from Foreign Language Faculty of Anhui Normal University and obtained bachelor degree in arts in 1988, and from Faculty of Law of Renmin University of China in 1992 and obtained law degree, he is practicing lawyer and possesses rich legal and foreign trade management experience. He was project manager, legal counsel of Sinopec International Co., Ltd from 1992 to 1997, and chartering manager of China International United Petroleum & Chemicals Co., Ltd. from 1997 to 1999, and business manager of Unipec UK Co. Ltd from 1999 to 2001, and was successively assistant to general manager of planning and market research department, deputy general manager of futures department, general manager of futures department, general counsel of China International United Petroleum & Chemicals Co., Ltd. from 2001 to 2005, and deputy general manager of China International United Petroleum & Chemicals Co., Ltd. since 2006. Mr. Tan has been the Executive Director of Sinopec Kantons Holdings Limited since April 2007.

Mr. Zhou Feng, aged 42, Executive Director of Sinopec Kantons Holdings Limited. Mr. Zhou is a graduate of chemical engineering of Eastern China Polytechnic University in July 1987, research graduate of MBA of Zhejiang University in 1996, and has professional qualification of senior accountant, and possesses rich experience in financial management. He worked in Sinopec Guangzhou Petroleum and Chemical Plant after his university studies. He was successively deputy head, head of finance division of Sinopec Guangzhou Petroleum and Chemical Plant from March 1998 to May 2001. During this period, he also worked as chief accountant of Zhong Yuan Petroleum and Chemical Engineering Ltd of Guangzhou Petroleum and Chemical Plant, and deputy chief accountant of Sinopec Guangzhou Company from May 2001 to April 2004; and chief accountant of Sinopec Guangzhou Company from April 2004. During this period, he also worked as chief legal adviser of Guangzhou Petroleum and Chemical Plant of China Petrochemical Corporation and Sinopec Guangzhou Company from April 2004 to December 2007. Mr. Zhou has been the Executive Director of Sinopec Kantons Holdings Limited since March 2004.

Mr. Ye Zhi Jun, aged 42, Managing Director of Sinopec Kantons Holdings Limited. Mr. Ye graduated from the Faculty of Chemical Engineering of Zhejiang University in July 1988, and was research graduate of MBA of Jinan University in December 2001. He has professional qualification of engineer. He worked in Sinopec Guangzhou Petroleum and Chemical Plant after his university studies. He was deputy officer, officer of marketing department of Guangzhou Yinzhu Polypropylene Ltd of Guangzhou Petroleum and Chemical Plant from June 1995 to July 1997; and deputy general manager Guangzhou Yinzhu Polypropylene Ltd of Guangzhou Petroleum and Chemical Plant from July 1997 to September 1999; and deputy manager of sales centre of Sinopec Guangzhou Company from September 1999 to December 2001. Mr. Ye has been the Managing Director of Sinopec Kantons Holdings Limited since March 2002.

Independent non-executive directors

Mr. Wong Po Yan, *GBM, CBE, JP*, aged 84, is the founder of United Oversea Enterprises, Ltd., the Honourary President of Chinese Manufacturers Association of Hong Kong. Mr. Wong is formerly the Vice Chairman of the Basic Law Committee of the Hong Kong Special Administrative Region under the Standing Committee of the National People's Congress of the PRC, and a member of the Hong Kong Legislative Council, the Chairman of the Airport Authority of Hong Kong. Mr. Wong holds an honourary doctorate degree in business administration from the City University of Hong Kong and an honourary doctorate degree in social science from Hong Kong Baptist University.

Miss Tam Wai Chu, Maria, *GBS, JP,* aged 62, was educated at London University. She qualified as a barrister-at-law at Gray's Inn, London, and practised in Hong Kong. She was a member of the Preparatory Committee for the Hong Kong Special Administrative Region (PRC) and Hong Kong Affairs Advisor (PRC). She is currently an Independent Non-Executive Director of Guangnan (Holdings) Limited, Minmetals Land Limited, Nine Dragons Paper (Holdings) Limited, Sa Sa International Holdings Limited, Titan Petrochemicals Group Limited, Tong Ren Tang Technologies Co. Ltd. and Wing On Company International Limited, all are listed on The Stock Exchange of Hong Kong Limited. She is a member of the Advisory Committee on Corruption of the Independent Commission Against Corruption and a member of the Task Group on Constitutional Development of the Commission on Strategic Development. She is a Deputy to the National People's Congress of The People's Republic of China and member of the Hong Kong Basic Law Committee. She is also a member of various community services organisations.

Mr. Fong Chung, Mark, aged 56, the immediate past President of the Hong Kong Institute of Certified Public Accountants. Mr. Fong has 30 years experience in the accounting profession and is a Fellow of the Institute of Chartered Accountants in England and Wales and a Fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Fong is currently a partner of Grant Thornton, an accounting and business advisory firm.

Other senior management

Mr. Pang Ai Bin, aged 38, Deputy General Manager of Sinopec Kantons Holdings Limited. Mr. Pang graduated from Nanjing Aviation College in July 1991, and has professional qualification of senior economist. He joined Sinopec Jiujiang Petrochemical Factory after his university studies. He was deputy chief of crude oil department of Sinopec International Co. Ltd. from February 2005 to September 2005; and deputy chief of crude oil department of China International United Petroleum & Chemicals Co., Ltd. from October 2005 to March 2008. Mr. Pang has been the Deputy General Manager of Sinopec Kantons Holdings Limited since March 2008.

Ms. Zhang Xiu Lan, aged 41, CFO of Sinopec Kantons Holdings Limited. Ms. Zhang was a graduate of finance from Finance Department of Shanghai University of Finance and Economics in July 1989, she has professional qualification of senior accountant, and certified public accountant of China. She joined Refinery Factory of Beijing Yanshan Petrochemical Company and the planning institute of China Petrochemical Corporation etc respectively after her university studies. She was deputy chief of audit division of finance department of China Petroleum & Chemical Corporation from June 2003 to October 2003, and deputy chief of capital division of finance department of China Petroleum & Chemical Corporation from November 2003 to March 2008. Ms. Zhang has been the CFO of Sinopec Kantons Holdings Limited since March 2008.

Mr. Li Wen Ping, aged 45, Secretary to the Board of Sinopec Kantons Holdings Limited. Mr. Li graduated from Beijing Chemical Engineering College in July 1985, and a research graduate of MBA of Dalian Polytechnic University in 1997, he has the profession qualification of senior economist. He joined the research institute of Sinopec Yangzi Petrochemical Co. Ltd. after his university studies. He was deputy head of the plastic research and development centre of Sinopec Yangzi Petrochemical Co. Ltd. from January 1994 to September 1994, and project manager of joint venture and cooperation division of Sinopec Yangzi Petrochemical Co. Ltd. from January 1999 to January 2002, and investor relation manager of Hong Kong Representative Office of China Petroleum & Chemical Corporation from January 2002 to March 2008. Mr. Li has been the Secretary to the Board of Sinopec Kantons Holdings Limited since March 2008.

Mr. Qiao Ming Qian, aged 42, Director and General Manager of Hua De Petrochemical Co. Ltd., a wholly owned subsidiary of Sinopec Kantons Holdings Limited. Mr. Qiao graduated from Southwest Petrol University in July 1988, he has professional qualification of engineer, and joined Qinghai Petrol Administration after his university studies. He was deputy officer of adjustment office of oil pipe division of Qinghai Petrol Administration from May 1993 to September 1995, and deputy chief engineer, chief engineer of oil pipe Division of Qinghai Petrol Administration from October 1995 to June 1998, he was transferred to Hua De Petrochemical Co. Ltd. in Daya Bay in Huizhou in July 1998, and was assistant to general manager of Hua De Petrochemical Co. Ltd. from March 1999 to July 1999, and deputy general manager of Hua De Petrochemical Co. Ltd. from August 1999 to February 2005. Mr. Qiao has been the Director and General Manager of Hua De Petrochemical Co. Ltd. since March 2005.

The board of directors

The board of directors (the "Board") provides effective and responsible leadership for the company. The directors, individually and collectively, act in good faith in the best interests of the company and its shareholders. The company had adopted, for corporate governance purposes, the Code Provisions of the Code on Corporate Governance Practices (appendix 14 of the Listing Rules). The company is in compliance with the Code Provisions therein.

As at 31 December 2007, the Board comprises six executive directors and three independent non-executive directors. The Board has appointed the audit committee and the remuneration committee to oversee specific areas of the company's affairs. The composition of the Board and the committees are given below and their respective responsibilities are discussed later in this report.

Board of Directors	Audit Committee	Remuneration Committee
Executive Directors	Fong Chung, Mark *(Chairman)*	Tam Wai Chu, Maria *(Chairlady)*
Wang Li Sheng *(Chairlady)*	Wong Po Yan	Wang Li Sheng
Zhu Zeng Qing *(Deputy Chairman)* (appointed on 2 April 2007)	Tam Wai Chu, Maria	Wong Po Yan
Pan Xin Rong *(Deputy Chairman)* (resigned on 2 April 2007)		Fong Chung, Mark
Yang Dong *(Deputy Chairman)* (resigned on 2 April 2007)		Ye Zhi Jun
Zhu Jian Min		
Tan Ke Fei (appointed on 2 April 2007)		
Zhou Feng		
Ye Zhi Jun *(Managing Director)*		
Han Kun (resigned on 2 April 2007)		
Non-executive Director		
Yang Mo Fei (resigned on 2 April 2007)		
Independent Non-executive Directors		
Wong Po Yan		
Tam Wai Chu, Maria		
Fong Chung, Mark		

On 2 April 2007, Mr. Pan Xin Rong and Mr. Yang Dong resigned as deputy chairmen and executive directors of the company, while Mr. Han Kun and Mr. Yang Mo Fei resigned as an executive director and a non-executive director of the Company respectively. Mr. Zhu Zeng Qing was appointed as deputy chairman and an executive director of the company and Mr. Tan Ke Fei was appointed as an executive director of the company on 2 April 2007.

The Board sets the Group's objectives and monitors its performance. The Board also decides on matters such as annual and interim results, notifiable and connected transactions, director appointments, and dividends and accounting policies. The Board has delegated the authority and responsibility of managing and overseeing the Group's day to day operations to its management.

The company secretary assists the management of the company in setting the agenda of Board meetings as instructed and each director is invited to present any businesses that they wish to discuss or propose at the meetings. All directors have timely access to all relevant information of the meetings and may take professional advice if necessary. The company held five full Board meetings in 2007. Attendance of the full Board meetings are as follows:

Attendance	No. of meetings attended
Ms. Wang Li Sheng	5
Mr. Zhu Zeng Qing (appointed on 2 April 2007)	4
Mr. Pan Xin Rong (resigned on 2 April 2007)	0
Mr. Yang Dong (resigned on 2 April 2007)	0
Mr. Zhu Jian Min	4
Mr. Tan Ke Fei (appointed on 2 April 2007)	2
Mr. Zhou Feng	5
Mr. Ye Zhi Jun	5
Mr. Han Kun (resigned on 2 April 2007)	1
Mr. Yang Mo Fei (resigned on 2 April 2007)	1
Mr. Wong Po Yan	5
Ms. Tam Wai Chu, Maria	4
Mr. Fong Chung, Mark	4

All independent non-executive directors are financially independent from the company and any of its subsidiaries.

The company confirmed with all independent non-executive directors as to their independence with reference to the factors as set out in Listing Rules 3.13.

The full Board participates in the selection and approval of new directors and has not established a Nomination Committee. The independent non-executive directors are appointed for a specific term. Under the Bye-laws of the company, all the directors are currently required to offer themselves for re-election by rotation at least once every three years. The Board takes into consideration criteria such as expertise, experience, integrity and commitment when selecting new directors.

Audit committee

The Audit Committee comprises all three independent non-executive directors. It is responsible for accounting principles and practices, auditing, internal controls and legal and regulatory compliance of the Group. It also reviewed the interim and final results of the Group prior to recommending them to the Board for approval. It meets to review financial reporting and internal control matters and to this end has unrestricted access to the company's auditors. The Committee is chaired by Mr. Fong Chung, Mark, a qualified accountant with extensive experience in financial reporting and control. In 2007, the Audit Committee held two meetings to review the annual results of the Group for the financial year ended 2006 and the interim results for half financial year ended 30 June 2007 and had 100 percent attendance. The company's annual results for the financial year ended 31 December 2007 have been reviewed by the Audit Committee.

Remuneration committee

The Remuneration Committee reviews and approves the remunerations of directors. To minimize any conflict of interest, any member who is interested in any given proposed motion is required to abstain from voting on such motion.

The main elements of the company's remuneration policy are no individual should determine his or her own remuneration, and remuneration should reflect performance, complexity, position, duties and responsibility of the individual. The committee is chaired by Ms. Tam Wai Chu, Maria. In 2007, the Remuneration Committee held 1 meetings and had 100 percent attendance.

Chairlady and managing director

The company has a separate Chairlady, Ms. Wang Li Sheng and Managing Director, Mr. Ye Zhi Jun. This segregation of duties ensures a clear distinction between the Chairperson's responsibility to manage the Board and the Managing Director's responsibility to manage the company's business.

Auditors' remuneration

Auditors' remuneration in relation to audit amounted to HK$1.1 million (2006: HK$3.5 million). The following remuneration was paid by the Group to its auditor, KPMG:

(in HK$ millions)	**2007**	2006
Audit service	**1.06**	3.5
Taxation services	**0.05**	0.04
Other advisory services	**Nil**	Nil
Total	**1.11**	3.54

Internal Control

The Board is responsible for the Group's system of internal control and its effectiveness. It has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group, including updating the system of internal controls when there are changes to business environment or regulatory guidelines.

The Board has conducted a review on the effectiveness of the system of internal control of the company for the financial year ending 31 December 2007. The Board had, with the management, conducted a high-level risk assessment of its core business management processes and risk management function. The management is following up the recommendations in order to enhance the internal control policies and procedures of the company.

Model code for securities transactions by directors

The company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules. Following a specific enquiry, each of the directors confirmed he complied with the code of conduct for transactions in the company's securities throughout the year.

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent auditor's report to the shareholders of

Sinopec Kantons Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Sinopec Kantons Holdings Limited (the" company") set out on pages 19 to 80, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2007 and of the group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

20 March 2008

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Turnover	3 & 12	**17,364,733**	14,774,806
Cost of sales		**(17,047,458)**	(14,497,042)
Gross profit		**317,275**	277,764
Other revenue	4	**3,201**	2,515
Other net (loss)/income	4	**(24,312)**	5,905
Distribution costs		**(10,028)**	(7,309)
Administrative expenses		**(37,982)**	(27,071)
Profit from operations		**248,154**	251,804
Finance costs	5(a)	**(80,811)**	(40,790)
Profit before taxation	5	**167,343**	211,014
Income tax	6(a)	**(39,463)**	(18,273)
Profit for the year from continuing operations before gain on sale of discontinued operation		**127,880**	192,741
Gain on sale of discontinued operation		**–**	16,079
Profit from discontinued operation	13	**–**	9,545
Profit for the year	25	**127,880**	218,365
Attributable to:			
Equity shareholders of the company	9 & 25	**127,880**	156,856
Minority interests		**–**	61,509
Profit for the year		**127,880**	218,365
Dividends payable to equity shareholders of the company attributable to this year:	10		
Interim dividend declared during the year		**15,552**	15,552
Final dividend proposed after the balance sheet date		**20,737**	20,737
		36,289	36,289
Basic and diluted earnings per share (cents)	11		
– Continuing operations		**12.33**	14.30
– Discontinued operation		**–**	0.83

The notes on pages 27 to 80 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Non-current assets			
Fixed assets	14		
– Investment property		**19,434**	–
– Other property, plant and equipment		**2,081,523**	1,854,984
– Interest in leasehold land held for own use under operating leases		**29,609**	28,765
		2,130,566	1,883,749
Current assets			
Inventories	16	**1,275,336**	897,806
Trade and other receivables	17	**459,303**	1,358,291
Cash and cash equivalents	18	**68,781**	30,972
		1,803,420	2,287,069
Current liabilities			
Trade and other payables	19	**1,464,990**	1,343,801
Bank loans	20	**553,754**	1,115,987
Current taxation	21	**7,157**	19,227
		2,025,901	2,479,015
Net current liabilities		**(222,481)**	(191,946)
NET ASSETS		**1,908,085**	1,691,803

CONSOLIDATED BALANCE SHEET

at 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
CAPITAL AND RESERVES	25		
Share capital	24	**103,683**	103,683
Reserves		**1,804,402**	1,588,120
TOTAL EQUITY		**1,908,085**	1,691,803

Approved and authorised for issue by the board of directors on 20 March 2008

Chairlady
Wang Li Sheng

Director
Ye Zhi Jun

The notes on pages 27 to 80 form part of these financial statements.

BALANCE SHEET
at 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Non-current assets			
Investments in subsidiaries	15	**827,454**	810,330
Current assets			
Other receivables	17	**100,000**	100,000
Cash and cash equivalents	18	**24**	16
		100,024	100,016
Current liabilities			
Other payables	19	**229,524**	186,790
Net current liabilities		**(129,500)**	(86,774)
NET ASSETS		**697,954**	723,556
CAPITAL AND RESERVES	25		
Share capital	24	**103,683**	103,683
Reserves		**594,271**	619,873
TOTAL EQUITY		**697,954**	723,556

Approved and authorised for issue by the board of directors on 20 March 2008

Chairlady
Wang Li Sheng

Director
Ye Zhi Jun

The notes on pages 27 to 80 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	**2007**	2006
		$'000	$'000
Total equity at 1 January:			
Attributable to:			
– Equity shareholders of the company	25	**1,691,803**	1,655,202
– Minority interests	25	**–**	469,275
	25	**1,691,803**	2,124,477
Net income recognised directly in equity:			
Exchange differences on translation of financial statements of subsidiary outside Hong Kong	25	**124,691**	60,698
Net profit for the year	25	**127,880**	218,365
Total recognised income and expense for the year		**252,571**	279,063
Attributable to:			
– Equity shareholders of the company		**252,571**	217,554
– Minority interests		**–**	61,509
		252,571	279,063
Dividends declared or approved during the year	10	**(36,289)**	(31,104)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	**2007** **$'000**	2006 $'000
Movements in equity arising from capital transactions:			
– Reduction of minority interests upon acquisition of minority interests in a subsidiary	25	**–**	(508,130)
– Reduction of reserves upon acquisition of minority interests in a subsidiary	25	**–**	(141,279)
– Reduction of minority interests upon disposal of subsidiaries	25	**–**	(22,654)
– Reduction of exchange reserve upon disposal of subsidiaries	25	**–**	(8,570)
		–	(680,633)
Total equity at 31 December	25	**1,908,085**	1,691,803

The notes on pages 27 to 80 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2007 $'000	2006 $'000	2006 $'000
Operating activities					
Profit before taxation		**167,343**		211,014	
Adjustments for:					
– Depreciation		**131,918**		97,950	
– Finance costs		**80,811**		40,790	
– Interest income		**(2,433)**		(1,821)	
– Impairment loss on fixed assets		**15,954**		–	
– Loss on disposal of fixed assets		**96**		180	
– Net unrealised foreign exchange loss/(gain)		**32,344**		(3,012)	
Operating profit before changes in working capital		**426,033**		345,101	
Increase in inventories		**(369,199)**		(346,322)	
Decrease/(increase) in trade and other receivables		**906,314**		(837,429)	
Increase in trade and other payables		**83,824**		322,268	
Cash generated from/(used in) operations		**1,046,972**		(516,382)	
Tax paid		**(51,532)**		(13,515)	
Net cash generated from/ (used in) operating activities			**995,440**		(529,897)
Investing activities					
Payment for the purchase of fixed assets		**(271,393)**		(414,934)	
Proceeds from disposal of fixed assets		**–**		2,491	
Interest received		**2,433**		1,812	
Net cash used in investing activities			**(268,960)**		(410,631)

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007		2006	
		$'000	**$'000**	$'000	$'000
Financing activities					
Proceeds from new bank loans		**11,154,008**		7,415,935	
Repayment of bank loans		**(11,729,887)**		(6,468,879)	
Dividends paid		**(36,289)**		(31,104)	
Finance costs		**(80,811)**		(40,790)	
Net cash (used in)/generated from financing activities			**(692,979)**		875,162
Net increase/(decrease) in cash and cash equivalents			**33,501**		(65,366)
Cash and cash equivalents at 1 January			**30,972**		93,922
Effect of foreign exchange rate changes			**4,308**		2,416
Cash and cash equivalents at 31 December	18		**68,781**		30,972

The notes on pages 27 to 80 form part of these financial statements.

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 any 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 2007 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 31.

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) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(h)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are initially measured at cost. The group accounts for investment properties under the cost method. Depreciation is calculated on the straight-line basis as to amortise the cost of each investment property to its residual value over its estimated useful life. Rental income from investment properties is accounted for as described in note 1(r)(iv).

When the group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(h)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases.

1 Significant accounting policies (continued)

(g) Other 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 situated 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.

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.

When 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.

1 Significant accounting policies (continued)

(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.

(i) Classification of assets leased to the group

Assets that are held by group under leases which transfer to the group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(f)); and

– 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 being 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 previous lessee.

(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.

1 Significant accounting policies (continued)

(i) Impairment of assets

(i) Impairment of receivables

Trade and other receivables and other financial assets (other than investments in subsidiaries: see note 1(i)(ii)) that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– The impairment loss is measured 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. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  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.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

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, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– investment property;

– prepaid interests in leasehold land classified as being held for own use under an operating lease;

– investments in subsidiaries; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated.

– 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 (see note 1(i)(i) and (ii)).

(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.

1 Significant accounting policies (continued)

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of 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 allowance for impairment of doubtful debts.

(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.

1 Significant accounting policies (continued)

(o) Employee benefits (continued)

(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.

(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.

1 Significant accounting policies (continued)

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

(i) Financial guarantees issued (continued)

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.

(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.

1 Significant accounting policies (continued)

(r) Revenue recognition (continued)

(iii) Interest income

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

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

(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 directly 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.

1 Significant accounting policies (continued)

(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.

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 a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the group and the company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of financial statements: Capital disclosures,* there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout these financial statements, in particular in note 26.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the group's and the company's objectives, policies and processes for managing capital. These new disclosures are set out in note 25(e).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 33).

3 Turnover

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

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:

	2007 $'000	2006 $'000
Trading of crude oil, petroleum and petrochemical products	**16,950,747**	14,429,624
Crude oil jetty services	**413,986**	345,182
	17,364,733	14,774,806

Turnover from discontinued operation are disclosed separately in note 13 to these financial statements.

4 Other revenue and other net (loss)/income

	2007 $'000	2006 $'000
Other revenue		
Interest income	**2,433**	1,812
Rental income	**32**	–
Others	**736**	703
	3,201	2,515
Other net (loss)/income		
Net foreign exchange (loss)/gain	**(30,509)**	5,905
Compensation income	**6,197**	–
	(24,312)	5,905

5 Profit before taxation

Profit before taxation is arrived at after charging:

		2007 $'000	2006 $'000
(a)	Finance costs:		
	Interest on bank advances and bank borrowings wholly repayable within five years	**81,900**	53,702
	Less: Borrowing costs capitalised as construction in progress*	**(1,089)**	(12,912)
		80,811	40,790

* The borrowing costs have been capitalised at a rate of 5.10%-6.64% per annum (2006: 5.02%-6.23%).

		2007 $'000	2006 $'000
(b)	Staff costs:		
	Salaries, wages and other benefits	**25,945**	21,826
	Contribution to defined contribution retirement plan	**435**	1,877
		26,380	23,703
(c)	Other items:		
	Cost of inventories	**16,820,636**	14,348,357
	Auditors' remuneration*	**1,057**	3,500
	Amortisation of interests in leasehold land held for own use under operating leases	**1,072**	1,013
	Depreciation	**130,846**	96,820
	Impairment loss on fixed assets (note 14(a))	**15,954**	–
	Loss on disposal of fixed assets	**96**	180

* Included in the auditors' remuneration for the year ended 31 December 2006, $2,500,000 was related to the audit service carried out for the group's acquisition and disposal transactions during the year ended 31 December 2006.

6 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2007 $'000	2006 $'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**5,837**	3,500
Current tax – Outside Hong Kong		
Provision for the year	**33,626**	14,773
	39,463	18,273

The provision for Hong Kong Profits Tax for 2007 is calculated at 17.5% (2006: 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.

The company's subsidiary 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 has a taxable profit. Accordingly, the subsidiary was subject to a 50% reduction in applicable income tax rate in 2006, which is 7.5%, and the applicable tax rate for 2007 is 15%.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("the tax law") which has taken effect on 1 January 2008. As a result of the new tax law, the income tax rate applicable to the company's subsidiary in the PRC will gradually increase from its preferential income tax rate of 15% to 25% over a five-year transition period effective from 1 January 2008. Pursuant to the notice on the Implementation Rules of the Grandfather Relief under the Corporation Income Tax Law, Guofa (2007) No. 39, issued on 26 December 2007 by the State Council, the applicable income tax rate for the company's PRC subsidiary will be 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012, respectively.

6 Income tax in the consolidated income statement (continued)

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

	2007 $'000	2006 $'000
Profit before taxation	**167,343**	211,014
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**38,642**	36,425
Tax effect of concession	**–**	(16,842)
Tax effect of non-deductible expenses	**2,252**	222
Tax effect of non-taxable income	**(1,431)**	(1,532)
Actual tax expense	**39,463**	18,273

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	2007 Total $'000
Executive directors			
Wang Li Sheng	1,880	–	1,880
Zhu Zeng Qing	810	–	810
Tan Ke Fei	735	–	735
Pan Xin Rong	245	–	245
Yang Dong	270	–	270
Zhu Jian Min	980	–	980
Zhou Feng	980	–	980
Ye Zhi Jun	–	525	525
Han Kun	–	444	444
Non-executive director			
Yang Mo Fei	–	–	–
Independent non-executive directors			
Tam Wai Chu	180	–	180
Fong Chung	180	–	180
Wong Po Yan	180	–	180
	6,440	969	7,409

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	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

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 loss of $2,820,000 (2006: $6,449,000) which has been dealt with in the financial statements of the company.

Reconciliation of the above amount of the company's profit/(loss) for the year:

	2007 **$'000**	2006 $'000
Amount of consolidated (loss) attributable to equity shareholders dealt with in the company's financial statements	**(2,820)**	(6,449)
Income recognised in respect of financial guarantee provided by the company to its subsidiaries	**13,507**	13,588
Company's profit for the year (note 25(b))	**10,687**	7,139

10 Dividends

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

	2007 **$'000**	2006 $'000
Interim dividend declared and paid of 1.5 cents per ordinary share (2006: 1.5 cents per ordinary share)	**15,552**	15,552
Final dividend proposed after the balance sheet date of 2 cents per ordinary share (2006: 2 cents per ordinary share)	**20,737**	20,737
	36,289	36,289

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

	2007 **$'000**	2006 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 2 cents per share (2006: 1.5 cents per share)	**20,737**	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 $127,880,000 (2006: $156,856,000) and on 1,036,830,000 (2006: 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.

Business segments

For management purposes, 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. Retail sales and wholesaling of petroleum products segment was disposed of in 2006 as disclosed in note 13 to these financial statements.

	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
Revenue										
Revenue from external customers	**16,950,747**	14,429,624	**413,986**	345,182	**–**	–	**–**	–	**17,364,733**	14,774,806
Inter-segment revenue	**–**	–	**9,058**	21,922	**(9,058)**	(21,922)	**–**	–	**–**	–
Other revenue from external customers	**708**	484	**60**	219	**–**	–	**2,433**	1,812	**3,201**	2,515
Total	**16,951,455**	14,430,108	**423,104**	367,323	**(9,058)**	(21,922)	**2,433**	1,812	**17,367,934**	14,777,321
Segment result	**107,584**	61,760	**193,309**	208,946	**(5,616)**	(13,592)	**–**	–	**295,277**	257,114
Unallocated interest income									**2,433**	1,812
Unallocated corporate (expenses)/income									**(49,556)**	(7,122)
Profit from operations									**248,154**	251,804
Finance costs									**(80,811)**	(40,790)
Income tax									**(39,463)**	(18,273)
Gain on sale on discontinued operation									**–**	16,079
Profit for the year									**127,880**	208,820
Depreciation and amortisation for the year	**1,267**	1,266	**130,651**	96,684						
Impairment of fixed assets	**–**	–	**15,954**	–						

12 Segment reporting (continued)

Business segments (continued)

	Trading of crude oil, petroleum and petrochemical products		Crude oil jetty services		Inter-segment elemination		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Segment assets	**1,640,158**	2,011,218	**2,193,701**	2,105,238	**(6,774)**	(15,867)	**3,827,085**	4,100,589
Unallocated assets							**106,901**	70,229
Total assets							**3,933,986**	4,170,818
Segment liabilities	**(1,380,521)**	(1,202,523)	**(91,243)**	(157,145)	**6,774**	15,867	**(1,464,990)**	(1,343,801)
Unallocated liabilities							**(560,911)**	(1,135,214)
Total liabilities							**(2,025,901)**	(2,479,015)
Capital expenditure incurred during the year	**130**	536	**265,788**	454,134				

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.

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 RMB153,000,000, to be satisfied in cash. The gain on disposal of KGSIMC recognised by the group amounted to approximately $16,079,000.

During the year ended 31 December 2006, KGSIMC had cash outflow from operating activities of $8,039,000, cash used in investing activities of $2,692,000 and cash used in financing activities of $9,168,000.

13 Discontinued operations (continued)

The results of KGSIMC for the year ended 31 December 2006 are as follows:

	2006 $'000
Turnover	2,263,545
Cost of sales	(2,152,980)
Gross profit	110,565
Other revenue	2,576
Distribution costs	(44,172)
Administrative expenses	(42,947)
Profit from operations	26,022
Finance costs	(6,147)
Profit before taxation	19,875
Income tax	(10,330)
Profit for the year	9,545
Attributable to:	
Equity shareholders of the company	8,631
Minority interests	914
Profit for the year	9,545

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	Investment property $'000	Interest in leasehold land held for own use under operating leases $'000	Total $'000
Cost:												
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 from construction in progress	–	–	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
At 1 January 2007	253,569	477	381,047	1,253,165	239,751	8,028	53,073	403,641	2,592,751	–	34,710	2,627,461
Additions	–	–	–	–	379	937	134	264,468	265,918	–	–	265,918
Transfer from construction in progress	1,944	–	578,704	33,753	65,922	–	–	(680,323)	–	–	–	–
Transfer from buildings to investment property	(27,728)	–	–	–	–	–	–	–	(27,728)	27,728	–	–
Disposals	–	–	–	–	–	(602)	(139)	–	(741)	–	–	(741)
Exchange adjustments	13,715	–	45,529	85,204	17,868	510	3,534	12,802	179,162	–	2,357	181,519
At 31 December 2007	241,500	477	1,005,280	1,372,122	323,920	8,873	56,602	588	3,009,362	27,728	37,067	3,074,157
Depreciation, amortisation and impairment:												
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
At 1 January 2007	104,252	239	98,963	412,169	90,242	6,614	25,288	–	737,767	–	5,945	743,712
Charge for the year	10,726	–	39,661	60,613	16,222	657	2,967	–	130,846	–	1,072	131,918
Impairment	–	–	–	15,954	–	–	–	–	15,954	–	–	15,954
Written back on disposal	–	–	–	–	–	(538)	(106)	–	(644)	–	–	(644)
Transfer from building to investment property	(8,294)	–	–	–	–	–	–	–	(8,294)	8,294	–	–
Exchange adjustments	6,457	–	8,068	29,538	6,012	348	1,787	–	52,210	–	441	52,651
At 31 December 2007	113,141	239	146,692	518,274	112,476	7,081	29,936	–	927,839	8,294	7,458	943,591
Net book value:												
At 31 December 2007	128,359	238	858,588	853,848	211,444	1,792	26,666	588	2,081,523	19,434	29,609	2,130,566
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

14 Fixed assets (continued)

(a) The group (continued)

In 2007, a portion of the oil pipeline, which represented part of the group's jetty facilities, had to be abandoned due to an urban development plan. As a result, the net carrying value of the portion of the oil pipeline amounting to $15,954,000 was fully impaired. The group was entitled to receive a compensation of $6,197,000 from the highway contractor company as a result of the urban development plan.

(b) All investment properties of the group were carried at amortised cost as at 31 December 2007. For disclosure purpose, the fair value of investment properties have been estimated on an open market value basis calculated by reference to net rental income allowing for reversionary income potential. The fair value of the investment property as at 31 December 2007 was estimated to be $19,500,000. The valuations were carried out by an independent firm of surveyors, Asset Appraisal Ltd., who have among their staff Fellows of the Hong Kong Institute of Surveyors, with recent experience in the location and category of property being valued.

(c) The analysis of net book value of properties is as follows:

	2007 **$'000**	2006 $'000
Long leases in Hong Kong	**37,764**	38,757
Medium-term leases outside Hong Kong	**139,638**	139,325
	177,402	178,082
Representing:		
Investment property	**19,434**	–
Buildings held for own use	**128,359**	149,317
Interest in leasehold land held for own use under operating leases	**29,609**	28,765
	177,402	178,082

14 Fixed assets (continued)

(d) Fixed assets leased out under operating lease

(i) Jetty structure

During 2007, 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.

(ii) Investment property

The group leases out investment property under operating leases. The lease runs for an initial period of two years. None of the leases includes contingent rentals.

The group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2007	2006
	$'000	$'000
Within 1 year	**758**	–
After 1 year but within 5 years	**758**	–
	1,516	–

15 Investments in subsidiaries

	The company	
	2007	2006
	$'000	$'000
Unlisted investments, at cost	**197,793**	180,669
Amounts due from subsidiaries	**629,661**	629,661
	827,454	810,330

(Expressed in Hong Kong dollars unless otherwise indicated)

15 Investments in subsidiaries (continued)

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 2007.

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

			Proportion for ownership interest			
Name of company	**Place of incorporation/ establishment and operation**	**Particulars of issued and paid up share capital/ registered capital**	**group's effective interest**	**held by the company**	**held by subsidiaries**	**Principal activities**
Huade Petrochemical Company Limited ("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 the PRC. The group's interests in Huade increased from 70% to 100% in December 2006.

(ii) Sinomart KTS Development Limited 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.

16 Inventories

(a) Inventories in the balance sheet comprise:

	The group	
	2007	2006
	$'000	$'000
Crude oil and spare parts	**1,133,690**	751,848
Petroleum and petrochemical products	**141,646**	145,958
	1,275,336	897,806

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

	The group	
	2007	2006
	$'000	$'000
Carrying amount of inventories sold	**16,820,636**	**14,348,357**

17 Trade and other receivables

	The group		The company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Dividend receivable from a subsidiary	**–**	–	**100,000**	100,000
Trade and bills receivable	**66,350**	214,218	**–**	–
Amounts due from holding company and fellow subsidiaries arising from				
– Trading transactions	**348,922**	941,655	**–**	–
– Non-trade transactions	**32,653**	184,188	**–**	–
Other receivables	**11,378**	18,230	**–**	–
	459,303	1,358,291	**100,000**	100,000

Debts are due within 30 to 90 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.

All of the trade and other receivables are expected to be recovered within one year. The amounts due from holding company and fellow subsidiaries are unsecured, interest free and are repayable on demand.

17 Trade and other receivables (continued)

Ageing analysis

Included in trade and other receivables are trade debtors, bills receivables and amounts due from holding company and fellow subsidiary arising from trading transactions with the following ageing analysis as of the balance sheet date:

	The group	
	2007	2006
	$'000	$'000
Current	**393,112**	1,076,950
Less than 1 month past due	**12,227**	52,813
1 to 3 months past due	**6,544**	24,736
More than 3 months past due but less than 12 months past due	**3,389**	1,374
Amounts past due	**22,160**	78,923
	415,272	1,155,873

The group's credit policy is set out in note 26(a).

Receivables that were current relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the group. Based on past experience, management believes that no impairment allowance is necessary in respect of these trade debtors and bills receivables of the group as at 31 December 2007 and 2006 as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The group does not hold any collateral over these balances.

18 Cash and cash equivalents

	The group		The company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Cash at bank and in hand	**68,781**	30,972	**24**	16

19 Trade and other payables

	The group		The company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Amounts due to subsidiaries	**–**	–	**201,398**	159,294
Bills payable	**–**	100,519	**–**	–
Trade payables	**46,193**	29,018	**–**	–
Amounts due to holding company and fellow subsidiaries				
– Trading transactions	**585,387**	433,008	**–**	–
– Non-trade transactions	**676,415**	638,131	**–**	–
Creditors and accrued charges	**156,995**	143,125	**1,306**	4,290
Financial guarantee issued	**–**	–	**26,820**	23,206
	1,464,990	1,343,801	**229,524**	186,790

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

The amounts due to holding company and fellow subsidiaries mainly represent balances arising from trading transactions, except for the amount of RMB594,000,000 (equivalent to HK$634,392,000), being the consideration payable to Sinopec Guangzhou Petrochemical Complex ("GPC") for the acquisition of the 30% equity interests in 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.

19 Trade and other payables (continued)

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

	The group	
	2007	2006
	$'000	$'000
Due within 1 month or on demand	**594,527**	469,166
Due after 1 month but within 3 months	**23,485**	49,636
Due after 3 months but within 6 months	**13,568**	43,743
	631,580	562,545

20 Bank loans

At 31 December 2007, the bank loans were repayable as follows:

	The group	
	2007	2006
	$'000	$'000
Within 1 year or on demand	**553,754**	1,115,987

The above bank loans were unsecured as at 31 December 2006 and 2007.

21 Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

	The group	
	2007	2006
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	**5,837**	3,500
Provisional Profit Tax paid	**(4,470)**	–
	1,367	3,500
Balance of Profit Tax provision relating to prior years	**–**	10,942
Provision for PRC income tax	**5,790**	4,785
	7,157	19,227

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

22 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 subsidiary established in the PRC participates 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 obligations other than the contributions described above.

23 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.

24 Share capital

	2007		2006	
	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.

25 Capital and reserves

(a) The group

	Attributable to equity shareholders of the company								
	Share capital $'000	Share premium $'000	Merger reserve $'000 (Note 25(c)(i))	General reserves $'000 (Note 25(c)(ii))	Exchange reserve $'000 (Note 25(c)(iii))	Retained profits $'000	Total $'000	Minority interests $'000	Total equity $'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 (note 10(b))	–	–	–	–	–	(15,552)	(15,552)	–	(15,552)
Disposal of subsidiaries	–	–	–	–	(8,570)	–	(8,570)	(22,654)	(31,224)
Acquisition of minority interest in a subsidiary	–	–	–	(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
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 (note 10(b))	**–**	**–**	**–**	**–**	**–**	**(20,737)**	**(20,737)**	**–**	**(20,737)**
Transfer	**–**	**–**	**–**	**14,802**	**–**	**(14,802)**	**–**	**–**	**–**
Exchange differences on translation of financial statements of the subsidiaries outside Hong Kong	**–**	**–**	**–**	**–**	**124,691**	**–**	**124,691**	**–**	**124,691**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**127,880**	**127,880**	**–**	**127,880**
Interim dividends declared in respect of the current year (note 10(a))	**–**	**–**	**–**	**–**	**–**	**(15,552)**	**(15,552)**	**–**	**(15,552)**
At 31 December 2007	**103,683**	**333,857**	**23,444**	**94,465**	**213,967**	**1,138,669**	**1,908,085**	**–**	**1,908,085**

25 Capital and reserves (continued)

(b) The company

	Share capital $'000	Share premium $'000	Contributed surplus $'000 (Note 25 (c)(iv))	Retained profits $'000	Total equity $'000
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
At 1 January 2007	**103,683**	**333,857**	**242,397**	**43,619**	**723,556**
Final dividends approved in respect of the previous year (note 10(b))	**–**	**–**	**–**	**(20,737)**	**(20,737)**
Profit for the year (note 9)	**–**	**–**	**–**	**10,687**	**10,687**
Interim dividends declared in respect of the current year (note 10(a))	**–**	**–**	**–**	**(15,552)**	**(15,552)**
At 31 December 2007	**103,683**	**333,857**	**242,397**	**18,017**	**697,954**

25 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 reserve by $141,279,000 (note 25(a)) and (ii) goodwill of $4,880,000 as at 31 December 2007 (2006: $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.

25 Capital and reserves (continued)

(d) Distributability of reserves

At 31 December 2007, the aggregate amount of reserves available for distribution to equity shareholders of the company was $260,414,000 (2006: $286,016,000). After the balance sheet date the directors proposed a final dividend of 2 cents per share (2006: 2 cents per share), amounting to $20,737,000 (2006: $20,737,000). This dividend has not been recognised as a liability at the balance sheet date.

(e) Capital management

The group's primary objectives when managing capital are to safeguard the group's ability to continue as a going concern, so that it can be continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the group defines net debt as total debt (which includes interest-bearing loans and borrowings and trade and other payables) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity, less unaccrued proposed dividends.

During 2007, the group's strategy, which was unchanged from 2006, was to maintain the net debt-to-adjusted capital ratio at a reasonable level. In order to maintain or adjust the ratio, the group may adjust the amount of dividends paid to shareholders, issue new shares, raise new debt financing or sell assets to reduce debt.

25 Capital and reserves (continued)

(e) Capital management (continued)

The net debt-to-adjusted capital ratio at 31 December 2007 and 2006 was as follows:

		The group		The company	
		2007	2006	**2007**	2006
	Note	**$'000**	$'000	**$'000**	$'000
Current liabilities:					
Trade and other payables	19	**$1,464,990**	$1,343,801	**$229,524**	$186,790
Bank loans	20	**553,754**	1,115,987	**–**	–
Total debt		**2,018,744**	2,459,788	**229,524**	186,790
Add: Proposed dividends	10(a)	**20,737**	20,737	**20,737**	20,737
Less: Cash and cash equivalents	18	**(68,781)**	(30,972)	**(24)**	(16)
Net debt		**$1,970,700**	$2,449,553	**$250,237**	$207,511
Total equity		**$1,908,085**	$1,691,803	**$697,954**	$723,556
Proposed dividends	10(a)	**(20,737)**	(20,737)	**(20,737)**	(20,737)
Adjusted capital		**$1,887,348**	$1,671,066	**$677,217**	$702,819
Net debt-to-adjusted capital ratio		**104%**	147%	**37%**	30%

The adjusted net debt-to-adjusted capital ratio for the group is at a reasonable level given the group carries out trading business with a relatively high trade payable and receivable balances as compared to the group's adjusted capital balance. The trading business being carried out by the group relies partly on short term banking facilities. The group currently has sufficient working capital and available banking facilities to run its business and has no plan to make any significant changes to its capital structure in the near future.

Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

26 Financial instruments

Exposure to credit, liquidity, interest rate, foreign currency and commodity and price 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 evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. These receivables are due within 30 to 90 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the group does not obtain collateral from customers.

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the group has a certain concentration of credit risk as 45% (2006: 30%) and 68% (2006: 78%) 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, after deducting any impairment allowance. Except for the financial guarantees given by the company in favour of its subsidiaries as set out in note 28, the group does not provide any guarantees which would expose the group or the company to credit risk.

Further quantitative disclosures in respect of the group's exposure to credit risk arising from trade and other receivables are set out in note 17.

26 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.

The following table details the remaining contractual maturities at the balance sheet date of the group's and the company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the group and the company can be required to pay.

The group

	2007			2006		
	Carrying amount $'000	**Total contractual undiscounted cash outflow $'000**	**Within 1 year or on demand $'000**	Carrying amount $'000	Total contractual undiscounted cash outflow $'000	Within 1 year or on demand $'000
Bank loans	**553,754**	**567,695**	**567,695**	1,115,987	1,128,627	1,128,627
Trade payables, bills payable, creditors and accrued charges	**203,188**	**203,188**	**203,188**	272,662	272,662	272,662
Amounts due to ultimate holding company and fellow subsidiaries	**1,261,802**	**1,261,802**	**1,261,802**	1,071,139	1,071,139	1,071,139
	2,018,744	**2,032,685**	**2,032,685**	2,459,788	2,472,428	2,472,428

The company

	2007			2006		
	Carrying amount $'000	**Total contractual undiscounted cash outflow $'000**	**Within 1 year or on demand $'000**	Carrying amount $'000	Total contractual undiscounted cash outflow $'000	Within 1 year or on demand $'000
Creditors and accrued charges	**1,306**	**1,306**	**1,306**	4,290	4,290	4,290
Amounts due to subsidiaries	**201,398**	**201,398**	**201,398**	159,294	159,294	159,294
	202,704	**202,704**	**202,704**	163,584	163,584	163,584

26 Financial instruments (continued)

(c) Interest rate risk

The group's interest rate risk arises primarily from bank loans. Borrowings issued at variable rates and at fixed rates expose the group to cash flow interest rate risk and fair value interest rate risk respectively. The group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the group's interest bearing borrowings at the balance sheet date.

	The group			
	2007		2006	
	Effective interest rate %	**Amount $'000**	Effective interest rate %	Amount $'000
Fixed rate borrowings:				
Bank loans	**5.5%**	**26,200**	4.8%	84,000
Variable rate borrowings:				
Bank loans	**7.5%**	**527,554**	6.0%	1,031,987
Total borrowings		**553,754**		1,115,987
Fixed rate borrowings as a percentage of total borrowings		**4.7%**		7.6%

(ii) Sensitivity analysis

At 31 December 2007, it is estimated that a general decrease/increase of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the group's profit after tax and retained profits by approximately $4,568,000 (2006: $9,207,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The one hundred basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis performed on the same basis for 2006.

26 Financial instruments (continued)

(d) Foreign currency risk

The group is exposed to foreign currency risk primarily through sales and purchases and borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United State Dollars, Hong Kong Dollars and Renminbi.

Sales and purchases made by the group's trading business are mainly denominated in United States Dollars. The group considers the risk of movements in exchange rate between the Hong Kong Dollars and United States Dollars to be insignificant.

At 31 December 2007, the group's PRC subsidiary has loans denominated in United States Dollars and Hong Kong Dollars. The functional currency of the group's PRC subsidiary is Renminbi. The following table details the group's exposure at the balance sheet date to currency risk arising from loans denominated in a currency other than the functional currency of the group's PRC subsidiary.

	2007		2006	
	United States Dollars '000	**Hong Kong Dollars '000**	United States Dollars '000	Hong Kong Dollars '000
Bank loans	**6,220**	**70,830**	6,220	116,802

The group is exposed to foreign currency risk from the consideration payable to GPC denominated in Renminbi of RMB594,000,000 as disclosed in note 19 to these financial statements.

Sensitivity analysis

The following table indicates the approximate change in the company's profit after tax and retained profits in response to reasonably possible changes in the foreign exchange rates to which the group's subsidiaries have significant exposure at the balance sheet date. Other components of equity would not be affected by changes in the foreign exchange rates.

		2007		2006	
		Increase/ (decrease) in foreign exchange rate	**Effect on profit/(loss) after tax and retained profits $'000**	Increase/ (decrease) in foreign exchange rate	Effect on profit/(loss) after tax and retained profits $'000
Renminbi against Hong Kong Dollars	(i)	**10%**	**5,279**	10%	8,707
Renminbi against United States Dollars	(i)	**10%**	**3,616**	10%	3,620
Hong Kong Dollars against Renminbi	(ii)	**(10%)**	**(63,433)**	(10%)	(59,400)

26 Financial instruments (continued)

(d) Foreign currency risk (continued)

Sensitivity analysis (continued)

(i) Foreign currency exposure from the group's PRC subsidiary with loans denominated in United States Dollars and Hong Kong Dollars.

(ii) Foreign currency exposure from the consideration payable to GPC as disclosed in note 19 to the financial statements.

The sensitivity analysis above has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the group's exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong Dollars and the United States Dollars would be materially unaffected by any changes in movement in value of the United States Dollars against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit after tax measured in the respective functional currency, translated into Hong Kong Dollars at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2006.

(e) Commodity and price risk

The group is exposed to general price fluctuations of petroleum and petrochemical products. The group converts crude oil into petroleum and petrochemical products through sub-contractors and the selling price of petroleum and petrochemical products is based on the market price. The group historically has not used commodity derivative instruments to hedge the potential price fluctuations of the petroleum products.

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006.

26 Financial instruments (continued)

(g) 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) Financial guarantees

The fair value of financial guarantees issued by the company in favour of its subsidiaries is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

(iii) Interest rate used for determining fair value

The market interest rates adopted are as follows:

	The group	
	2007	2006
Bank loans	**4.9%-6.0%**	4.7%-6.3%

27 Commitments

(a) Capital commitments outstanding at 31 December 2007 not provided for in the financial statements were as follows:

	The group	
	2007	2006
	$'000	$'000
Contracted for	**–**	136,001
Authorised but not contracted for	**–**	–
	–	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 as at 31 December 2007.

(b) At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The group	
	2007	2006
	$'000	$'000
Within 1 year	**853**	568
After 1 year but within 5 years	**2,425**	2,271
After 5 years	**9,803**	9,747
	13,081	12,586

The group has two leases of land and buildings with lease term of one year and thirty-two years respectively. The rentals are fixed during the lease period.

28 Contingent liabilities

Financial guarantees issued (the company)

As at the balance sheet date, 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 $553,754,000 (2006: $1,080,987,000).

29 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) 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:**

	2007 **$'000**	2006 $'000
Crude oil sold by the group (note (i))	**(12,241,176)**	(7,592,186)
Crude oil purchased by the group and related charges (note (i))	**9,980,034**	5,197,594
Petroleum products sold by the group (note (i))	**(1,185,836)**	(1,262,053)
Petrochemical products sold by the group (note (i))	**(93,238)**	(59,618)
Petroleum products purchased by the group for petrol stations (discontinued operation) (note (i))	**–**	1,891,360
Petroleum products purchased by the group for general trade (note (i))	**157,274**	508,720
Insurance premium charged to the group (note (ii))	**1,380**	4,313
Crude oil refining and processing fees charged to the group (note (iii))	**73,262**	62,622
Jetty service fees, charged by the group (note (iv))	**(410,754)**	(338,585)
Transportation service fees charged to the group (discontinued operation) (note (v))	**–**	4,644
Petroleum unloading services fee charged by the group (discontinued operation) (note vi))	**–**	(1,354)
Gain on disposal of subsidiaries by the group (note 13)	**–**	(16,079)

29 Material related party transactions (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 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.

(v) 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.

(vi) 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 17 and 19.

(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.

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%.

29 Material related party transactions (continued)

(e) The group disposed of its 63% equity interests in KGSIMC to Sinopec Corp. in December 2006 for a cash consideration of RMB153,000,000.

(f) 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 the 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

	2007	2006
	$'000	$'000
Crude oil, petroleum and petrochemical products purchased by the group	**2,324,769**	2,395,661
Crude oil, petroleum and petrochemical products sold by the group	**(2,396,206)**	(4,503,007)
Construction work performed	**196,292**	338,098

29 Material related party transactions (continued)

(f) (continued)

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

	2007 **$'000**	2006 $'000
Amount due from other state-controlled entities	**338,790**	119,154
Amount due to other state-controlled entities	**(534,943)**	(119,041)

(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:

	2007 **$'000**	2006 $'000
Interest income	**(2,225)**	(2,267)
Interest expenses	**70,045**	29,707

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

	2007 **$'000**	2006 $'000
Cash and cash equivalents	**66,093**	25,809
Short-term loans	**(434,403)**	(523,873)

30 Immediate and ultimate controlling party

At 31 December 2007, the directors consider the immediate parent and ultimate controlling party of the group to be Sinopec Corp. and China Petrochemical Corporation, which are state-owned enterprises established in the PRC. Sinopec Corp. produces financial statements available for public use.

31 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 aging 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.

32 Comparative figures

As a result of adopting HKFRS 7, *Financial instruments: Disclosures*, and the amendments to HKAS 1, *Presentation of financial statements: Capital disclosures*, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in note 2.

The result of the group's discontinued operation has been disclosed as a single line item in the group's comparative consolidated income statement in this year. The result of the group's continued and discontinued operations were disclosed by separate column in the group's consolidated income statement in previous year. In order to conform with the current year presentation, the comparative figures of the group's consolidated cash flow statement has been adjusted to include the cash flows of the continued operation only. The details of the results and cash flows of the group's discontinued operation in 2006 have been separately disclosed in note 13 to these financial statements.

In addition, certain of the comparative figures among "other revenue" as shown on the face of the profit and loss account have been reclassified to "other net (loss)/income" to conform with the current year's presentation. The directors of the company consider that the revised presentation reflects more appropriately the nature of these balances.

33 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2007

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 2007 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, HKFRS 8, Operating segments, which is effective for annual periods beginning on or after 1 January 2009, may result in new or amended disclosures in the financial statements.

FIVE YEAR SUMMARY

(Expressed in Hong Kong dollars)

	2003 (restated) $'000 (note 2)	2004 (restated) $'000	2005 $'000 (note 3)	2006 $'000	**2007 $'000**
Results					
Turnover	7,701,688	8,448,877	12,150,603	14,774,806	**17,364,733**
Profit from operations	238,951	261,721	223,757	251,804	**248,154**
Finance costs	(18,193)	(20,170)	(20,601)	(40,790)	**(80,811)**
Profit before taxation	220,758	241,551	203,156	211,014	**167,343**
Taxation	(21,878)	(27,661)	(23,774)	(18,273)	**(39,463)**
Profit for the year from continuing operations	198,880	213,890	179,382	192,741	**127,880**
Discontinued operations	–	–	–	25,624	**–**
Profit for the year	198,880	213,890	179,382	218,365	**127,880**
Attributable to:					
– Equity shareholders of the company	138,591	154,083	135,578	156,856	**127,880**
– Minority interests	60,289	59,807	43,804	61,509	**–**
Profit for the year	198,880	213,890	179,382	218,365	**127,880**
Assets and liabilities					
Fixed assets	1,456,359	1,573,055	1,594,260	1,883,749	**2,130,566**
Intangible assets	68,263	84,750	80,077	–	**–**
Net current assets/(liabilities)	389,736	274,669	461,501	(191,946)	**(222,481)**
Total assets less current liabilities	1,914,358	1,932,474	2,135,838	1,691,803	**1,908,085**
Non-current liabilities	(169,854)	–	(11,361)	–	**–**
NET ASSETS	1,744,504	1,932,474	2,124,477	1,691,803	**1,908,085**

FIVE YEAR SUMMARY
(Expressed in Hong Kong dollars)

	2003 (restated) $'000 (note 2)	2004 (restated) $'000	2005 $'000 (note 3)	2006 $'000	**2007** **$'000**
Capital and reserves					
Share capital	103,683	103,683	103,683	103,683	**103,683**
Reserves	1,284,412	1,407,004	1,551,519	1,588,120	**1,804,402**
Total equity attributable to equity shareholders of the company	1,388,095	1,510,687	1,655,202	1,691,803	**1,908,085**
Minority interests	356,409	421,787	469,275	–	**–**
TOTAL EQUITY	1,744,504	1,932,474	2,124,477	1,691,803	**1,908,085**
Earnings per share					
Basic	13.37 cents	14.86 cents	13.08 cents	14.30 cents	**12.33 cents**

Notes:

(1) Pursuant to the revised (December 2001) Hong Kong Statement of Standard Accounting Practice No. 11 "Foreign currency translation", the group changed its accounting policy for translation of the results of foreign enterprises in 2002.

(2) Hong Kong Statement of Standard Accounting Practice No. 12 (revised) "Income taxes" was first effective for accounting periods beginning on or after 1 January 2003. In order to comply with this revised statement, the group adopted a new accounting policy for deferred tax in 2003.

(3) In order to comply with HKFRS 3, Business combinations, the group changed its accounting policies relating to goodwill with effect from 1 January 2005. Under the new policy, if the fair value of the net assets acquired in a business combination exceeds the consideration paid, the excess is recognised immediately in profit or loss as it arises.