



# SINOPEC KANTONS HOLDINGS LIMITED

(Incorporated in Bermuda with Limited Liability)

(Stock Code: 934)

## Interim Report 2008



## Corporation Information

### EXECUTIVE DIRECTORS

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

### INDEPENDENT NON-EXECUTIVE DIRECTORS

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

### AUDIT COMMITTEE MEMBERS

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

### REMUNERATION COMMITTEE MEMBERS

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

### COMPANY SECRETARY

Mr. Lai Yang Chau, Eugene

### QUALIFIED ACCOUNTANT

Mr. Chan Kim Fai, Ivan

### AUDITORS

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

### STATUTORY ADDRESS

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

### LISTING INFORMATION

The Stock Exchange of Hong Kong  
Limited  
Stock Code: 0934

## Consolidated Income Statement (Unaudited)

for the six months ended 30 June 2008  
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2008 \$'000	2007 \$'000
Turnover	2	<b>15,378,105</b>	10,624,244
Cost of sales		<b>(15,159,117)</b>	(10,464,554)
<b>Gross profit</b>		<b>218,988</b>	159,690
Other revenue	2	<b>1,380</b>	1,262
Other net (loss)/income		<b>(37,351)</b>	4,269
Selling and administrative expenses		<b>(25,477)</b>	(22,650)
<b>Profit from operations</b>		<b>157,540</b>	142,571
Finance costs		<b>(34,650)</b>	(34,512)
<b>Profit before taxation</b>	3	<b>122,890</b>	108,059
Income tax	4	<b>(32,217)</b>	(20,889)
<b>Profit for the period</b>		<b>90,673</b>	87,170
<b>Dividends payable to equity shareholders of the company attributable to the period</b>			
Interim dividend declared during the period	5	<b>15,552</b>	15,552
Basis and diluted earnings per share	6	<b>8.75 cents</b>	8.41 cents

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

## Consolidated Balance Sheet (Unaudited)

at 30 June 2008  
(Expressed in Hong Kong dollars)

	Note	At 30 June 2008 \$'000	At 31 December 2007 \$'000
<b>Non-current assets</b>			
Fixed assets			
– Investment property		19,157	19,434
– Other property, plant and equipment	7	2,162,921	2,081,523
– Interest in leasehold land held for own use under operating leases		30,945	29,609
		<b>2,213,023</b>	2,130,566
<b>Current assets</b>			
Inventories	9	2,003,774	1,275,336
Trade and other receivables	10	3,389,331	459,303
Cash and cash equivalents		132,056	68,781
		<b>5,525,161</b>	1,803,420
<b>Current liabilities</b>			
Trade and other payables	11	2,834,236	1,464,990
Unsecured bank loans		2,769,734	553,754
Current taxation		20,352	7,157
		<b>5,624,322</b>	2,025,901
<b>Net current liabilities</b>		<b>(99,161)</b>	(222,481)
<b>NET ASSETS</b>		<b>2,113,862</b>	1,908,085

## Consolidated Balance Sheet (Unaudited)

at 30 June 2008  
(Expressed in Hong Kong dollars)

	Note	At 30 June 2008 \$'000	At 31 December 2007 \$'000
<b>CAPITAL AND RESERVES</b>	12		
Share capital		<b>103,683</b>	103,683
Reserves		<b>2,010,179</b>	1,804,402
<b>TOTAL EQUITY</b>		<b>2,113,862</b>	1,908,085

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

## Consolidated Statement of Changes in Equity (Unaudited)

for the six months ended 30 June 2008  
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2008	2007
		\$'000	\$'000
	Note		
<b>Total equity at 1 January:</b>			
Attributable to:			
– Equity shareholders of the company	12	1,908,085	1,691,803
<b>Net income for the period recognised directly in equity:</b>			
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong			
	12	135,841	31,495
<b>Net profit for the period:</b>			
<b>Total recognised income and expense for the period</b>			
Attributable to:			
– Equity shareholders of the company	12	90,673	87,170
Dividends approved and paid during the period	5	(20,737)	(20,737)
<b>Total equity at 30 June</b>		<b>2,113,862</b>	1,789,731

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

## Condensed Consolidated Cash Flow Statement (Unaudited)

for the six months ended 30 June 2008  
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2008 \$'000	2007 \$'000
<b>Cash used in operations</b>	<b>(2,059,665)</b>	(37,429)
<b>Tax paid</b>	<b>(19,400)</b>	(12,777)
<b>Net cash used in operating activities</b>	<b>(2,079,065)</b>	(50,206)
<b>Net cash used in investing activities</b>	<b>(19,643)</b>	(123,383)
<b>Net cash generated from financing activities</b>	<b>2,159,293</b>	225,695
<b>Net increase in cash and cash equivalents</b>	<b>60,585</b>	52,106
<b>Cash and cash equivalents at 1 January</b>	<b>68,781</b>	30,972
<b>Effect of foreign exchange rate changes</b>	<b>2,690</b>	(459)
<b>Cash and cash equivalents at 30 June</b>	<b>132,056</b>	82,619

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

# Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2008  
(Expressed in Hong Kong dollars)

## 1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issuance on 31 August 2008.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the annual financial statements for the year ended 31 December 2007. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”). HKFRSs include all applicable HKFRS, HKAS and related interpretations.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2007.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2008. The Board of Directors believes that the adoption of these new and revised HKFRSs will not have a material impact on the group’s financial position or result of operations.



# Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2008  
(Expressed in Hong Kong dollars)

## 1 BASIS OF PREPARATION (continued)

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2008 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the group's annual financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

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

The financial information relating to the financial year ended 31 December 2007 that is included in the interim financial report as being previously reported information does not constitute the company's statutory financial statements for that financial year but is derived from those financial statements. The statutory financial statements for the year ended 31 December 2007 are available from the company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 20 March 2008.

## 2 SEGMENT REPORTING

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

# Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2008  
(Expressed in Hong Kong dollars)

## 2 SEGMENT REPORTING (continued)

### Business segments

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

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

	Trading of crude oil, petroleum and petrochemical products		Crude oil jetty services		Inter-segment elimination		Unallocated		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>										
Revenue from external customers	15,110,113	10,436,621	267,992	187,623	-	-	-	-	15,378,105	10,624,244
Inter-segment revenue	-	-	2,639	2,459	(2,639)	(2,459)	-	-	-	-
Other revenue from external customers	611	65	397	228	-	-	372	969	1,380	1,262
<b>Total</b>	<b>15,110,724</b>	<b>10,436,686</b>	<b>271,028</b>	<b>190,310</b>	<b>(2,639)</b>	<b>(2,459)</b>	<b>372</b>	<b>969</b>	<b>15,379,485</b>	<b>10,625,506</b>

	Consolidated	
	2008 \$'000	2007 \$'000
Segment result	58,978	144,972
Unallocated interest income	372	967
Unallocated corporate expenses	(48,431)	(3,368)
Profit from operations	157,540	142,571
Finance costs	(34,650)	(34,512)
Income tax	(32,217)	(20,889)
Profit for the period	90,673	87,170

# Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2008  
(Expressed in Hong Kong dollars)

## 2 SEGMENT REPORTING (continued)

### Geographical segments

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

## 3 PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2008 \$'000	2007 \$'000
Interest income	(372)	(967)
Interest on borrowings	34,634	34,490
Net foreign exchange loss/(gain)	37,260	(4,269)
Amortisation of interest in leasehold land held for own use under operating leases	572	526
Depreciation	71,020	60,660
Operating lease charges for machinery and vessel	1,531	1,310

# Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2008  
(Expressed in Hong Kong dollars)

## 4 INCOME TAX

	Six months ended 30 June	
	2008 \$'000	2007 \$'000
<b>Current tax – Hong Kong Profits Tax</b>		
Provision for the period	5,420	3,990
Over-provision in respect of prior years	(295)	–
	<b>5,125</b>	3,990
<b>Current tax – Outside Hong Kong</b>		
Provision for the period	27,092	16,899
	<b>32,217</b>	20,889

The provision for Hong Kong Profits Tax for 2008 is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the period. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

The applicable tax rate for the company's subsidiary established in the PRC in 2007 was 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 ("new tax law") which is effective from 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 the preferential income tax rate of 15% to 25% over a five-year transition period commencing 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 of the PRC, 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.

No provision for deferred taxation has been made for the period ended 30 June 2008 as the effect of all temporary differences is not material.

# Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2008  
(Expressed in Hong Kong dollars)

## 5 DIVIDENDS

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

Pursuant to the Board meeting held on 31 August, 2008, the Directors declared an interim dividend of 1.5 cents per share totalling \$15,552,000 in respect of the six months ended 30 June 2008 (six months ended 30 June 2007: 1.5 cents per share, totalling \$15,552,000). This dividend has not been recognised as a liability at 30 June 2008.

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

	Six months ended 30 June	
	2008	2007
	\$'000	\$'000
Final dividend in respect of the financial year ended 31 December 2007, approved and paid during the interim period, of 2 cents per share (2007: 2 cents per share)	<b>20,737</b>	20,737

Pursuant to the shareholders' approval at the Annual General Meeting of the company held on 14 May 2008, a final dividend of 2 cents per share totalling \$20,737,000 in respect of the year ended 31 December 2007 was paid on 18 June 2008.

# Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2008  
(Expressed in Hong Kong dollars)

## 6 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the company of \$90,673,000 (six months ended 30 June 2007: \$87,170,000) and 1,036,830,000 (2007: 1,036,830,000) ordinary shares in issue during the period. There were no dilutive potential ordinary shares in issue for both periods.

## 7 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2008, the group acquired items of property, plant and equipment with a cost of \$5,125,000 (six months ended 30 June 2007: \$462,000). Items of property, plant and equipment with net book value of \$Nil (six months ended 30 June 2007: \$61,000) were disposed of during the six months ended 30 June 2008.

## 8 CONSTRUCTION IN PROGRESS

Construction in progress mainly related to group's jetty operation in the PRC. During the six months ended 30 June 2008, jetty structures and plant and machinery with a cost of approximately \$4,596,000 (six months ended 30 June 2007: \$636,000,000) were completed and transferred to fixed assets. Additions to construction in progress during the period amounted to \$14,530,000 (six months ended 30 June 2007: \$280,045,000).

## Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2008  
(Expressed in Hong Kong dollars)

### 9 INVENTORIES

	<b>At 30 June 2008 \$'000</b>	At 31 December 2007 \$'000
Crude oil and spare parts	<b>1,728,803</b>	1,133,690
Petroleum and petrochemical products	<b>274,971</b>	141,646
	<b>2,003,774</b>	1,275,336

### 10 TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise:

	<b>At 30 June 2008 \$'000</b>	At 31 December 2007 \$'000
Trade and bills receivable	<b>1,174,797</b>	66,350
Amounts due from holding company and fellow subsidiaries arising from		
– trading transactions	<b>2,166,892</b>	348,922
– non-trade transactions	<b>34,589</b>	32,653
Other receivables	<b>13,053</b>	11,378
	<b>3,389,331</b>	459,303

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 balances before any further credit is granted.

The amounts due from holding company and fellow subsidiaries are unsecured, interest free and are repayable on demand.

# Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2008  
(Expressed in Hong Kong dollars)

## 10 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 subsidiaries arising from trading transactions with the following ageing analysis as of the balance sheet date:

	<b>At 30 June 2008 \$'000</b>	At 31 December 2007 \$'000
Current	<b>3,319,785</b>	393,112
Less than 1 month past due	<b>11,843</b>	12,227
1 to 3 months past due	<b>8,783</b>	6,544
More than 3 months past due but less than 12 months past due	<b>1,278</b>	3,389
Amounts past due	<b>21,904</b>	22,160
	<b>3,341,689</b>	415,272

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



## Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2008  
(Expressed in Hong Kong dollars)

### 10 TRADE AND OTHER RECEIVABLES (continued)

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 30 June 2008 and 31 December 2007 as there has not been a significant change in credit quality and balances are still considered fully recoverable. The group does not hold any collateral over these balances.

### 11 TRADE AND OTHER PAYABLES

Trade and other payables comprise:

	<b>At 30 June 2008 \$'000</b>	At 31 December 2007 \$'000
Trade and bills payable	<b>1,935,672</b>	46,193
Amounts due to holding companies and fellow subsidiaries arising from		
– trading transactions	<b>34,649</b>	585,387
– non-trading transactions	<b>719,226</b>	676,415
Creditors and accrued charges	<b>144,689</b>	156,995
	<b>2,834,236</b>	1,464,990

# Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2008  
(Expressed in Hong Kong dollars)

## 11 TRADE AND OTHER PAYABLES (continued)

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

The amounts due to holding companies and fellow subsidiaries include the amount of RMB594,000,000 (equivalent to HK\$653,640,000 as at 30 June 2008), being the consideration payable to Sinopec Guangzhou Petrochemical Complex for the acquisition of a 30% equity interests in Huade Petrochemical Company Limited ("Huade") in 2006. This balance was settled in full in July 2008.

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

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

	<b>At 30 June 2008 \$'000</b>	At 31 December 2007 \$'000
Due within 1 month or on demand	<b>1,935,816</b>	594,527
Due after 1 month but within 3 months	<b>31,512</b>	23,485
Due after 3 months but within 6 months	<b>2,993</b>	13,568
	<b>1,970,321</b>	631,580

# Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2008  
(Expressed in Hong Kong dollars)

## 12 CAPITAL AND RESERVES

	Attributable to equity shareholders of the company						
	Share capital	Share premium	Merger reserve	General reserve	Exchange reserves	Retained profits	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2007	103,683	333,857	23,444	79,663	89,276	1,061,880	1,691,803
Final dividends approved in respect of the previous year	-	-	-	-	-	(20,737)	(20,737)
Profit for the period	-	-	-	-	-	87,170	87,170
Exchange differences on translation of financial statements of the subsidiaries outside Hong Kong	-	-	-	-	31,495	-	31,495
At 30 June 2007	103,683	333,857	23,444	79,663	120,771	1,128,313	1,789,731
At 1 January 2008	103,683	333,857	23,444	94,465	213,967	1,138,669	1,908,085
Final dividends approved in respect of the previous year	-	-	-	-	-	(20,737)	(20,737)
Profit for the period	-	-	-	-	-	90,673	90,673
Exchange differences on translation of financial statements of the subsidiaries outside Hong Kong	-	-	-	-	135,841	-	135,841
At 30 June 2008	103,683	333,857	23,444	94,465	349,808	1,208,605	2,113,862

## Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2008  
(Expressed in Hong Kong dollars)

### 13 COMMITMENTS

- (a) Capital commitments outstanding at 30 June 2008 not provided for in the interim financial report were as follows:

	<b>At 30 June 2008 \$'000</b>	At 31 December 2007 \$'000
Contracted for	5,045	–
Authorised but not contracted for	–	–
	<b>5,045</b>	–

- (b) Commitments under operating leases

At 30 June 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>At 30 June 2008 \$'000</b>	At 31 December 2007 \$'000
Within 1 year	646	853
After 1 year but within 5 years	2,583	2,425
After 5 years	10,118	9,803
	<b>13,347</b>	13,081

The group leases land and buildings with a lease term of thirty-two years. The rentals are fixed for the entire lease period.

## Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2008  
(Expressed in Hong Kong dollars)

### 14 MATERIAL RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2008 \$'000	2007 \$'000
Crude oil sold by the group	<b>(9,118,000)</b>	(7,970,166)
Crude oil purchased by the group and related charges	<b>6,215,886</b>	7,548,277
Petroleum products sold by the group	<b>(2,185,660)</b>	(616,592)
Petroleum products purchased by the group	<b>1,151,133</b>	157,280
Petrochemical products sold by the group	<b>(59,691)</b>	(45,525)
Crude oil refining and processing fees charged to the group	<b>65,415</b>	41,293
Jetty service fees, charged by the group	<b>(259,086)</b>	(185,001)
Insurance premium charged to the group	<b>2,490</b>	1,771
Rentals charged to the group in respect of land and buildings and motor vehicles	<b>1,531</b>	1,310

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

# Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2008  
(Expressed in Hong Kong dollars)

## 14 MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

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

- sales and purchases of crude oil, petroleum and petrochemical products;
- construction work;
- rendering and receiving services; and
- use of public utilities.

These transactions are conducted in the ordinary course of the group’s business on terms comparable to those with other entities that are not state-controlled. The group has established its procurement policies, pricing strategy and approval processes 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 group’s pricing strategy, procurement policies and approval processes, and the information that would be necessary for an understanding of potential effect of the related party relationship on the financial statements, the directors are of the opinion that the following related party transactions charged/(credited) to the group and balances require disclosure of numeric details:

## Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2008  
(Expressed in Hong Kong dollars)

### 14 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) (continued)

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

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Crude oil, petroleum and petrochemical products purchased by the group	<b>6,243,506</b>	210,674
Crude oil, petroleum and petrochemical products sold by the group	<b>(2,466,070)</b>	(1,384,571)
Construction work performed	<b>330</b>	118,315
	<b>At</b>	At 31
	<b>30 June</b>	December
	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Amounts due from other state-controlled entities	<b>1,127,249</b>	338,790
Amounts due to other state-controlled entities	<b>(1,879,530)</b>	(534,943)

## Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2008  
(Expressed in Hong Kong dollars)

### 14 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) (continued)

(ii) Transactions with state-controlled banks

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

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Interest income received by the group	<b>(317)</b>	(851)
Interest expenses charged to the group	<b>1,874</b>	17,091

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

	<b>At</b>	At 31
	<b>30 June</b>	December
	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Cash and cash equivalents	<b>124,484</b>	66,093
Short-term loans	<b>(156,925)</b>	(434,403)



# Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2008  
(Expressed in Hong Kong dollars)

## 15 COMPARATIVE FIGURES

Certain of the comparative figures relating to “finance costs” as shown on the face of the income statement have been reclassified to “other net (loss)/income” to conform with the current period’s presentation. The Directors of the company consider that the revised presentation reflects more appropriately the nature of these balances.

The Directors recommend the payment of an interim dividend of HK\$1.5 cents per share to shareholders whose names appear on the register of members of the company on 26 September 2008.

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

The register of members of the company will be closed from 22 September 2008 (Monday) to 26 September 2008 (Friday) (both days inclusive) during which period no transfer of shares can be registered. In order to qualify for the proposed interim dividend, all share transfers, accompanied by the relevant share certificates, must be lodged with Tricor Secretaries Limited (卓佳秘書商務有限公司), the branch share registrars of the company at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 19 September 2008 (Friday). The cheques for dividend payment will be sent on about 8 October 2008 (Wednesday).

# Management Discussion & Analysis

## REVIEW OF RESULTS AND PROSPECTS

For the six months ended 30 June 2008, the group's turnover was HK\$15.4 billion, representing an increase of 45.3% over the same period last year. This increase was mainly attributable to the significant higher crude oil price during the current period as compared to the same period last year. Profit attributable to shareholders amounted to HK\$90.7 million, representing an increase of 4.0% over the same period last year. Such increase was mainly due to Huade Petrochemical, a wholly-owned subsidiary of the company, which recorded significantly higher growth in its crude oil transportation and storage business during the first half of the year compared to the same period last year. In addition, the group's trade in petrochemical products has overcome the impact brought by the significant fluctuation in the international crude oil market and achieved satisfactory results.

During the first half of 2008, business of Huade Jetty continued to increase, with 6.30 million tonnes and 5.99 million tonnes of crude oil being loaded and transported, which representing an increase of 29.1% and 26.1% respectively over the same period last year. During the first half of the year, the jetty operation recorded a turnover of approximately HK\$271 million and a segment result of approximately HK\$148 million, representing an increase of 47.4% and 57.6% respectively as compared to the same period last year.

As of 30 June 2008, the group's trading business maintained stable growth. Trading volume of crude oil attained 1.83 million tonnes, achieving a sales revenue of HK\$9.8 billion, down by 14% and up by 33.9% respectively over the same period last year. Sales of different kinds of petroleum and petrochemicals reached 640,000 tonnes, achieving a sales revenue of HK\$5.4 billion, up by 36.2% and 116.0% respectively over the same period last year. The segment result for the trading business was HK\$59.0 million, representing an increase of 12.7% over the same period last year.

Looking ahead into the second half of the year, business volume of our jetty services is expected to be maintained at a high level. Trading of petrochemical products will continue to expand despite the challenging operating environment. The group will continue to demonstrate our vision of maximising shareholders' value, through stringent control of operational risks and regulating our operations prudently with a view to delivering even better results for our shareholders.

### LIQUIDITY AND SOURCE OF FINANCE

As at 30 June 2008, cash on hand and bank balances totalled approximately HK\$132 million (31 December 2007: HK\$69 million); bank borrowings were HK\$2,770 million (31 December 2007: HK\$554 million) of which all was short-term bank borrowings. This increase was mainly due to an increase of capital employed by trading with the hike of international crude oil prices.

### GEARING RATIO

As at 30 June 2008, the group's current ratio (current assets to current liabilities) was 0.98 (31 December 2007: 0.89) and gearing ratio (total liabilities to total assets) was 73% (31 December, 2007: 51%). The increase in gearing ratio was primarily due to the increase in bank borrowings, caused by the sharp increase in crude oil prices and trade volume, which employ more capital.

### INVENTORY

As at 30 June 2008, the group had inventory of HK\$2,003 million, compared to HK\$1,275 million as at 31 December 2007. This increase was mainly due to the increase in international crude oil prices and the increasing demand for processed oil products.

# Management Discussion & Analysis

## TRADE AND OTHER RECEIVABLES

As at 30 June 2008, the group's trade and other receivables totalled HK\$3,389 million compared to HK\$459 million as at 31 December 2007. This increase was mainly due to the increase in international crude oil prices and the increase of the group's trade volume near the current period end.

## EXCHANGE RISK

As approved by the shareholders at an extraordinary general meeting of the company held on 18 August 2006, the group completed the acquisition of a 30% equity interest in Huade in December 2006 for a consideration of RMB594 million, and Huade became a wholly owned subsidiary of the group thereafter. Since certain foreign exchange approval procedures were not completed, the payment of the consideration was not made by 30 June 2008. The consideration was paid in July 2008. However, due to the continued appreciation of Renminbi against Hong Kong dollars in 2008, the group sustained an exchange loss of approximately HK\$41 million as of 30 June 2008 in respect of this transaction.

Other than the foreign currency risk mentioned above, each entity within the group is not exposed to significant foreign exchange risk and they retain funds for use within their respective operations.

## EMPLOYEES AND EMOLUMENT POLICIES

As at 30 June 2008, the group had a total of 177 employees, basically the same as at the beginning of the year. Remuneration packages including basic salaries, bonuses and benefits in kind are structured by reference to market terms, trends of human resources costs in various regions and employees' contribution based on performance appraisal. Subject to the profit for the group and the performance of the employees, the group may also provide discretionary bonuses to its employees as an incentive for their further contribution.

### INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 30 June 2008, none of the Directors or chief executive of the company had any interest or short position in any shares, underlying shares or debentures of the company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong) (“SFO”) as recorded in the register required to be kept under section 352 of SFO or as otherwise required to be notified by the Directors and the chief executive of the company to the company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set forth in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

### INTERESTS OF SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, the Directors are not aware of any person (other than Directors and chief executive of the company) who, as at 30 June 2008, had an interest or short position in the shares or underlying shares of the company as recorded in the register required to be kept by the company under section 336 of SFO:

Name of shareholder	Nature of interest	Number of ordinary shares	Capacity	Percentage of the issued share capital of the company
Sinopec Kantons International Limited	Corporate	750,000,000	Beneficial	72.34%

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

### CORPORATE GOVERNANCE

The group has complied throughout the six months to 30 June 2008 with the applicable provisions of the Code on Corporate Governance Practices (the “Code”) in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## Other Information

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

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

### REMUNERATION COMMITTEE

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

### AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors of the company. The Audit Committee has reviewed with the management and the external auditors the accounting principles and practices adopted by the group and discussed auditing, internal controls. The Audit Committees have reviewed the unaudited interim financial report for the six months ended 30 June 2008.

### CODE FOR SECURITIES TRANSACTIONS

During the period of six months ended 30 June 2008, all the Directors of the company Confirmed that they have met with the standards of the "Code on Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 of the Listing Rules.

By Order of the Board

**Wang Li Sheng**

*Chairlady*

Hong Kong, 31 August 2008

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

*(Incorporated in Bermuda with limited liability)*

### **INTRODUCTION**

We have reviewed the interim financial report set out on pages 2 to 24 which comprises the consolidated balance sheet of Sinopec Kantons Holdings Limited and its subsidiaries as at 30 June 2008, the related consolidated income statement, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants. The Directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

### **SCOPE OF REVIEW**

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



# Independent Review Report

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2008 has not been prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim financial reporting”.

### **KPMG**

*Certified Public Accountants*

8th Floor, Prince’s Building

10 Chater Road

Central, Hong Kong

31 August 2008