SINOPEC KANTONS HOLDINGS LIMITED

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

ANNUAL REPORT

2008

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CHAIRMAN'S STATEMENT

Mr. Dai Zhao Ming
Chairman

The year 2008 was 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 . . .

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, persons and institutions from the society for their care and support to the Group.

2008 was an unusual and arduous year. The financial tsunami caused by the sub-prime mortgage crisis triggered an abrupt transition of the world commodity market from a bull market into a bear market. After reaching continual record heights, the international crude oil and petrochemicals prices suffered from a drastic and deep dive, and the demand from the market plummeted. Under such extremely difficult market conditions, the Group closely monitored market changes, adhered to its market-oriented principle, focused on efficiency and adjusted its operating strategies dynamically. We also made decisions scientifically, made efforts to lower our operating inventories and manage risks proactively. All these factors combined with expansion of Jetty operation to yield a good operating result. In 2008, the Group's turnover was HK$29.35 billion, representing an increase of 69.0%, as compared with last year, with net profit attributable to equity shareholders of HK$145 million, representing an increase of 13.6 %, as compared with last year.

The crude oil storage and pipeline transmission operation of the Huade Petrochemical has been the core operation of the Group, and played an important supporting role in the operating results of the whole Group. In 2008, Huade Petrochemical further optimised its operation scheme, coordinated activities in all aspects, carefully organised its operation, and ensured a seamless flow in our operation processes, which led to excellent performance in its crude oil storage and operation. In 2008, there were 74 oil tankers berthed, with 11.77 million tonnes of crude oil loaded and 11.65 million tonnes of crude oil transmitted, representing a growth of 14.5% and 11.9% respectively as compared to last year.

In 2008, the global oil and petrochemicals markets were unprecedently and hugely volatile, which posed challenges to the trading of crude oil and petrochemical products business of the Group. Facing severe market conditions, the Group closely monitored market changes, took decisive and effective measures, strived to minimise operating risks, and achieved satisfactory results. In 2008, the Group trading business recorded HK$28.9 billion in turnover, representing an increase of 70.5% compared to last year. In 2008, through the adoption of a number of flexible trading means, the Group had further expanded its trading of crude oil, and strived to improve its economic efficiency. Our trading of crude oil reached 3.73 million tonnes for the year, an increase of 9.7% as compared with last year; import of oil for third part processing reached 1.58 million tonnes, and export of processed oil products

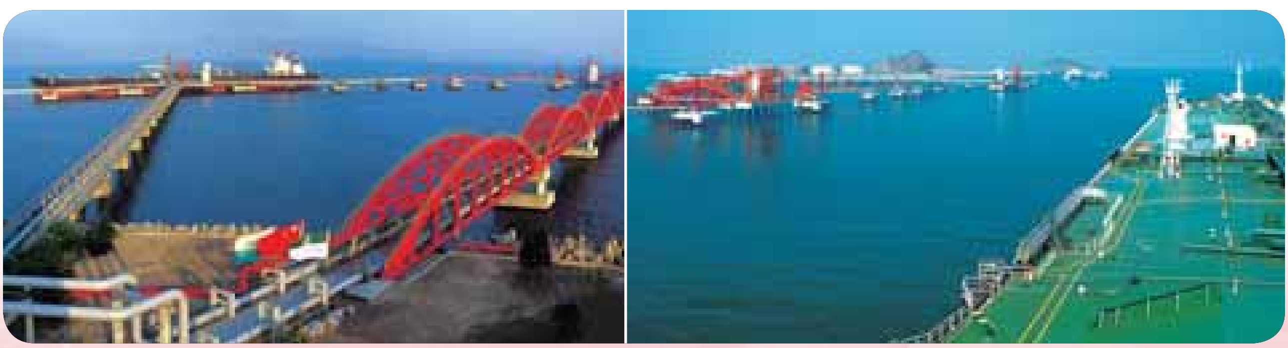
reached 620,000 tonnes, an increase of 35.4% as compared with last year. In 2008, we adhered to our consistent, sound and prudent operation strategies, actively anticipating the market changes and capturing the tempo of the sales and purchase activities in the petrochemical products market, which contributes to our good results. Our trading volume of petrochemical products reached 95,000 tonnes for the year, an increase of 2.8% as compared with last year.

In order to capture more future business opportunities, the Group entered into an agreement with Sinopec Corporation to sell to Sinopec Corporation a parcel of land (the "Sale Transaction"), so that Sinopec Corporation could construct the commercial crude oil reserve project on such land. The Group has the opportunity to expand its jetty service under these commercial crude oil reserve projects. The Sales Transaction was approved at the general meeting of our independent shareholders. Currently, the sale of the land is still subject to the local government's approval. The preliminary preparatory works of the commercial crude oil reserve project is under smooth progress. In addition, the Group completed the payment of the consideration of RMB594 million for the acquisition of 30% interest in the Huade Petrochemical in July 2008, which prevented any further potential exchange loss due to the appreciation of RMB. In 2008, as the international crude oil price reached new heights, with the approval of the general meeting by our independent shareholders, the exempted cap amounts of the continuing connected transactions of crude oil and petrochemical products were raised in due course, which enabled further development of the trading of crude oil and petrochemical products.

Looking forward into 2009, as the world economic conditions will remain severe and the outlook for market demand is not positive, the Group will face greater pressure in its operations. To cope with such circumstances, we will do our utmost to convert pressure to driving force, fully arouse the enthusiasm of our staff, strengthen management, fully utilise our potentials to improve efficiency, and try to capture further business opportunities, so as to further enhance our risk management and profitability. We will, as we have done in the past, endeavor to add value for our shareholders, employees, as well as the society, with solid operational result and sustainable development.

By order of the Board
Dai Zhao Ming
Chairman

Hong Kong, 20 March 2009



Liquidity and source of finance

As at 31 December 2008, cash on hand and bank balances totalled approximately HK$50,813,000 (31 December 2007: HK$68,781,000); bank borrowings and interest-bearing borrowing were approximately HK$1,668,519,000 (31 December 2007: HK$553,754,000), of which all of them were short-term borrowings.

As at 31 December 2008, the Group has unutilised credit facilities of HK$4,352,335,000 from various financial institutions and its fellow subsidiary, which were mainly obtained for the crude oil trading business. The Group expects these credit facilities will continue to be available to the Group for the next 12 months.

Gearing ratio

As at 31 December 2008, the Group's current ratio (current assets to current liabilities) was 1.03 (31 December 2007: 0.89) and gearing ratio (total liabilities to total assets) was 50% (31 December 2007: 51%).

Contingent liabilities and pledged assets

As at 31 December 2008, the Group had contingent liabilities in respect of banking facilities utilised by certain subsidiaries and guaranteed by the Company amounting to approximately HK$990,665,000 (31 December 2007: HK$553,754,000).

Trade and other receivables

As at 31 December 2008, the Group's trade and other receivables balance of HK$1,816,691,000 increased significantly as compared to the balance of HK$459,303,000 as at 31 December 2007. Due to the volatility of the international oil price in 2008, the Group took measures to lower its inventory level in order to manage the commodity and price risk. As at 31 December 2008, the Group's inventory balance was accordingly reduced to HK$282,695,000 as compared to the balance of HK$1,275,336,000 as at 31 December 2007.

Exchange Risk

As approved at the shareholders' extraordinary general meeting of the Company on 18 August 2006, the Company completed the acquisition of a 30% equity interest in Huade Petrochemical from Sinopec Guangzhou Petrochemical Complex in December 2006 for a consideration of RMB594 million. Thus Huade Petrochemical became a wholly owned subsidiary of the Group. The approval procedures of the said payment of consideration were not completed until July 2008. Due to the appreciation of Renminbi against Hong Kong dollar in the first half of 2008 , the Group incurred an exchange loss of approximately HK$41 million upon the settlement of consideration in July 2008. The aforementioned consideration was settled in July 2008, and the Group has no significant foreign currency risk exposure as at 31 December 2008.

Employees and emolument policies

As at 31 December 2008, the Group had a total of 176 employees. Remuneration packages, including basic salaries, bonuses and benefits-in-kind are structured by reference to market terms, trend of human resources costs in various regions and employees' contribution based on performance appraisals. 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.

Corporate governance

The Group has complied throughout the year ended 31 December 2008 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 2008.

Code for securities transactions

For the year ended 31 December 2008, 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 2008.

Principal place of business

Sinopec Kantons Holdings Limited (the "company") is a company incorporated and domiciled in Bermuda and has its registered office in Bermuda and principal place of business in Hong Kong 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 14 to the financial statements.

An 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

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

	Percentage of the group's total	
	Sales	**Purchases**
The largest customer	31%	
Five largest customers in aggregate	89%	
The largest supplier		42%
Five largest suppliers in aggregate		91%

China Petrochemical Corporation ("Sinopec Group"), the 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 72% of the turnover of the group and two of the five largest suppliers which accounted for approximately 48% of the purchases of the group.

Financial statements

The profit of the group for the year ended 31 December 2008 and the state of affairs of the company and the group as at that date are set out in the financial statements on pages 21 to 77.

Transfer to reserves

Profits attributable to shareholders, before dividends, of HK$145,287,000 (2007: HK$127,880,000) have been transferred to reserves. Other movements in reserves are set out in note 25 to the financial statements.

Dividends

The board declared a dividend of HK3.5 cents per share payable in cash for 2008(2007: HK3.5 cents per share), excluding the interim dividend of HK1.5 cents per share for 2008 paid on 8 October 2008 (2007: HK1.5 cents per share), the final dividend of HK2 cents per share for 2008 (2007: HK2 cents per share) will be paid to all the shareholders whose names appear in the register of the members of the company on 8 May 2009.

The register of members of the company will be closed from 4 May 2009 (Monday) to 8 May 2009 (Friday) (both days inclusive) during which period no transfer of shares can be registered. In order to qualify for the proposed final dividend, all share transfers, accompanied by the relevant share certificates, must be lodged with Tricor Secretaries Limited, 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 30 April 2009 (Thursday). The cheques for dividend payment will be sent to shareholders on or about 10 June 2009 (Wednesday).

Fixed assets

During the year, the group spent approximately HK$41,941,000 on the construction of 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 13 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**
Dai Zhao Ming *(Chairman)* (appointed on 23 October 2008)	Fong Chung, Mark *(Chairman)*	Tam Wai Chu, Maria *(Chairlady)*
Wang Li Sheng *(Chairlady)* (resigned on 23 October 2008)	Wong Po Yan	Dai Zhao Ming (appointed on 23 October 2008)
Zhu Zeng Qing *(Deputy Chairman)*	Tam Wai Chu, Maria	Wang Li Sheng (resigned on 23 October 2008)
Zhu Jian Min		Wong Po Yan
Tan Ke Fei		Fong Chung, Mark
Zhou Feng		Ye Zhi Jun
Ye Zhi Jun *(Managing Director)*		

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, Mr. Zhu Zeng Qing, Mr. Zhou Feng and Mr. Wong Po Yan will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

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 and debentures

As at 31 December 2008, 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 in the share capital of the company during the year are set out in note 25 to the consolidated financial statements.

Share option scheme

The company adopted a share option scheme (the "Scheme") pursuant to a resolution passed on 27 May 1999 for the primary purpose of providing incentives to directors and eligible employees. Under the Scheme, which will expire on 26 May 2009, 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 shall not 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 shall not 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.

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

As at 31 December 2008, 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 have under such provisions), or which were entered 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 have under such provisions), or which were entered 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 2008 are set out in note 20 to the financial statements.

REPORT OF THE DIRECTORS

Five years 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 78 and 79 of the annual report.

Retirement scheme

Other than operating a Hong Kong Mandatory Provident Fund Scheme and contributions made to the PRC state-managed retirement benefits schemes, the group has not operated any other retirement schemes for the group's employees. Particulars of the retirement schemes are 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 in Appendix 14 to the Listing Rules of the Stock Exchange.

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.

Sufficient public float

The company has maintained a sufficient public float throughout the year ended 31 December 2008.

Audit committee

The company has set up an audit committee 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 the 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

In 2009 KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the company will be proposed at the forthcoming annual general meeting.

By order of the Board of Directors
Dai Zhao Ming
Chairman

Hong Kong, 20 March 2009

I Regarding the revision of the caps of the existing Ongoing Connected Transactions for the three financial years ending 31 December 2010

In compliance with relevant requirements of Chapter 14A of the Listing Rules, 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 for the approval and ratification of the existing ongoing connected transactions, including the services and facilities in relation to the Huizhou Jetty, the crude oil supply and sourcing, petroleum and petrochemical products trading and third party processing of crude oil ("Ongoing Connected Transactions") from 1 January 2008 to 31 December 2010 for a term of 3 years.

In the first half of 2008, as a result of the continual surge in international crude oil price which reached record highs, the exempted caps of Ongoing Connected Transactions originally approved in the special general meeting of the company dated 20 September 2007 were no longer able to meet the requirements for the company's normal operation at that time. Therefore, the company issued a circular on 1 September 2008 for convening a special general meeting on 18 September 2008, seeking approval to increase the caps of the Ongoing Connected Transactions of the crude oil supply source and petroleum and petrochemical products trading for each year from 2008 to 2010. These Ongoing Connected Transactions were approved in the special general meeting dated 18 September 2008.

II Regarding the transactions related to sale of land to Sinopec Group Company by Huade Petrochemical

The Company announced on 22 October 2008 and despatched a circular to the shareholders on 11 November 2008 for approving the sale of land to Sinopec Group Company, a connected party of the company, for construction and development of the crude oil commercial storage project. The land sale transaction was approved at the special general meeting of the company held on 2 December 2008, but still subject to the approval by the relevant local government authorities of the PRC.

III Information on the connected transactions made during the year

In 2008, the connected transactions of the company taken place during the year has been fully disclosed in note 29 to the financial statements. Save as mentioned therein, there were no major transactions required to be disclosed as connected transactions in accordance with the Listing Rules.

These existing Ongoing Connected Transactions have been reviewed by the independent non-executive directors of the company who have confirmed that these connected transactions were entered into by the group: (1) in the ordinary and usual course of business of the group; (2) either on normal commercial terms, or on terms no less favorable than the terms available to or from third parties; (3) they are fair and reasonable so far as the shareholders of the group are concerned; and (4) in accordance with relevant terms of the agreements governing such transactions.

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

IV Regarding the financial services provided to the company by Sinopec Century Bright Capital Investment Limited

In order to improve the efficiency on the operation of the trading activities fund, the company entered into a financial services agreement with Sinopec Century Bright Capital Investment Limited ("Century Bright"), a wholly-owned subsidiary of China Petrochemical Corporation, a connected party of the company on 20 March 2009, for a term of three years from 1 April 2009 to 31 March 2012, following approval at the Directors' meeting of the company held on 20 March 2009. Pursuant to the agreement, Century Bright will provide the company with deposit service and settlement and similar service which are no less favorable than those provided by ordinary commercial banks, provided that the maximum deposit amount (together with interest and settlement fee) shall not exceed HK$25 million. According to the relevant requirements set out in Chapter 14A of the Listing Rules of the Stock Exchange, as each applicable percentage is less than 2.5%, the transaction therefore is exempted from shareholders' approval, and the company has already made an announcement in this regard on the website of the Stock Exchange and the website of the company on 20 March 2009.

Executive directors

Mr. Dai Zhao Ming, aged 43, chairman of Sinopec Kantons Holdings Limited. Mr. Dai joined Sinopec Guangzhou Petrochemical Complex in August 1990 and served as deputy section chief, section chief, deputy director of Planning Department, and deputy chief economist of Sinopec Guangzhou Petrochemical Complex successively. In December 1996, Mr. Dai served as General Manager of Sinomart KTS Development Co., Ltd., a subsidiary of the Company, and from March 1998, he served as Managing Director of Sinopec Kantons Holdings Limited. In February 2000, he served as Deputy General Manager of Sinopec Guangzhou Company and an executive director of Sinopec Kantons Holdings Limited. From March 2004, he served as Deputy General Manager of China International United Petroleum & Chemicals Co., Ltd ("Unipec"). Since December 2005, Mr. Dai has been serving as General Manager of Unipec. With working experience of more than 18 years, he has accumulated profound practicing knowledge in the integrated planning of enterprise, refining and petrochemical economy, as well as international finance and international trade. Mr. Dai has been Chairman of Sinopec Kantons Holdings Limited since October 2008.

Mr. Zhu Zeng Qing, aged 53, 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 45, 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 from January 2003 to August 2008. Mr. Zhu has been the Party Secretary and vice general manager since September 2008, and has been the Executive Director of the Company since March 2004.

Mr. Tan Ke Fei, aged 42, 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.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhou Feng, aged 43, 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 the period from September 1999 to January 2000, he also worked as chief accountant of Zhong Yuan Petroleum and Chemical Engineering Ltd of Guangzhou Petroleum and Chemical Plant. He was 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 April 2004.

Mr. Ye Zhi Jun, aged 43, 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 of 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 January 2002.

Independent non-executive directors

Mr. Wong Po Yan, *GBM, CBE, JP*, aged 85, is the founder of United Oversea Enterprises, Ltd. and the Honourary President of Chinese Manufacturers Association of Hong Kong. Mr. Wong was 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, a member of the Hong Kong Legislative Council, and Chairman of the Airport Authority of Hong Kong. He is currently an Independent Non-Executive Director of Shenzhen Investment Ltd., Allied Group Ltd., Fintronics Holdings Co. Ltd, China Electronic Corporation Holdings Co. Ltd and Alco Holdings Ltd. 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 63, 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 companies on The Stock Exchange of Hong Kong Limited. She is 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 57, 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 39, 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 42, 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 46, 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 professional 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 43, Director and General Manager of Huade 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 Huade Petrochemical Co. Ltd. in Daya Bay in Huizhou in July 1998, and was assistant to general manager of Huade Petrochemical Co. Ltd. from March 1999 to July 1999, and deputy general manager of Huade Petrochemical Co. Ltd. from August 1999 to February 2005. Mr. Qiao has been the Director and General Manager of Huade 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 2008, 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		
Dai Zhao Ming *(Chairman)* (appointed on 23 October 2008)	Fong Chung, Mark *(Chairman)*	Tam Wai Chu, Maria *(Chairlady)*
Wang Li Sheng *(Chairlady)* (resigned on 23 October 2008)	Wong Po Yan	Dai Zhao Ming (appointed on 23 October 2008)
Zhu Zeng Qing *(Deputy Chairman)*	Tam Wai Chu, Maria	Wang Li Sheng (resigned on 23 October 2008)
Zhu Jian Min		Wong Po Yan
Tan Ke Fei		Fong Chung, Mark
Zhou Feng		Ye Zhi Jun
Ye Zhi Jun *(Managing Director)*		
Independent Non-executive Directors		
Wong Po Yan		
Tam Wai Chu, Maria		
Fong Chung, Mark		

Ms. Wang Li Sheng has resigned as Chairlady of the Board with effect from 23 October 2008 for retirement. Mr. Dai Zhao Ming has been appointed as Chairman of the Board with effect from 23 October 2008.

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 he/she wishes 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 nine full Board meetings in 2008. Attendance of the full Board meetings are as follows:

Attendance	No. of meetings attended
Dai Zhao Ming (appointed on 23 October 2008)	2
Wang Li Sheng (resigned on 23 October 2008)	7
Mr. Zhu Zeng Qing	8
Mr. Zhu Jian Min	3
Mr. Tan Ke Fei	1
Mr. Zhou Feng	6
Mr. Ye Zhi Jun	9
Mr. Wong Po Yan	9
Ms. Tam Wai Chu, Maria	9
Mr. Fong Chung, Mark	7

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 Rule 3.13 of the Listing Rules.

The full Board participates in the selection and approval of new directors and has not established a Nomination Committee. 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 appointing 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 2008, the Audit Committee held two meetings to review the annual results of the group for the financial year ended 2007 and the interim results for half financial year ended 30 June 2008 and had 100 percent attendance. The company's annual results for the financial year ended 31 December 2008 have been reviewed by the Audit Committee.

Remuneration committee

The Remuneration Committee reviews and approves the remunerations of directors. To avoid 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 that no individual should determine his or her own remuneration, and remuneration should reflect performance of the individual, and the complexity, duties and responsibility of the position. The committee is chaired by Ms. Tam Wai Chu, Maria. In 2008, the Remuneration Committee held one meeting. Mr. Fong Chung, Mark could not attend the meeting due to official duties and he appointed Ms. Tam Wai Chu, Maria, chairlady of the Remuneration Committee, to vote for the resolution proposed at the meeting.

Chairman and managing director

Ms. Wang Li Sheng, former chairlady of the Board, has resigned as Chairlady of the Board with effect from 23 October 2008. Mr. Dai Zhao Ming has been appointed as chairman of the Board with effect from 23 October 2008. Mr. Ye Zhi Jun is the Managing Director of the company. 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 (2007: HK$1.1 million). The following remuneration was paid by the group to its auditor, KPMG:

(in HK$ millions)	**2008**	2007
Audit service	**1.05**	1.06
Taxation services	**0.05**	0.05
Other advisory services	**0**	Nil
Total	**1.10**	1.11

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 ended 31 December 2008. 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 for enhancing 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 exact than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules. Following specific enquiries, each of the directors confirmed that he/she complied with the code of conduct for transactions in the company's securities throughout the year.

Communications with shareholders

The company is committed to ensure the group's compliance with the disclosure obligations under the Listing Rules and other applicable laws and regulations. All shareholders and potential investors have equal opportunities to receive and obtain the public information issued by the company.

The company welcomes shareholders to attend the general meeting to express their opinions and encourages all directors to attend the general meeting to develop direct communications with shareholders. The external auditor is also required to attend the annual general meeting to assist the directors in answering any pertinent questions from shareholders. The company regularly disseminates to shareholders information such as annual and interim reports, circulars and announcements in accordance with the Listing Rules.

Updated information of the group is available to institutional and retail investors via http://www.hkexnews.hk and http://www.sinopec.com.hk. All significant information such as announcements, annual and interim reports can be downloaded from the above websites.

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 21 to 77, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 2008 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 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
Turnover	3 & 12	**29,349,906**	17,364,733
Cost of sales		**28,969,764**	(17,047,458)
Gross profit		**380,142**	317,275
Other revenue	4	**3,358**	3,201
Other net loss	4	**(40,133)**	(24,312)
Distribution costs		**(11,002)**	(10,028)
Administrative expenses		**(38,999)**	(37,982)
Profit from operations		**293,366**	248,154
Finance costs	5(a)	**(100,440)**	(80,811)
Profit before taxation	5	**192,926**	167,343
Income tax	6(a)	**(47,639)**	(39,463)
Profit for the year	9 & 25(a)	**145,287**	127,880
Dividends payable to equity shareholders of the company attributable to the 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	**14.01**	12.33

The notes on pages 28 to 77 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
Non-current assets			
Fixed assets	13		
– Investment properties		**35,479**	19,434
– Other property, plant and equipment		**1,978,271**	2,081,523
– Interest in leasehold land held for own use under operating leases		**69,391**	29,609
		2,083,141	2,130,566
Current assets			
Inventories	15	**282,695**	1,275,336
Non-current assets held for sale	13(e)	**65,496**	–
Trade and other receivables	16	**1,816,691**	459,303
Tax recoverable	21	**1,033**	–
Cash and cash equivalents	17	**50,813**	68,781
		2,216,728	1,803,420
Current liabilities			
Trade and other payables	18	**482,737**	1,464,990
Bank loans	20	**990,665**	553,754
Interest-bearing borrowing	19	**677,854**	–
Current taxation	21	**2,495**	7,157
		2,153,751	2,025,901
Net current assets/(liabilities)		**62,977**	(222,481)
NET ASSETS		**2,146,118**	1,908,085

CONSOLIDATED BALANCE SHEET

At 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
CAPITAL AND RESERVES	25		
Share capital	24	**103,683**	103,683
Reserves		**2,042,435**	1,804,402
TOTAL EQUITY		**2,146,118**	1,908,085

Approved and authorised for issue by the board of directors on 20 March, 2009

Dai Zhao Ming
Chairman

Ye Zhi Jun
Director

The notes on pages 28 to 77 form part of these financial statements.

BALANCE SHEET

At 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
Non-current assets			
Interests in subsidiaries	14	**839,325**	827,454
Current assets			
Other receivables	16	**100,000**	100,000
Cash and cash equivalents	17	**23**	24
		100,023	100,024
Current liabilities			
Other payables	18	**255,516**	229,524
Net current liabilities		**(155,493)**	(129,500)
NET ASSETS		**683,832**	697,954
CAPITAL AND RESERVES	25		
Share capital	24	**103,683**	103,683
Reserves		**580,149**	594,271
TOTAL EQUITY		**683,832**	697,954

Approved and authorised for issue by the board of directors on 20 March, 2009

Dai Zhao Ming
Chairman

Ye Zhi Jun
Director

The notes on pages 28 to 77 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	Note	**2008** **$'000**	2007 $'000
Total equity at 1 January		**1,908,085**	1,691,803
Net income recognised directly in equity:			
Exchange differences on translation of financial statements of subsidiary outside Hong Kong	25(a)	**129,035**	124,691
Net profit for the year	25(a)	**145,287**	127,880
Total recognised income and expense for the year		**274,322**	252,571
Dividends declared or approved during the year	25(a)	**(36,289)**	(36,289)
Total equity at 31 December	25(a)	**2,146,118**	1,908,085

The notes on pages 28 to 77 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008		2007	
		$'000	**$'000**	$'000	$'000
Operating activities					
Profit before taxation		**192,926**		167,343	
Adjustments for:					
– Depreciation and amortisation	13(a)	**145,142**		131,918	
– Finance costs	5(a)	**100,440**		80,811	
– Interest income	4	**(1,204)**		(2,433)	
– Impairment loss on fixed assets	5(c)	**4,786**		15,954	
– Loss on disposal of fixed assets	5(c)	**–**		96	
– Unrealised foreign exchange (gain)/loss		**(211)**		32,344	
Operating profit before changes in working capital		**441,879**		426,033	
Decrease/(increase) in inventories		**992,808**		(369,199)	
(Increase)/decrease in trade and other receivables		**(1,346,582)**		906,314	
(Decrease)/increase in trade and other payables		**(990,951)**		83,824	
Cash (used in)/generated from operations		**(902,846)**		1,046,972	
Tax paid		**(53,334)**		(51,532)	
Net cash (used in)/generated from operating activities			**(956,180)**		995,440
Investing activities					
Payment for the purchase of fixed assets		**(41,941)**		(271,393)	
Interest received		**1,204**		2,433	
Net cash used in investing activities			**(40,737)**		(268,960)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008		2007	
		$'000	$'000	$'000	$'000
Financing activities					
Proceeds from new bank loans		**16,882,979**		11,154,008	
Proceeds from interest-bearing borrowing		**677,854**		–	
Repayment of bank loans		**(16,449,644)**		(11,729,887)	
Dividends paid		**(36,289)**		(36,289)	
Finance costs		**(100,568)**		(80,811)	
Net cash generated from/(used in) financing activities			**974,332**		(692,979)
Net (decrease)/increase in cash and cash equivalents			**(22,585)**		33,501
Cash and cash equivalents at 1 January			**68,781**		30,972
Effect of foreign exchange rate changes			**4,617**		4,308
Cash and cash equivalents at 31 December	17		**50,813**		68,781

The notes on pages 28 to 77 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 2008 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 policy set out in note 1(d), and non-current assets and disposal groups held for sale that are stated at the lower of their carrying amounts and fair value less costs to sell (see note 1(t))

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

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.

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 shareholders' equity.

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

(d) 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.

(e) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(g)) 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 so as to amortise the cost of each investment property over its estimated useful life. Rental income from investment properties is accounted for as described in note 1(q)(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(g)), 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)

(f) 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(h)):

– 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(g));

– 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(g)); 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(s)).

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)

(g) 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(e)); 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)

(h) Impairment of assets

(i) Impairment of receivables

Trade and other receivables and other financial assets (other than investments in subsidiaries: see note 1(h)(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; and

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

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 the asset), 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)

(h) 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;
- prepaid interests in leasehold land classified as being held for own use under an operating lease;
- investment properties; and
- investments in subsidiaries.

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)

(h) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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 notes 1(h)(i) and (ii)).

(i) 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.

(j) 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(h)), 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.

1 Significant accounting policies (continued)

(k) Interest-bearing borrowing

Interest-bearing borrowing is recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowing is 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 borrowing, together with any interest and fees payable, using the effective interest method.

(l) 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(p)(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.

(m) 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.

(n) 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.

The group does not have any other obligations other than the contributions described above.

(ii) Termination benefits

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

1 Significant accounting policies (continued)

(o) 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.

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 profits 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 profits will be available.

1 Significant accounting policies (continued)

(o) Income tax (continued)

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.

(p) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

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

1 Significant accounting policies (continued)

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

(ii) Other provisions and contingent liabilities

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

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

(q) 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

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

(iii) Interest income

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

(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.

1 Significant accounting policies (continued)

(r) 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.

(s) 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)

(t) 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.

(u) 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)

(v) 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 borrowing, bank loans, tax balances and corporate and financing expenses.

2 Changes in accounting policies

The HKICPA has issued certain new and revised HKFRSs and interpretations that are first effective 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.

The group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 32).

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 customers 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:

	2008	2007
	$'000	$'000
Trading of crude oil, petroleum and petrochemical products	**28,842,830**	16,950,747
Crude oil jetty services	**507,076**	413,986
	29,349,906	17,364,733

4 Other revenue and net loss

	2008	2007
	$'000	$'000
Other revenue		
Rental income	**991**	32
Interest income	**1,204**	2,433
Others	**1,163**	736
	3,358	3,201
Other net loss		
Net foreign exchange loss	**(40,133)**	(30,509)
Compensation income	**–**	6,197
	(40,133)	(24,312)

5 Profit before taxation

Profit before taxation is arrived at after charging:

		2008 $'000	2007 $'000
(a)	Finance costs:		
	Interest on bank advances and bank borrowings wholly repayable within five years	**100,568**	81,900
	Less: Borrowing costs capitalised as construction in progress *	**(128)**	(1,089)
		100,440	80,811

* The borrowing costs were capitalised at a rate of 3.78%-5.68% per annum (2007: 5.10%-6.44%).

		2008 $'000	2007 $'000
(b)	Staff costs:		
	Salaries, wages and other benefits	**31,954**	25,945
	Contribution to defined contribution retirement plans	**1,515**	435
		33,469	26,380
(c)	Other items:		
	Cost of inventories	**28,699,238**	16,820,636
	Amortisation of interests in leasehold land held for own use under operating leases	**3,777**	1,072
	Auditors' remuneration	**1,069**	1,057
	Depreciation	**141,365**	130,846
	Loss on disposal of fixed assets	**–**	96
	Impairment loss on fixed assets (note 13(a))	**4,786**	15,954
	Operating lease charges		
	– property rentals	**1,978**	–
	– hire of other assets	**1,173**	961

6 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2008 $'000	2007 $'000
Current tax-Hong Kong Profits Tax		
Provision for the year	**5,400**	5,837
Under-provision in respect of prior years	**805**	–
	6,205	5,837
Current tax-Outside Hong Kong		
Provision for the year	**41,434**	33,626
	47,639	39,463

In February 2008, the Hong Kong Government announced a decrease in the Hong Kong Profits Tax rate from 17.5% to 16.5% applicable to the group's operations in Hong Kong as from the year ended 31 December 2008. This decrease is taken into account in the preparation of these financial statements. Accordingly, the provision for Hong Kong Profits Tax for 2008 is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the year. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

The income tax rate applicable to the company's subsidiary established in the PRC was 15% in 2007. 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 new tax law") which took effect 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 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.

Pursuant to the new tax law passed on 16 March 2007, a 10% withholding tax will be levied on dividends declared to foreign investors from the PRC effective from 1 January 2008. Further to the issuance of Guofa (2007) No.39, the Ministry of Finance and State Administration of Taxation released notice Caishui (2008) No.1 on 22 February 2008, stating that the distributions of the pre-2008 earnings of a foreign-invested enterprise to a foreign investor in 2008 or later will be exempted from withholding tax. The group does not plan to have its PRC subsidiary distribute post-2007 earnings in the foreseeable future. Accordingly, no withholding tax is provided for in this regard.

6 Income tax in the consolidated income statement (continued)

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

	2008 $'000	2007 $'000
Profit before taxation	**192,926**	167,343
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**46,151**	38,642
Tax effect of non-deductible expenses	**798**	2,252
Tax effect of non-taxable income	**(115)**	(1,431)
Under-provision in prior years	**805**	–
Actual tax expense	**47,639**	39,463

7 Directors' remuneration

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

	Directors' fees $'000	Salaries, allowances and benefits-in-kind $'000	2008 Total $'000
Executive directors			
Dai Zhao Ming	**470**	**–**	**470**
Wang Li Sheng	**1,410**	**–**	**1,410**
Zhu Zeng Qing	**1,080**	**–**	**1,080**
Tan Ke Fei	**980**	**–**	**980**
Zhu Jian Min	**980**	**–**	**980**
Zhou Feng	**980**	**–**	**980**
Ye Zhi Jun	**880**	**993**	**1,873**
Independent non-executive directors			
Tam Wai Chu	**180**	**–**	**180**
Fong Chung	**180**	**–**	**180**
Wong Po Yan	**180**	**–**	**180**
	7,320	**993**	**8,313**

7 Directors' remuneration (continued)

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

	Directors' fees $'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	–	524	524
Han Kun	–	444	444
Independent non-executive directors			
Tam Wai Chu	180	–	180
Fong Chung	180	–	180
Wong Po Yan	180	–	180
	6,440	968	7,408

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 $1,749,000 (2007: $2,820,000) which has been dealt with in the financial statements of the company.

Reconciliation of the above amount of the company's profit for the year:

	2008	2007
	$'000	$'000
Amount of consolidated loss attributable to equity shareholders dealt with in the company's financial statements	**(1,749)**	(2,820)
Income recognised in respect of financial guarantee provided by the company to its subsidiaries	**23,916**	13,507
Company's profit for the year (note 25(b))	**22,167**	10,687

10 Dividends

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

	2008	2007
	$'000	$'000
Interim dividend declared and paid of 1.5 cents per ordinary share (2007: 1.5 cents per ordinary share)	**15,552**	15,552
Final dividend proposed after the balance sheet date of 2.0 cents per ordinary share (2007: 2.0 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

	2008	2007
	$'000	$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 2.0 cents per share (2007: 2.0 cents per share)	**20,737**	20,737

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 $145,287,000 (2007: $127,880,000) and on 1,036,830,000 (2007: 1,036,830,000) ordinary shares in issue throughout the year.

Diluted earnings per share is the same as basic earnings per share because there were no dilutive potential ordinary shares in issue in current and prior 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.

	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
Revenue										
Revenue from external customers	**28,842,830**	16,950,747	**507,076**	413,986	**–**	–	**–**	–	**29,349,906**	17,364,733
Inter-segment revenue	**–**	–	**2,889**	9,058	**(2,889)**	(9,058)	**–**	–	**–**	–
Other revenue from external customers	**791**	708	**1,363**	60	**–**	–	**1,204**	2,433	**3,358**	3,201
Total	**28,843,621**	16,951,455	**511,328**	423,104	**(2,889)**	(9,058)	**1,204**	2,433	**29,353,264**	17,367,934
Segment result	**115,744**	107,584	**230,424**	193,309	**(1,387)**	(5,616)	**–**	–	**344,781**	295,277
Unallocated interest income									**1,204**	2,433
Unallocated corporate expenses									**(52,619)**	(49,556)
Profit from operations									**293,366**	248,154
Finance costs									**(100,440)**	(80,811)
Income tax									**(47,639)**	(39,463)
Profit for the year									**145,287**	127,880
Depreciation and amortisation for the year	**1,477**	1,267	**143,665**	130,651						
Impairment of fixed assets	**–**	–	**4,786**	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	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Segment assets	**1,830,343**	1,640,158	**2,382,820**	2,193,701	**(621)**	(6,774)	**4,212,542**	3,827,085
Unallocated assets							**87,327**	106,901
Total assets							**4,299,869**	3,933,986
Segment liabilities	**(407,077)**	(1,380,521)	**(76,281)**	(91,243)	**621**	6,774	**(482,737)**	(1,464,990)
Unallocated liabilities							**(1,671,014)**	(560,911)
Total liabilities							**(2,153,751)**	(2,025,901)
Capital expenditure incurred during the year	**878**	130	**41,063**	265,788				

Geographical segments

Substantially all the group's activities are based in the PRC (including Hong Kong) and substantially all of the group's turnover and contribution to profit from ordinary activities before taxation are derived from the PRC in both years.

13 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 properties $'000	Interest in leasehold land held for own use under operating leases $'000	Total $'000
Cost:												
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 properties	(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
At 1 January 2008	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
Additions	–	–	–	–	247	5,166	4,546	31,982	41,941	–	–	41,941
Transfer from construction in progress	–	–	–	16,506	–	–	–	(16,506)	–	–	–	–
Transfer from buildings to investment properties	(24,327)	–	–	–	–	–	–	–	(24,327)	24,327	–	–
Transfer to non-current assets held for sale	–	–	(62,722)	–	–	–	–	–	(62,722)	–	(17,300)	(80,022)
Reclassification	(158,515)	–	473,234	(409,732)	(127,243)	111,273	6,170	–	(104,813)	–	104,813	–
Disposals	–	–	–	(31,130)	–	–	–	–	(31,130)	–	–	(31,130)
Exchange adjustments	3,591	–	91,396	58,072	11,558	7,531	3,938	513	176,599	–	8,770	185,369
At 31 December 2008	62,249	477	1,507,188	1,005,838	208,482	132,843	71,256	16,577	3,004,910	52,055	133,350	3,190,315
Depreciation and amortisation:												
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 buildings to investment properties	(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
At 1 January 2008	113,141	239	146,692	518,274	112,476	7,081	29,936	–	927,839	8,294	7,458	943,591
Charge for the year	3,167	–	72,141	42,710	10,795	7,981	4,016	–	140,810	555	3,777	145,142
Impairment	–	–	–	4,786	–	–	–	–	4,786	–	–	4,786
Written back on disposal	–	–	–	(31,130)	–	–	–	–	(31,130)	–	–	(31,130)
Transfer from buildings to investment properties	(7,727)	–	–	–	–	–	–	–	(7,727)	7,727	–	–
Transfer to non-current assets held for sale	–	–	(12,425)	–	–	–	–	–	(12,425)	–	(2,101)	(14,526)
Reclassification	(88,350)	–	152,362	(121,770)	(34,679)	37,953	3,395	–	(51,089)	–	51,089	–
Exchange adjustments	1,195	–	20,714	24,053	4,537	2,929	2,147	–	55,575	–	3,736	59,311
At 31 December 2008	21,426	239	379,484	436,923	93,129	55,944	39,494	–	1,026,639	16,576	63,959	1,107,174
Net book value:												
At 31 December 2008	40,823	238	1,127,704	568,915	115,353	76,899	31,762	16,577	1,978,271	35,479	69,391	2,083,141
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

13 Fixed assets (continued)

(a) The group (continued)

In 2007, a portion of the oil pipeline, located near LieXin Highway, ZengCheng, 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 written down. The group was entitled to receive compensation of $6,197,000 from the highway contractor company as a result of the urban development plan.

In 2008, another portion of the oil pipeline located in Dong Jiao, Huizhou, which represented part of the group's jetty facilities, had to be abandoned and replaced due to a potential leakage problem. As a result, the net carrying value of the portion of the oil pipeline amounting to $4,786,000 has been fully written down during the current year. The replacement pipeline was completed and transferred to fixed assets near the end of the year.

(b) All investment properties of the group are carried at their costs less accumulated depreciation and any accumulated impairment losses as at 31 December 2008. For disclosure purposes, the fair values 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 properties as at 31 December 2008 is estimated to be $44,460,000. The valuations have been carried out by an independent firm of surveyors, Asset Appraisal Ltd., with recent experience in the location and category of properties being valued.

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

	2008	2007
	$'000	$'000
Long leases in Hong Kong	**36,595**	37,764
Medium-term leases outside Hong Kong	**109,098**	139,638
	145,693	177,402
Representing:		
Investment properties	**35,479**	19,434
Buildings held for own use	**40,823**	128,359
Interest in leasehold land held for own use under operating leases	**69,391**	29,609
	145,693	177,402

13 Fixed assets (continued)

(d) Fixed assets leased out under operating lease

(i) Jetty structure

During 2006, the group granted a third party the right to use part of its jetty facilities, i.e. the dredging channel, under an operating lease arrangement. The lessee is required to pay a RMB3,000,000 rental charge to the group annually only when any vessels of the lessee with transportation volume exceeding 120,000 tonnes 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 will be renegotiated.

(ii) Investment properties

The group leases out investment properties under operating leases. The leases run 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:

	2008 **$'000**	2007 $'000
Within 1 year	**758**	758
After 1 year but within 5 years	**–**	758
	758	1,516

(e) Non-current assets held for sale

On 22 October, 2008, the company's subsidiary in the PRC had conditionally entered into a Sale Agreement with Sinopec Group Company Crude Oil Commercial Storage Company Limited ("SGCCS") for the transfer of a land use right and the development costs associated with the land (the "sales transaction").

Under the Sale Agreement, the group will transfer the land use right in relation to a parcel of land in the PRC and the development costs associated with the land to SGCCS for a cash consideration of RMB152,000,000 (equivalent to approximately HK$172,000,000 as at 31 December 2008). The consideration for the land was determined based on a valuation performed by an independent professional valuer. Accordingly, the carrying amount of the land use right and the development costs associated with the land totalling $65,496,000 were classified as non-current assets held for sale during 2008.

The group obtained approval from the independent shareholders in the Special General Meeting on 2 December 2008. The completion of the above mentioned sale transaction is conditional upon the approval by the relevant local PRC governmental authorities. The group expects the sales transaction will be completed in 2009, and the group expects to record a profit after tax of approximately RMB50,209,000 upon completion of the sale transaction.

13 Fixed assets (continued)

(f) Reclassification of fixed assets

During the current year, the company's subsidiary in the PRC has reclassified certain fixed assets as a result of a fixed assets system upgrade. The fixed assets system upgrade was aimed to unify the classification of fixed assets with its parent company. The directors of the company consider the current classification better defines the group's fixed assets accordingly to their nature.

During the current year, the company's subsidiary in the PRC obtained information to identify the costs associated with acquiring the land use rights for land on which oil pipelines were built. Accordingly, the group's PRC subsidiary reclassified certain fixed assets to interest in leasehold land held for own use under operating leases during 2008.

The above reclassifications have no significant impact to the group's annual depreciation and amortisation charges as the useful lives of the majority reclassified fixed assets remains unchanged.

14 Interests in subsidiaries

	The company	
	2008	2007
	$'000	$'000
Unlisted investments, at cost	**209,663**	197,793
Amounts due from subsidiaries	**629,662**	629,661
	839,325	827,454

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. The amounts are not expected to be 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 affect the results, assets or liabilities of the group at 31 December 2008.

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

14 Interests in subsidiaries (continued)

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up share capital/ registered capital	Proportion for ownership interest: group's effective interest	held by the company	held by subsidiaries	Principal activities
Huade 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")	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

(i) Huade holds jetty operating rights of 35 years which expire in the year 2029.

15 Inventories

(a) Inventories in the balance sheet comprise:

	The group 2008 $'000	2007 $'000
Crude oil and spare parts	**267,724**	1,133,690
Petroleum and petrochemical products	**14,971**	141,646
	282,695	1,275,336

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

	The group 2008 $'000	2007 $'000
Carrying amount of inventories sold	**28,699,238**	16,820,636

16 Trade and other receivables

	The group		The company	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Dividend receivable from a subsidiary	**–**	–	**100,000**	100,000
Trade and bills receivable	**49,409**	66,350	**–**	–
Amounts due from holding companies and fellow subsidiaries				
– Trade-related	**1,720,643**	348,922	**–**	–
– Non-trade	**34,975**	32,653	**–**	–
Other receivables	**11,664**	11,378	**–**	–
	1,816,691	459,303	**100,000**	100,000

Debts are due within 30 to 90 days from the date of billing. Debtors with balances that are more than three months overdue are requested to settle all outstanding balances 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 companies and fellow subsidiaries are unsecured, interest free and are repayable on demand.

Ageing analysis

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

	The group	
	2008	2007
	$'000	$'000
Current	**1,581,729**	393,112
Less than 1 month past due	**4,421**	12,227
1 to 3 months past due	**68,913**	6,544
More than 3 months past due but less than 12 months past due	**114,989**	3,389
Amount past due	**188,323**	22,160
	1,770,052	415,272

16 Trade and other receivables (continued)

Ageing analysis (continued)

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 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 receivable as at 31 December 2008 as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The overdue debtors balance at 31 December 2008 was mainly related to trade receivables due from the company's intermediate holding company derived from jetty services rendered. The group considers there is no collection problem due to the ongoing collections and repayment history from this customer. The group does not hold any collateral over the trade receivable balances.

17 Cash and cash equivalents

	The group		The company	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Cash at bank and in hand	**50,813**	68,781	**23**	24

18 Trade and other payables

	The group		The company	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Amounts due to subsidiaries	**–**	–	**239,271**	201,398
Trade payables	**4,199**	46,193	**–**	–
Amounts due to holding companies and fellow subsidiaries				
– Trade-related	**317,436**	585,387	**–**	–
– Non-trade	**41,369**	676,415	**–**	–
Creditors and accrued charges	**119,733**	156,995	**1,471**	1,306
Financial guarantee issued	**–**	–	**14,774**	26,820
	482,737	1,464,990	**255,516**	229,524

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

18 Trade and other payables (continued)

As at 31 December 2007, the amounts due to holding companies and fellow subsidiaries mainly represented balances arising from trading transactions, except for the amount of RMB594,000,000 (equivalent to $634,392,000), being the consideration payable to Sinopec Guangzhou Petrochemical Complex ("GPC") for the acquisition of the 30% equity interest in Huade during 2006. The balance was settled in July 2008.

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

Included in trade and other payables are trade creditors and 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:

	The group	
	2008	2007
	$'000	$'000
Due within 1 month or on demand	**321,064**	594,527
Due after 1 month but within 3 months	**–**	23,485
Due after 3 months but within 6 months	**571**	13,568
	321,635	631,580

19 Interest-bearing borrowing

The analysis of the carrying amount of interest-bearing borrowing is as follows:

	The group	
	2008	2007
	$'000	$'000
Loan from fellow subsidiary	**677,854**	–

In July, 2008, the group obtained a loan from Sinopec Century Bright Capital Investment Limited, a fellow subsidiary of the company, of US$87 million, equivalent to $677,854,000 as at 31 December 2008. The loan is unsecured and bears fixed interest rate at 4.7% per annum, which is the London Interbank Offered Rate ("LIBOR") at the time of entering into loan agreement plus an interest rate spread of 1.55%. The fair value of the interest-bearing loan approximates its carrying value as at 31 December 2008.

Pursuant to the loan agreement, the loan has a maturity of six months from date of the loan agreement. The loan was rolled forward for another six months in February 2009.

This loan was obtained to repay the consideration for the acquisition of the 30% equity interest in Huade as disclosed in note 18.

20 Bank loans

At 31 December 2008, the bank loans were repayable as follows:

	The group	
	2008	2007
	$'000	$'000
Within 1 year or on demand	**990,665**	553,754

The above bank loans were unsecured as at 31 December 2007 and 2008. These bank loans were mainly obtained for the group's crude oil, petroleum and petrochemical trading businesses. The above loans as at 31 December 2008 bear interest at a rate of LIBOR plus 0.475% per annum.

As at 31 December 2008, the group's outstanding bank loans do not contain any financial covenants.

21 Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

	The group	
	2008	2007
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	**5,400**	5,837
Provisional Profit Tax paid	**(6,433)**	(4,470)
Hong Kong Profits Tax (recoverable)/payable	**(1,033)**	1,367
PRC income tax payable	**2,495**	5,790
	1,462	7,157

(b) No provision for deferred taxation has been made as the effect of all temporary differences is 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 PRC subsidiary, Huade, participates in pension fund schemes organised by the relevant local government authorities in the PRC. Huade is required to make contribution to the pension fund schemes at a certain percentage of the basic salaries of its 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 tenth 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 have been granted under the scheme since its inception.

24 Share capital

	2008		2007	
	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 and31 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 equity $'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 (note 10(b))	–	–	–	–	–	(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
Profit for the year	–	–	–	–	–	127,880	127,880
Interim dividends declared in respect of the current year (note 10(a))	–	–	–	–	–	(15,552)	(15,552)
At 31 December 2007	103,683	333,857	23,444	94,465	213,967	1,138,669	1,908,085
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 (note 10(b))	**–**	**–**	**–**	**–**	**–**	**(20,737)**	**(20,737)**
Transfer	**–**	**–**	**–**	**18,876**	**–**	**(18,876)**	**–**
Exchange differences on translation of financial statements of the subsidiaries outside Hong Kong	**–**	**–**	**–**	**–**	**129,035**	**–**	**129,035**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**145,287**	**145,287**
Interim dividends declared in respect of the current year (note 10(a))	**–**	**–**	**–**	**–**	**–**	**(15,552)**	**(15,552)**
At 31 December 2008	**103,683**	**333,857**	**23,444**	**113,341**	**343,002**	**1,228,791**	**2,146,118**

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 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
At 1 January 2008	**103,683**	**333,857**	**242,397**	**18,017**	**697,954**
Final dividends approved in respect of the previous year (note 10(b))	**–**	**–**	**–**	**(20,737)**	**(20,737)**
Profit for the year (note 9)	**–**	**–**	**–**	**22,167**	**22,167**
Interim dividends declared in respect of the current year (note 10(a))	**–**	**–**	**–**	**(15,552)**	**(15,552)**
At 31 December 2008	**103,683**	**333,857**	**242,397**	**3,895**	**683,832**

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 subsidiary, Huade, from retained profits to a statutory general reserve and enterprise development fund, pursuant to the relevant PRC laws and regulations applicable to a foreign investment enterprise. Neither the reserve nor the fund is available for distribution.

For the statutory general reserve, Huade is required to transfer at least 10% of its net profit, as determined under the PRC accounting rules and regulations, to the statutory general reserve until the reserve balance reaches 50% of the capital of Huade. The transfer to this reserve must be made before distribution of dividend to equity owners. The statutory reserve fund can be utilised to offset prior years' losses or converted into paid up capital.

For the enterprise development fund, the percentage of appropriations is determined annually by the directors of Huade. The discretionary surplus reserve can be used for the future development of the enterprise or converted into paid up capital.

Also included in the general reserves is the excess of the consideration 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.

(iii) Exchange reserve

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

25 Capital and reserves (continued)

(c) Nature and purpose of reserves (continued)

(iv) Contributed surplus (continued)

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, the company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

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

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

(d) Distributability of reserves

At 31 December 2008, the aggregate amount of reserves available for distribution to equity shareholders of the company was $246,292,000 (2007: $260,414,000). After the balance sheet date the directors proposed a final dividend of 2.0 cents per share (2007: 2.0 cents per share), amounting to $20,737,000 (2007: $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.

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 borrowings, bank loans 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.

25 Capital and reserves (continued)

(e) Capital management (continued)

During 2008, the group's strategy, which was unchanged from 2007, 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 speed up debt collection or sell assets to reduce debt. The group also considers the cost of capital and the risks associated with each class of capital when the capital structure is reviewed annually.

The net debt-to-adjusted capital ratio at 31 December 2008 and 2007 was as follows:

		The group		**The company**	
	Note	**2008**	2007	**2008**	2007
		$'000	$'000	**$'000**	$'000
Current liabilities:					
Trade and other payables	18	**482,737**	1,464,990	**255,516**	229,524
Interest-bearing borrowing	19	**677,854**	–	**–**	–
Bank loans	20	**990,665**	553,754	**–**	–
Total debt		**2,151,256**	2,018,744	**255,516**	229,524
Add: Proposed dividends	10(a)	**20,737**	20,737	**20,737**	20,737
Less: Cash and cash equivalents	17	**(50,813)**	(68,781)	**(23)**	(24)
Net debt		**2,121,180**	1,970,700	**276,230**	250,237
Total equity		**2,146,118**	1,908,085	**683,832**	697,954
Proposed dividends	10(a)	**(20,737)**	(20,737)	**(20,737)**	(20,737)
Adjusted capital		**2,125,381**	1,887,348	**663,095**	677,217
Net debt-to-adjusted capital ratio		**100%**	104%	**42%**	37%

25 Capital and reserves (continued)

(e) Capital management (continued)

The net debt-to-adjusted capital ratio for the group is at a reasonable level given the group carries out a trading business with relatively high trade payable and receivable balances as compared to the group's adjusted capital balance. The trading business carried out by the group relies partly on short-term banking facilities. When the net-to-adjusted capital ratio for the group reaches a high level, the group would speed up debt collection and sell off inventories to reduce debt level. 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 of credit, liquidity, interest rate, currency, 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. Generally, debtors with balances that are more than three 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 rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the group has significant exposure to individual customers. At the balance sheet date, the group has a certain concentration of credit risk as 71% (2007: 45%) and 99% (2007: 68%) 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 16.

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. As at 31 December 2008, the group has unutilised credit facilities of $4,352,335,000 from various financial institutions, which were mainly obtained for the crude oil trading business. The group expects these credit facilities will continue to be available to the group for the next 12 months.

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

	2008			2007		
	Within 1 year or on demand $'000	**Total contractual undiscounted cash flow $'000**	**Balance sheet carrying amount $'000**	Within 1 year or on demand $'000	Total contractual undiscounted cash flow $'000	Balance sheet carrying amount $'000
Bank loans	**993,623**	**993,623**	**990,665**	567,695	567,695	553,754
Interest-bearing borrowing	**694,196**	**694,196**	**677,854**	–	–	–
Trade payables, bills payable, creditors and accrued charges	**123,932**	**123,932**	**123,932**	203,188	203,188	203,188
Amounts due to holding companies and fellow subsidiaries	**358,805**	**358,805**	**358,805**	1,261,802	1,261,802	1,261,802
	2,170,556	**2,170,556**	**2,151,256**	2,032,685	2,032,685	2,018,744

26 Financial instruments (continued)

(b) Liquidity risk (continued)

The company

	2008 Within 1 year or on demand $'000	2008 Total contractual undiscounted cash flow $'000	2008 Balance sheet Carrying amount $'000	2007 Within 1 year or on demand $'000	2007 Total contractual undiscounted cash flow $'000	2007 Balance sheet carrying amount $'000
Creditors and accrued charges	**1,471**	**1,471**	**1,471**	1,306	1,306	1,306
Amounts due to subsidiaries	**239,271**	**239,271**	**239,271**	201,398	201,398	201,398
	240,742	**240,742**	**240,742**	202,704	202,704	202,704

(c) Interest rate risk

The group's interest rate risk arises primarily from borrowings from bank and fellow subsidiary. 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 2008 Effective interest rate	2008 Amount $'000	2007 Effective interest rate	2007 Amount $'000
Fixed rate borrowings:				
Bank loans	**–**	**–**	5.5%	26,200
Interest-bearing borrowing	**4.7%**	**677,854**	–	–
		677,854		26,200
Variable rate borrowings:				
Bank loans	**0.9%**	**990,665**	5.0%	527,554
Total borrowings		**1,668,519**		553,754
Fixed rate borrowings as a percentage of total borrowings		**40.6%**		4.7%

26 Financial instruments (continued)

(c) Interest rate risk

(ii) Sensitivity analysis

At 31 December 2008, it is estimated that a general decrease/increase of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the group's profit after tax and retained profits by approximately $8,272,000 (2007: $4,568,000).

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 cash flow interest rate risk for non-derivative financial instruments in existence at that date. The 100 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 has been performed on the same basis for 2007.

(d) Foreign currency risk

Sales and purchases made by the group's trading business are mainly denominated in United States dollars. The borrowings from bank and fellow subsidiary as at balance sheet dates of 2007 and 2008 were also denominated in United States dollars. The group considers the risk of movements in the exchange rate between the Hong Kong dollars and United States dollars to be insignificant.

The functional currency of the group's PRC subsidiary, Huade, is Renminbi. At 31 December 2007, Huade was exposed to foreign currency risk primarily arising from borrowings denominated in United States dollars and Hong Kong dollars. At 31 December 2008, Huade has no borrowings denominated in a currency other than its functional currency, and has no significant exposure to foreign currency risk.

The following table details the group's exposure at the balance sheet date to foreign currency risk arising (expressed in Hong Kong dollars) from loans denominated in a currency other than the functional currency of Huade as at 31 December 2007.

	2007 $'000
Bank loans denominated in United States dollars	48,516
Bank loans denominated in Hong Kong dollars	70,830

At 31 December 2007, the group was also exposed to foreign currency risk from the consideration payable to GPC denominated in Renminbi of RMB594,000,000 as disclosed in note 18. As disclosed in note 19, the group has obtained from its fellow subsidiary an interest-bearing loan denominated in United States dollars to settle the aforementioned consideration.

26 Financial instruments (continued)

(d) Foreign currency risk (continued)

Sensitivity analysis

At 31 December 2008, the group was not exposed to significant foreign currency risk. The following table indicates the approximate change in the group's profit after tax and retained profits in response to reasonably possible changes in the foreign exchange rates to which the group had significant exposure at 31 December 2007. Other components of equity would not be affected by changes in the foreign exchange rates.

	2007	
	Increase/ (decrease) in foreign exchange rate	Effect on profit after tax and retained profits $'000
Renminbi against Hong Kong dollars (i)	10%	3,616
Renminbi against United States dollars (i)	10%	5,279
Hong Kong dollars against Renminbi (ii)	(10%)	(63,433)

(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 18 to the financial statements.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the group which expose the group to foreign currency risk at the balance sheet date. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the group's presentation currency.

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 the value of the United States dollars against other currencies. Results of the analysis as presented in the above table represent an aggregation of the instantaneous 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.

26 Financial instruments (continued)

(e) Commodity and price risk

The group is exposed to general price fluctuations of petroleum and petrochemical products. The group manages this price risk by closely monitoring the market crude oil pricing trends and negotiating trade terms with customers which minimise price risk. The group historically has not used commodity derivative instruments to hedge the potential price fluctuations of the petroleum products.

When the volatility of market price of crude oil is high, the group will take measures to lower its inventory levels as well as increasing its inventory turnover, in order to minimise the commodity and price risk.

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008 and 2007 because of the immediate or short term maturity of these financial instruments.

(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 and interest-bearing borrowings

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.

27 Commitments

(a) Capital commitments outstanding at 31 December 2008 not provided for in the financial statements were as follows:

	The group	
	2008	2007
	$'000	$'000
Contracted for	**1,490**	–
Authorised but not contracted for	**–**	–
	1,490	–

(b) At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The group	
	2008	2007
	$'000	$'000
Within 1 year	**2,621**	853
After 1 year but within 5 years	**5,707**	2,425
After 5 years	**9,765**	9,803
	18,093	13,081

The group has two leases of land and buildings with lease term of three years and 32 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 represents the facilities drawn down by subsidiaries of $990,665,000 (2007: $553,754,000).

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) Key management personnel remuneration

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

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

	2008 **$'000**	2007 $'000
Crude oil sold by the group (note (i))	**(17,881,542)**	(12,241,176)
Crude oil purchased by the group and related charges (note (i))	**11,604,666**	9,980,034
Petroleum and petrochemical products sold by the group (note (i))	**(4,215,821)**	(1,279,074)
Petroleum and petrochemical products purchased by the group for general trade (note (i))	**1,637,106**	157,274
Insurance premium charged to the group (note (ii))	**4,972**	1,380
Crude oil refining and processing fees charged to the group (note (iii))	**125,038**	73,262
Jetty service fees, charged by the group (note (iv))	**(507,148)**	(410,754)
Interest expense charged to the group (note (v))	**39,210**	–
Rental expense charged to the group (note (vi))	**1,978**	–

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.

29 Material related party transactions (continued)

(b) (continued)

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

(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) Interest expenses were charged by a fellow subsidiary for i) short term loans obtained for crude oil trading activities and ii) interest-bearing borrowing as disclosed in note 19. The interest was charged at LIBOR plus a spread ranging from 0.4% to 1.55%. The short-term loans were obtained for crude oil trading activities and were settled as at the balance sheet date.

(vi) Rental expenses were charged by a fellow subsidiary for leasing of office premises. The lease runs for three years and the monthly rent was determined at the market rate at the date when the lease arrangement was entered into.

(c) The balances with related companies are set out in the consolidated balance sheet and notes 16 and 18.

(d) As disclosed in note 13(e) to these financial statements, the company's subsidiary in the PRC has conditionally entered into a Sale Agreement with SGCCS for the transfer of a land use right and the development costs associated with the land. The completion of this sales transaction is conditional upon the approval by the relevant local PRC governmental authorities.

(e) 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.

29 Material related party transactions (continued)

(e) (continued)

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

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

	2008 **$'000**	2007 $'000
Crude oil, petroleum and petrochemical products purchased by the group	**12,474,032**	2,324,769
Crude oil, petroleum and petrochemical products sold by the group	**(5,613,735)**	(2,396,206)
Construction work performed	**16,507**	196,292
Amounts due from other state-controlled entities	**24,348**	338,790
Amounts due to other state-controlled entities	**(9,987)**	(534,943)

(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 for bank deposits and loans in bank branches in the PRC are regulated by the People's Bank of China. The group's interest income received from and interest expenses paid to these state-controlled banks of the PRC are as follows:

29 Material related party transactions (continued)

(e) (continued)

(ii) Transactions with state-controlled banks (continued)

	2008 **$'000**	2007 $'000
Interest income	**(230)**	(2,225)
Interest expenses	**20,040**	70,045

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

	2008 **$'000**	2007 $'000
Cash and cash equivalents	**18,622**	66,093
Short-term loans	**(990,665)**	(434,403)

30 Immediate and ultimate controlling party

At 31 December 2008, the directors consider the immediate parent and ultimate controlling party of the group to be China Petroleum and Chemical Corporation ("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.

31 Accounting estimates and judgements (continued)

Impairment of 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 the 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 prices 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 prices and the 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 prices and the amount of operating costs.

Depreciation

Property, plant, and equipment is 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 of 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.

Allowance for diminution in value of inventories

If the costs of inventories fall below their net realisable values, an allowance for diminution in value of inventories is recognised. Net realisable value represents 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. The group bases the estimates on all available information, including the current market prices of the finished goods and raw materials, and historical operating costs. If the actual selling prices were to be lower or the costs of completion were to be higher than estimated, the actual allowance for diminution in value of inventories could be higher than estimated.

32 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2008

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 2008 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 group's results of operations and financial position.

In addition, the following developments are expected to result in amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoption:

	Effective for accounting periods beginning on or after
HKFRS 8, Operating segments	1 January 2009
HKAS 1 (revised 2007), Presentation of financial statements	1 January 2009

FIVE YEAR SUMMARY

(Expressed in Hong Kong dollars)

	2004 (restated) $'000	2005 $'000 (note 1)	2006 $'000	2007 $'000	**2008 $'000**
Results					
Turnover	8,448,877	12,150,603	14,774,806	17,364,733	**29,349,906**
Profit from operations	261,721	223,757	293,905	248,154	**293,366**
Finance costs	(20,170)	(20,601)	(46,937)	(80,811)	**(100,440)**
Profit before taxation	241,551	203,156	246,968	167,343	**192,926**
Taxation	(27,661)	(23,774)	(28,603)	(39,463)	**(47,639)**
Profit for the year	213,890	179,382	218,365	127,880	**145,287**
Attributable to:					
– Equity shareholders of the company	154,083	135,578	156,856	127,880	**145,287**
– Minority interests	59,807	43,804	61,509	–	**–**
Profit for the year	213,890	179,382	218,365	127,880	**145,287**
Assets and liabilities					
Fixed assets	1,573,055	1,594,260	1,883,749	2,130,566	**2,083,141**
Intangible assets	84,750	80,077	–	–	**–**
Net current assets/ (liabilities)	274,669	461,501	(191,946)	(222,481)	**62,977**
Total assets less current liabilities	1,932,474	2,135,838	1,691,803	1,908,085	**2,146,118**
Non-current liabilities	–	(11,361)	–	–	**–**
NET ASSETS	1,932,474	2,124,477	1,691,803	1,908,085	**2,146,118**

FIVE YEAR SUMMARY

(Expressed in Hong Kong dollars)

	2004 (restated) $'000	2005 $'000 (note 1)	2006 $'000	2007 $'000	**2008 $'000**
Capital and reserves					
Share capital	103,683	103,683	103,683	103,683	**103,683**
Reserves	1,407,004	1,551,519	1,588,120	1,804,402	**2,042,435**
Total equity attributable to equity shareholders of the company	1,510,687	1,655,202	1,691,803	1,908,085	**2,146,118**
Minority interests	421,787	469,275	–	–	**–**
TOTAL EQUITY	1,932,474	2,124,477	1,691,803	1,908,085	**2,146,118**
Earnings per share					
Basic	14.86 cents	13.08 cents	14.30 cents	12.33 cents	**14.01 cents**

Note:

(1) 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.

CORPORATION INFORMATION

EXECUTIVE DIRECTORS

Mr. Dai Zhao Ming *(Chairman)*
Mr. Zhu Zeng Qing *(Deputy Chairman)*
Mr. Zhu Jian Min
Mr. Zhou Feng
Mr. Tan Ke Fei
Mr. Ye Zhi Jun *(Managing Director)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE MEMBERS

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

REMUNERATION COMMITTEE MEMBERS

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