



# **SINOPEC KANTONS HOLDINGS LIMITED**

(Incorporated in Bermuda with Limited Liability)

(Stock Code: 934)

INTERIM REPORT

# 2009

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## Corporation Information

### EXECUTIVE DIRECTORS

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

### INDEPENDENT NON-EXECUTIVE DIRECTORS

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

### AUDIT COMMITTEE MEMBERS

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

### REMUNERATION COMMITTEE MEMBERS

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

### COMPANY SECRETARY

Mr. Lai Yang Chau, Eugene

### AUDITORS

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

### STATUTORY ADDRESS

Clarendon House  
2 Church Street Hamilton HM 11  
Bermuda

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

20/F., Office Tower, Convention Plaza  
1 Harbour Road, Wanchai  
Hong Kong

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

### LISTING INFORMATION

The Stock Exchange of Hong Kong  
Limited  
Stock Code: 0934



## Consolidated Income Statement (Unaudited)

for the six months ended 30 June 2009  
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2009 \$'000	2008 \$'000
Turnover	3	<b>8,536,755</b>	15,378,105
Cost of sales		<b>(8,387,497)</b>	(15,159,117)
<b>Gross profit</b>		<b>149,258</b>	218,988
Other revenue		<b>976</b>	1,380
Other net loss		<b>(6)</b>	(37,351)
Selling and administrative expenses		<b>(18,458)</b>	(25,477)
<b>Profit from operations</b>		<b>131,770</b>	157,540
Finance costs		<b>(14,983)</b>	(34,650)
<b>Profit before taxation</b>	4	<b>116,787</b>	122,890
Income tax	5	<b>(25,585)</b>	(32,217)
<b>Profit for the period</b>		<b>91,202</b>	90,673
<b>Basic and diluted earnings per share</b>	7	<b>8.80 cents</b>	8.75 cents

The notes on pages 9 to 33 form part of this interim financial report. Details of dividend payable to equity shareholders of the company are set out in note 6.

## Consolidated Statement of Comprehensive Income (Unaudited)

for the six months ended 30 June 2009  
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2009 \$'000	2008 \$'000
<b>Profit for the period</b>	<b>91,202</b>	90,673
<b>Other comprehensive income for the period:</b>		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong, net of nil tax	<b>971</b>	135,841
<b>Total comprehensive income for the period</b>	<b>92,173</b>	226,514

The notes on pages 9 to 33 form part of this interim financial report.

## Consolidated Balance Sheet (Unaudited)

at 30 June 2009  
(Expressed in Hong Kong dollars)

		<b>At 30 June 2009 \$'000</b>	At 31 December 2008 \$'000
	Note		
<b>Non-current assets</b>			
Fixed assets			
– Investment property		<b>34,959</b>	35,479
– Other property, plant and equipment	8(a)	<b>1,917,112</b>	1,978,271
– Interest in leasehold land held for own use under operating leases		<b>67,482</b>	69,391
		<b>2,019,553</b>	2,083,141
<b>Current assets</b>			
Inventories	10	<b>1,417,189</b>	282,695
Non-current assets held for sale	8(b)	<b>65,441</b>	65,496
Trade and other receivables	11	<b>3,638,315</b>	1,816,691
Tax recoverable		<b>–</b>	1,033
Cash and cash equivalents		<b>210,721</b>	50,813
		<b>5,331,666</b>	2,216,728
<b>Current liabilities</b>			
Trade and other payables	12	<b>3,261,496</b>	482,737
Bank loans		<b>241,327</b>	990,665
Interest-bearing borrowing from a fellow subsidiary		<b>1,619,065</b>	677,854
Current taxation		<b>11,777</b>	2,495
		<b>5,133,665</b>	2,153,751
<b>Net current assets</b>		<b>198,001</b>	62,977
<b>NET ASSETS</b>		<b>2,217,554</b>	2,146,118

## Consolidated Balance Sheet (Unaudited)

at 30 June 2009  
(Expressed in Hong Kong dollars)

	<b>At 30 June 2009 \$'000</b>	At 31 December 2008 \$'000
<b>CAPITAL AND RESERVES</b>		
Share capital	<b>103,683</b>	103,683
Reserves	<b>2,113,871</b>	2,042,435
<b>TOTAL EQUITY</b>	<b>2,217,554</b>	2,146,118

The notes on pages 9 to 33 form part of this interim financial report.

# Consolidated Statement of Changes in Equity (Unaudited)

for the six months ended 30 June 2009  
(Expressed in Hong Kong dollars)

	Note	Attributable to equity shareholders of the company						
		Share capital \$'000	Share premium \$'000	Merger reserve \$'000	General reserve \$'000	Exchange reserve \$'000	Retained profits \$'000	Total equity \$'000
<b>Balance at 1 January 2008</b>		103,683	333,857	23,444	94,465	213,967	1,138,669	1,908,085
<b>Changes in equity for the six months ended 30 June 2008:</b>								
Dividends approved in respect of the previous year	6	-	-	-	-	-	(20,737)	(20,737)
Total comprehensive income for the period		-	-	-	-	135,841	90,673	226,514
<b>Balances at 30 June 2008 and 1 July 2008</b>		103,683	333,857	23,444	94,465	349,808	1,208,605	2,113,862
<b>Changes in equity for the six months ended 31 December 2008:</b>								
Appropriation of reserve		-	-	-	18,876	-	(18,876)	-
Total comprehensive income for the period		-	-	-	-	(6,806)	54,614	47,808
Dividends declared in respect of the current year	6	-	-	-	-	-	(15,552)	(15,552)
<b>Balances at 31 December 2008 and 1 January 2009</b>		103,683	333,857	23,444	113,341	343,002	1,228,791	2,146,118
<b>Changes in equity for the six months ended 30 June 2009:</b>								
Dividends approved in respect of the previous year	6	-	-	-	-	-	(20,737)	(20,737)
Total comprehensive income for the period		-	-	-	-	971	91,202	92,173
<b>Balance at 30 June 2009</b>		103,683	333,857	23,444	113,341	343,973	1,299,256	2,217,554

The notes on pages 9 to 33 form part of this interim financial report.



## Condensed Consolidated Cash Flow Statement (Unaudited)

for the six months ended 30 June 2009  
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2009 \$'000	2008 \$'000
<b>Cash generated from/(used in) operations</b>	<b>29,139</b>	(2,059,665)
<b>Tax paid</b>	<b>(15,270)</b>	(19,400)
<b>Net cash generated from/(used in) operating activities</b>	<b>13,869</b>	(2,079,065)
<b>Net cash used in investing activities</b>	<b>(10,200)</b>	(19,643)
<b>Net cash generated from financing activities</b>	<b>156,153</b>	2,159,293
<b>Net increase in cash and cash equivalents</b>	<b>159,822</b>	60,585
<b>Cash and cash equivalents at 1 January</b>	<b>50,813</b>	68,781
<b>Effect of foreign exchange rate changes</b>	<b>86</b>	2,690
<b>Cash and cash equivalents at 30 June</b>	<b>210,721</b>	132,056

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 1 BASIS OF PREPARATION

This interim financial report have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 17 August 2009.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2008 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”). HKFRSs included all applicable HKFRS, HKAS and related interpretations.

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 1 BASIS OF PREPARATION (continued)

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on pages 41 and 42.

The financial information relating to the financial year ended 31 December 2008 that is included in the interim financial report as being previously reported information does not constitute the company's statutory financial statements for that financial year but is derived from those financial statements. The statutory financial statements for the year ended 31 December 2008 are available from the company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 20 March 2009.

## 2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new interpretations that are first effective for the current accounting period of the group and the company. Of these, the following developments are relevant to the group's financial statements:

- HKFRS 8, *Operating segments*
- HKAS 1 (revised 2007), *Presentation of financial statements*
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, *Consolidated and separate financial statements-cost of an investment in a subsidiary, jointly controlled entity or associate*
- Amendments to HKFRS 7, *Financial instruments: Disclosures-improving disclosures about financial instruments*
- HKAS 23 (revised 2007), *Borrowing costs*

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 2 CHANGES IN ACCOUNTING POLICIES (continued)

The amendments to HKAS 23 have had no material impact on the group's financial statements as the amendments and interpretations are consistent with policies already adopted by the group. In addition, the amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments on the interim financial report is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the group's chief operating decision maker regards and manages the group, with the amounts reported for each reportable segment being the measures reported to the group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is consistent with internal reporting provided to the group's most senior executive management. As this is the first period in which the group has presented segment information in accordance with HKFRS 8, additional explanations have been included in the interim financial report which explain the basis of preparation of the information. The adoption of HKFRS 8 does not change the group's classification of operating segments as compared with prior years.

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 2 CHANGES IN ACCOUNTING POLICIES (continued)

- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.
  
- The “Improvements to HKFRSs (2008)” comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. Of these, the following amendment has resulted in changes to the group’s accounting policies:
  - As a result of amendments to HKAS 40, *Investment property*, investment property which is under construction will be carried at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property. Any gain or loss will be recognised in profit or loss, consistent with the policy adopted for all other investment properties carried at fair value. Previously such property was carried at cost until the construction was completed, at which time it was fair valued with any gain or loss being recognised in profit or loss. As the group does not currently have any investment property under construction, this change in policy has no impact on net assets or profit or loss for any of the periods presented.

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 2 CHANGES IN ACCOUNTING POLICIES (continued)

- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries whether out of pre-or post-acquisition profits, will be recognised in the company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

## 3 SEGMENT REPORTING

The group manages its businesses by divisions, which are organised by business lines (products and services). On first-time adoption of HKFRS 8, *Operating segments* and in a manner consistent with the way in which information is reported internally to the group's most senior executive management for the purposes of resource allocation and performance assessment, the group has identified two reportable segments, namely trading of crude oil, petroleum and petrochemical products and the rendering of crude oil jetty services. No operating segments have been aggregated to form the following reportable segments.

- Trading of crude oil, petroleum and petrochemical products: this segment trades crude oil, processes and trades of crude oil products and chemical and petrochemical by-products. Currently, the majority of the trading activities are carried out in Hong Kong.

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 3 SEGMENT REPORTING (continued)

- Crude oil jetty services: this segment provides crude oil transportation, unloading, storage and other jetty services for oil tankers. Currently the group's activities in this regard are carried out in the People's Republic of China ("PRC").

### (a) Segment results, assets and liabilities

In accordance with HKFRS 8, segment information disclosed in the interim financial report has been prepared in a manner consistent with the information used by the group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the group's senior executive management monitors the results, assets and liabilities attributable to each reporting segment on the following bases:

Segment assets include all tangible assets and current assets with the exception of other corporate assets. Segment liabilities include trade creditors and accruals attributable to the activities of the individual segments and bank borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. However, other than reporting inter-segment crude oil jetty services, assistance provided by one segment to another, including sharing of assets, is not measured.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation". To arrive at adjusted EBITDA, the group's earnings are further adjusted for items not specifically attributed to individual segments, such as auditors' remuneration and corporate administration costs.

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 3 SEGMENT REPORTING (continued)

### (a) Segment results, assets and liabilities (continued)

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue (including inter segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation and amortisation and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar services.

Information regarding the group's reportable segments as provided to the group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

For the six months ended	Trading of crude oil, petroleum and petrochemical products		Crude oil jetty services		Total	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>30 June</b>						
<b>Revenue</b>						
Revenue from external customers	8,296,496	15,110,113	240,259	267,992	8,536,755	15,378,105
Inter-segment revenue	-	-	1,742	2,639	1,742	2,639
<b>Reportable segment revenue</b>	<b>8,296,496</b>	<b>15,110,113</b>	<b>242,001</b>	<b>270,631</b>	<b>8,538,497</b>	<b>15,380,744</b>
<b>Reportable segment profit (adjusted EBITDA)</b>	<b>21,664</b>	<b>59,065</b>	<b>184,377</b>	<b>214,571</b>	<b>206,041</b>	<b>273,636</b>



# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 3 SEGMENT REPORTING (continued)

### (a) Segment results, assets and liabilities (continued)

	Trading of crude oil, petroleum and petrochemical products		Crude oil jetty services		Total	
	As at	As at	As at	As at	As at	As at
	30 June	31 December	30 June	31 December	30 June	31 December
	2009	2008	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Reportable segment assets</b>	<b>4,572,634</b>	1,830,343	<b>2,535,268</b>	2,382,820	<b>7,107,902</b>	4,213,163
Additions to non-current segment assets during the period	46	-	10,244	19,655	10,290	19,655
<b>Reportable segment liabilities</b>	<b>4,141,967</b>	1,397,742	<b>304,431</b>	76,281	<b>4,446,398</b>	1,474,023

### (b) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

Revenue	Six months ended 30 June	
	2009	2008
	\$'000	\$'000
Reportable segment revenue	<b>8,538,497</b>	15,380,744
Elimination of inter-segment revenue	<b>(1,742)</b>	(2,639)
Consolidated turnover	<b>8,536,755</b>	15,378,105

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 3 SEGMENT REPORTING (continued)

### (b) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities (continued)

	Six months ended 30 June	
	2009 \$'000	2008 \$'000
<b>Profit</b>		
Reportable segment profit	206,041	273,636
Elimination of inter-segment profits	(819)	(1,372)
Reportable segment profit derived from group's external customers	205,222	272,264
Other revenue and net loss	970	(35,971)
Depreciation and amortisation	(74,780)	(71,592)
Finance costs	(14,983)	(34,650)
Income tax	(25,585)	(32,217)
Unallocated income and expenses	358	(7,161)
Consolidated profit for the period	91,202	90,673
	<b>As at 30 June 2009 \$'000</b>	<b>As at 31 December 2008 \$'000</b>
<b>Assets</b>		
Reportable segment assets	7,107,902	4,213,163
Elimination of inter-segment receivables	(2,363)	(621)
Unallocated corporate assets	245,680	87,327
Consolidated total assets	7,351,219	4,299,869

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 3 SEGMENT REPORTING (continued)

### (b) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities (continued)

<b>Liabilities</b>	<b>As at 30 June 2009 \$'000</b>	As at 31 December 2008 \$'000
Reportable segment liabilities	<b>4,446,398</b>	1,474,023
Elimination of inter-segment payables	<b>(2,363)</b>	(621)
	<b>4,444,035</b>	1,473,402
Unallocated corporate liabilities	<b>689,630</b>	680,349
Consolidated total liabilities	<b>5,133,665</b>	2,153,751

## 4 PROFIT BEFORE TAXATION

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

	<b>Six months ended 30 June</b>	
	<b>2009 \$'000</b>	2008 \$'000
Interest income	<b>(90)</b>	(372)
Interest on borrowings	<b>14,983</b>	34,650
Net foreign exchange loss	<b>6</b>	37,260
Depreciation and amortisation	<b>74,780</b>	71,592
Operating lease charges for property rentals	<b>1,633</b>	1,531

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 5 INCOME TAX

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<b>\$'000</b>	\$'000
<b>Current tax – Hong Kong Profits Tax</b>		
Provision for the period	<b>2,937</b>	5,420
Over-provision in respect of prior years	–	(295)
	<b>2,937</b>	5,125
<b>Current tax – the PRC</b>		
Provision for the period	<b>22,648</b>	27,092
	<b>25,585</b>	32,217

The provision for Hong Kong Profits Tax for the six months ended 30 June 2009 is calculated at 16.5% (2008: 16.5%) of the estimated assessable profits for the period.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which is effective from 1 January 2008. As a result of the new tax law, the income tax rate applicable to the company's subsidiary in the PRC will be gradually increased from the 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 of the PRC, the applicable income tax rates for the company's PRC subsidiary are 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012, respectively.

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 5 INCOME TAX (continued)

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. At 30 June 2009, temporary differences relating to the post-2007 undistributed profits of the group's foreign-invested enterprise amounted to \$799,653,000. Deferred tax liabilities of \$79,965,000 have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the company controls the dividend policy of this foreign-invested enterprise and the Directors have determined that the profits will not be distributed in the foreseeable future.

No provision for deferred taxation has been made for the period ended 30 June 2009 as the effect of all other temporary differences is not material.

## 6 DIVIDENDS

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

Pursuant to the Board meeting held on 17 August 2009, the Directors declared an interim dividend of 1.5 cents per share totalling \$15,552,000 in respect of the six months ended 30 June 2009 (six months ended 30 June 2008: 1.5 cents per share, totalling \$15,552,000). This dividend has not been recognised as a liability at 30 June 2009.

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 6 DIVIDENDS (continued)

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

	Six months ended 30 June	
	2009	2008
	\$'000	\$'000
Final dividend in respect of the financial year ended 31 December 2008, approved and paid during the interim period, of 2 cents per ordinary share (2008: 2 cents per ordinary share)	<b>20,737</b>	20,737

Pursuant to the shareholders' approval at the Annual General Meeting of the company held on 8 May 2009, a final dividend of 2 cents per ordinary share totalling \$20,737,000 in respect of the year ended 31 December 2008 was paid on 10 June 2009.

## 7 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the company of \$91,202,000 (six months ended 30 June 2008: \$90,673,000) and 1,036,830,000 (2008: 1,036,830,000) ordinary shares in issue during the period. There were no potential dilutive ordinary shares in issue for both periods.

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 8 PROPERTY, PLANT AND EQUIPMENT

(a) During the six months ended 30 June 2009, the group acquired items of plant and equipment with a cost of \$1,472,000 (six months ended 30 June 2008: \$5,125,000). During the six months ended 30 June 2009 and 2008, no items of property, plant and equipment were disposed of.

### (b) 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 structures 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 structures associated with it to SGCCS for a cash consideration of RMB152,000,000 (equivalent to approximately HK\$172,000,000 as at 31 December 2008). The consideration of the land is determined based on a valuation performed by an independent professional valuer. Accordingly, the carrying amount of the land use right and the structures associated with the land totalling RMB57,720,000 (equivalent to approximately HK\$65,441,000) are classified as a non-current asset held for sale.

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

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 9 CONSTRUCTION IN PROGRESS

Construction in progress, classified under other property, plant and equipment, mainly relates to the group's jetty operations in the PRC. During the six months ended 30 June 2009, jetty structures and plant and machinery with a cost of approximately \$16,502,000 (six months ended 30 June 2008: \$4,596,000) were completed and transferred to fixed assets. Additions to construction in progress during the period amounted to \$8,818,000 (six months ended 30 June 2008: \$14,530,000).

## 10 INVENTORIES

	<b>At 30 June 2009 \$'000</b>	At 31 December 2008 \$'000
Crude oil	<b>1,308,145</b>	265,017
Petroleum and petrochemical products	<b>106,416</b>	14,971
Spare parts	<b>2,628</b>	2,707
	<b>1,417,189</b>	282,695



# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 11 TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise:

	<b>At 30 June 2009 \$'000</b>	At 31 December 2008 \$'000
Trade and bills receivable	<b>306,805</b>	49,409
Amounts due from holding companies and fellow subsidiaries arising from		
– trading transactions	<b>3,289,027</b>	1,720,643
– non-trade transactions	<b>34,070</b>	34,975
Other receivables	<b>8,413</b>	11,664
	<b>3,638,315</b>	1,816,691

Debts are due within 30 to 90 days from the date of billing. Generally, external debtors with balances that are more than three months overdue are requested to settle all outstanding balances before any further credit is granted.

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

As at 30 June 2009, bills receivable of the Group amounting to \$241,327,000 (31 December 2008: Nil) have been pledged to secure bank loans of \$241,327,000 (31 December 2008: Nil).

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 11 TRADE AND OTHER RECEIVABLES (continued)

### Ageing analysis

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

	<b>At 30 June 2009 \$'000</b>	At 31 December 2008 \$'000
Current	<b>3,439,538</b>	1,581,729
Less than 1 month past due	<b>37,122</b>	4,421
1 to 3 months past due	<b>64,472</b>	68,913
More than 3 months past due but less than 12 months past due	<b>54,700</b>	114,989
Amounts past due	<b>156,294</b>	188,323
	<b>3,595,832</b>	1,770,052

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

All overdue debtors balance at 30 June 2009 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 these balances.

## Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

### 12 TRADE AND OTHER PAYABLES

Trade and other payables comprise:

	<b>At 30 June 2009 \$'000</b>	At 31 December 2008 \$'000
Trade and bills payable	<b>2,000,781</b>	4,199
Amount due to holding companies and fellow subsidiaries arising from		
– trading transactions	<b>1,104,049</b>	317,436
– non-trade transactions	<b>53,622</b>	41,369
Other creditors and accrued charges	<b>103,044</b>	119,733
	<b>3,261,496</b>	482,737

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

Amount due to holding companies and fellow subsidiaries are unsecured, interest free and are repayable on demand.

## Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

### 12 TRADE AND OTHER PAYABLES (continued)

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

	<b>At 30 June 2009 \$'000</b>	At 31 December 2008 \$'000
Due within 1 month or on demand	<b>3,104,259</b>	321,064
Due after 1 month but within 3 months	–	–
Due after 3 months but within 6 months	<b>571</b>	571
	<b>3,104,830</b>	321,635

### 13 COMMITMENTS

(a) **Capital commitments outstanding and not provided for at 30 June 2009 were as follows:**

	<b>At 30 June 2009 \$'000</b>	At 31 December 2008 \$'000
Contracted for	<b>153</b>	1,490
Authorised but not contracted for	–	–
	<b>153</b>	1,490

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 13 COMMITMENTS (continued)

### (b) Commitments under operating leases

At 30 June 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>At 30 June 2009 \$'000</b>	At 31 December 2008 \$'000
Within 1 year	<b>2,621</b>	2,621
After 1 year but within 5 years	<b>4,719</b>	5,707
After 5 years	<b>9,447</b>	9,765
	<b>16,787</b>	18,093

The group leases land and buildings with a lease term of 32 years. None of the leases includes contingent rentals.

## Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

### 14 MATERIAL RELATED PARTY TRANSACTIONS

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

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<b>\$'000</b>	\$'000
Crude oil sold by the group	<b>(6,490,306)</b>	(9,118,000)
Crude oil purchased by the group and related charges	<b>3,746,759</b>	6,215,886
Petroleum products sold by the group	<b>(1,577,358)</b>	(2,185,660)
Petroleum products purchased by the group	–	1,151,133
Petrochemical products sold by the group	–	(59,691)
Crude oil refining and processing fees charged to the group	<b>104,051</b>	65,415
Jetty service fees charged by the group	<b>(234,424)</b>	(259,086)
Insurance premium charged to the group	<b>2,564</b>	2,490
Rentals charged to the group in respect of land and buildings	<b>1,633</b>	1,531
Interest expense charged to the group	<b>12,268</b>	–

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

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 14 MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

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

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

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

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

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 14 MATERIAL RELATED PARTY TRANSACTIONS (continued)

### (c) (continued)

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

	<b>Six months ended 30 June</b>	
	<b>2009</b> <b>\$'000</b>	2008 \$'000
Crude oil, petroleum and petrochemical products purchased by the group	<b>5,544,575</b>	6,243,506
Crude oil, petroleum and petrochemical products sold by the group	<b>(192,074)</b>	(2,466,070)
Construction work performed	–	330
	<b>At</b> <b>30 June</b> <b>2009</b> <b>\$'000</b>	At 31 December 2008 \$'000
Amounts due from other state-controlled entities	<b>63,536</b>	24,438
Amounts due to other state-controlled entities	<b>(2,016,959)</b>	(9,987)



# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 14 MATERIAL RELATED PARTY TRANSACTIONS (continued)

### (c) (continued)

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

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

	Six months ended 30 June	
	2009	2008
	\$'000	\$'000
Interest income received by the group	(77)	(317)
Interest expenses charged to the group	1,729	1,874

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

## 14 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) (continued)

(ii) (continued)

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

	<b>At 30 June 2009 \$'000</b>	At 31 December 2008 \$'000
Cash and cash equivalents	<b>57,264</b>	18,622
Short-term loans	<b>–</b>	(990,665)

## 15 COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised 2007), *Presentation of financial statements* and HKFRS 8, *Operating Segments*, certain comparative figures have been adjusted to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

## Interim Dividend

### INTERIM DIVIDEND

The Directors recommend the payment of an interim dividend of HK1.5 cents per share to shareholders whose names appear in the register of members of the Company on 25 September 2009.

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 21 September 2009 (Monday) to 25 September 2009 (Friday) (both days inclusive) during which period no transfer of shares can be registered. In order to qualify for the proposed interim dividend, all share transfers, accompanied by relevant share certificates, must be lodged with Tricor Secretaries Limited, the branch share registrar 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 18 September 2009 (Friday). The cheques for dividend payment will be sent by post on or about 16 October 2009 (Friday).

## REVIEW OF RESULTS AND PROSPECTS

During the first half of 2009, international oil prices were on a soaring trend after hitting the bottom. The global average price of Brent crude oil was US\$51.6 per barrel, which is still much lower than that of US\$109.14 recorded in the first half of 2008. Accordingly, the Group's turnover for the six months ended 30 June 2009 was HK\$8.54 billion, representing a drop of 44.5% when compared with the same period last year. Profit amounted to HK\$91.2 million, representing an increase of 0.58% over the same period last year.

During the first half of 2009, the downstream user of the Group's crude oil jetty services, Sinopec Guangzhou Branch Company, suspended its operations for the scheduled overhaul of the refining plant which led to a decline in the jetty operations of Huade Petrochemical. During the first half of the year, the volume of crude oil discharged and transported by Huade Petrochemical was 5.45 million tonnes and 5.20 million tonnes, representing a decrease of 13.5% and 13.2% respectively when compared with the same period last year. The jetty operations recorded a turnover of HK\$240.26 million and an EBITDA of HK\$184.38 million, representing a decrease of 10.3% and 14.1% respectively as compared with the same period last year.

During the first half of 2009, the Group suspended its petrochemical trading business in time to avoid operation risks whilst focusing its effort on expanding the trading of crude oil and processed oil in order to offset the influence caused by the decline in business as a result of the suspension of the petrochemical trading business. During the first half of the year, trading volume of crude oil and processed oil attained 2.30 million tonnes and 0.49 million tonnes respectively, representing a respective increase of 10.4% and 53.1% over the same period last year. Turnover of trading operations during the first half of the year was HK\$8.30 billion, achieving an EBITDA of HK\$21.66 million, down by 45.1% and 63.3% respectively when compared with the same period last year. The decrease of EBITDA was offset by the effect of decrease in finance costs.

During the first half of 2009, finance costs of the Group amounted to HK\$15.0 million, representing a reduction of 56.8% when compared with the same period last year, which greatly contributed to the increase in the Group's earnings. The decrease in finance costs was a positive outcome resulting from the lower international crude oil prices and the

## Management Discussion & Analysis

reduced interest rates on bank borrowings. It was also attributable to the Group's efforts to expedite its capital circulation as well as the reduction of capital employed in crude oil trading business of the Company.

When the refining plant of Sinopec Guangzhou Company resumes its normal operation in the second half of the year, the Group will endeavour to fully utilise this advantage to maximise the volume of crude oil storage and pipeline transmission as well as transportation of Huade Petrochemical. In addition, the Group will also strive for more business opportunities and maintain the steady growth in the trading of crude oil and processed oil. We shall keep a close eye on the market and make timely adjustment to our operation strategies, which we will be devoted to increasing the Group's profitability and achieving satisfactory results to reward our shareholders, employers and the community.

### LIQUIDITY AND SOURCES OF FINANCE

As at 30 June 2009, cash on hand and bank balances totalled approximately HK\$210.72 million (31 December 2008: HK\$50.81 million); bank borrowings and interest-bearing borrowings were approximately HK\$1.86 billion (31 December 2008: HK\$1.67 billion), of which all were short-term borrowings. The majority of the Group's total borrowings are dominated in United States dollar. 13% of the Group's total borrowings bear fixed rate interest.

### GEARING RATIO

As at 30 June 2009, the Group's current ratio (current assets to current liabilities) was 1.04 (31 December 2008: 1.03) and gearing ratio (total liabilities to total assets) was 69.8% (31 December 2008: 50.1%).

## TRADE AND OTHER RECEIVABLES

As at 30 June 2009, the Group's trade and other receivables totalled HK\$3.64 billion (31 December 2008: HK\$1.82 billion). The majority of trade receivables are current as at 30 June 2009. The increase in trade receivables was mainly due to the increase in sales from our crude oil trading segment in June 2009 as compared with December 2008; among which HK\$2.23 billion has been settled before 17 August 2009.

## INVENTORIES

As at 30 June 2009, the Group had inventories of HK\$1.42 billion (31 December 2008: HK\$0.28 billion). The significant increase in inventories as compared to the end of 2008 was due to the volatile market prices of commodities across the globe during the second half of 2008. To avoid operation risks, the Group had taken measures to reduce inventories drastically, resulting in an inventory level far below normal levels at the end of 2008. At 30 June 2009, the Group's inventories were restored to a normal level.

## EXCHANGE RISK

As of 30 June 2009, each entity within the Group was not exposed to significant foreign exchange risk.

## EMPLOYEES AND EMOLUMENT POLICIES

As at 30 June 2009, the Group had a total of 176 employees, basically the same as at the beginning of the year. Remuneration packages including basic salaries, bonuses and benefits-in-kind, are structured by reference to market terms, trends of human resources costs in various regions and employees' contributions based on performance appraisals. Subject to the profit of the Group and the performance of employees, the Group may also provide discretionary bonuses to its employees as an incentive for their further contribution.

## Other Information

### INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 30 June 2009, none of the Directors or chief executive of the Company had any interest or short position in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong) (“SFO”)), which is required to be recorded in the register kept under section 352 of the SFO or the otherwise required to be notified by Directors and the chief executive of the Company to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers set forth in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

### INTERESTS OF SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, the Directors are not aware of any person (other than Directors and chief executive of the Company) who, as at 30 June 2009, had interests or short positions in shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

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

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

### **CORPORATE GOVERNANCE**

The Group has complied throughout the six months ended 30 June 2009 with the applicable provisions of the Code on Corporate Governance Practices (the “Code”) in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except the following: Code provision E.1.2 of the Code stipulates that the chairman of the Board should attend the annual general meeting. The Chairman was unable to attend the annual general meeting held on 8 May 2009 for reason of official duties and Mr. Ye. Zhi Jun, as the managing director of the Company, took the chair pursuant to the Bye-laws of the Company.

### **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 six months ended 30 June 2009.

### **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 expired on 26 May 2009, the board of directors of the Company could have granted options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

No options were granted under the Scheme since its inception.

### **REMUNERATION COMMITTEE**

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



## Other Information

### AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors of the Company. The Audit Committee has reviewed with the management and the external auditors the accounting principles and practices adopted by the Group and discussed auditing and internal control. The Audit Committee has reviewed the unaudited interim financial report for the six months ended 30 June 2009.

### CODE FOR SECURITIES TRANSACTIONS

The Group has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules.

During the six months ended 30 June 2009, all the Directors of the Company confirmed that they had complied with the standards of the Model Code as set out in Appendix 10 of the Listing Rules.

### SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained the minimum amount of public float as required under the Listing Rules throughout the six months ended 30 June 2009.

By order of the Board

**Dai Zhao Ming**

*Chairman*

Hong Kong, 17 August 2009



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

*(Incorporated in Bermuda with limited liability)*

### INTRODUCTION

We have reviewed the interim financial report set out on pages 3 to 33 which comprises the consolidated balance sheet of Sinopec Kantons Holdings Limited (the “company”) as of 30 June 2009 and the related consolidated income statement, consolidated statement of comprehensive income and consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and related explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The Directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

# Review Report

## SCOPE OF REVIEW

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

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2009 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

## KPMG

*Certified Public Accountants*

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

17 August 2009