SINOPEC KANTONS HOLDINGS LIMITED

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

ANNUAL REPORT 2009

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CHAIRMAN'S STATEMENT

Mr. Dai Zhao Ming
Chairman

In 2009, the Group continuously upheld our market-oriented principle, focused on efficiency, proactively responded to market changes, promptly and flexibly modified its operating strategies and achieved fairly good results.

Dear Shareholders,

First of all, on behalf of the Board of Directors of Sinopec Kantons, I would like to express our cordial gratitude towards our shareholders, persons and institutions from the society for their unfailing care and support to the Company.

The year of 2009 was a turning point with signs of recovery following the world economy being hard hit by the global financial tsunami. The international crude oil and petrochemical prices rebounded back to a more stable track after experiencing a deep dive. The average Brent crude oil price was US$61/barrel for the year, representing a decrease of 37% as compared with the average price of US$97/barrel in 2008. The drop in crude oil price affected the trading volume of the Company to a certain extent. The Group, however, took full advantage of the decrease in the funding demand regarding crude oil trading following the drop in crude oil price, which considerably reduced our finance costs by 70.2% as compared with 2008, thus enabling the Group to maintain a stable growth in profit. In 2009, the Group continuously upheld our market-oriented principle, focused on efficiency, proactively responded to market changes, promptly and flexibly modified our operating strategies and deeply restructured our businesses. In addition, we explored aggressively to strive for long-term development of the Company, extended our business coverage and widened our income sources for continuous advancement of profitability. In 2009, the Group's turnover was HK$21.3 billion, representing a decrease of 27.5% as compared with last year, with net profit attributable to equity shareholders for the year of HK$197 million, representing an increase of 35.5% as compared with last year.

The crude oil storage and pipeline transmission operation has always been the core operation of the Group and will continue to be the main focus of the Group's business development in the future. In 2009, Huade Petrochemical, a wholly-owned subsidiary of the Company rationalised its service through the implementation of an optimisation plan for its operations and overcame the adverse effect from the operation suspension of its major customer, Sinopec Guangzhou Branch, for the scheduled overhaul of its refining plant, which prevented a sharp decrease in the volume of crude oil discharged and transported during the overhaul period. Therefore, Huade Petrochemical performed well in maintaining the volume of crude oil discharged and transported with only a slight decrease recorded for the year. In 2009, there were 79 oil tankers berthed, with 11.20 million tonnes of crude oil loaded and 11.21 million tonnes of crude oil transmitted, representing a drop of 4.8% and 3.8% respectively as compared with last year. Huade Petrochemical not only strengthened its crude oil storage and pipeline transmission operation, but also strived to enlarge its business scope. Huade Petrochemical widened its income stream through the provision of navigation services

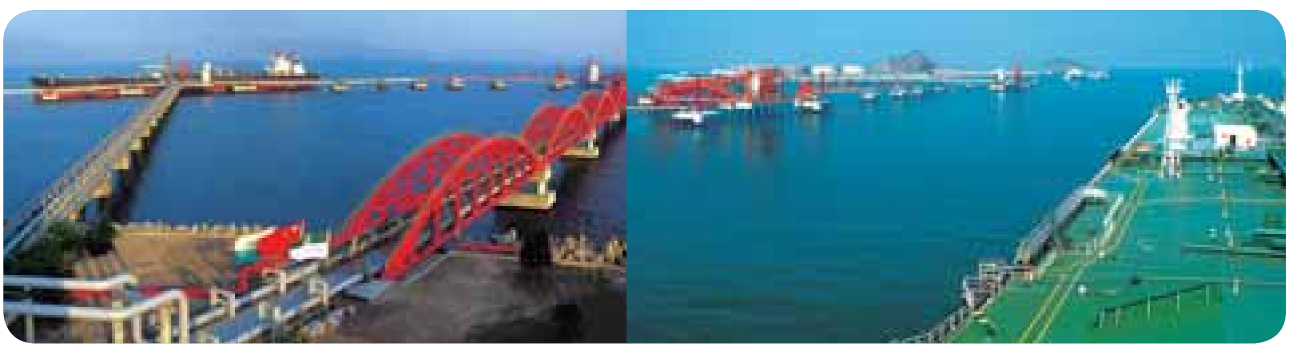
to CNOOC and Shell Petrochemicals Company Limited. Revenue from the navigation services by Huade Petrochemical amounted to HK$22 million, representing an increase of 174% as compared with last year.

During 2009, Sinomart KTS terminated its trading business of petrochemical products. To minimise such effect, the Company has adopted various measures to enhance the businesses of trading crude oil and processed oil, seeking to increase its efficiency by any possible means, significantly reducing expenses and striking hard to achieve a better operating result. Our trading of crude oil reached 4.42 million tonnes for the year, an increase of 19% as compared with last year; import of oil for third party processing reached 2.53 million tonnes, an increase of 60% as compared with last year, and export of processed oil products reached 1.27 million tonnes, an increase of 104% as compared with last year.

Looking forward into 2010, it is expected that the overall business environment will gradually improve, although there are still uncertainties in the global economy. The Group will endeavour to seize every favourable development opportunity to achieve a stable growth for the Group's core business, by making scientific decisions and strengthening and enlarging our crude oil storage and pipeline transmission operations. Furthermore, the Group will improve the quality of management and services and will further strengthen its corporate governance with an aim to develop the Group into an international oil and petrochemicals storage and logistics company in the near future, as well as to deliver satisfactory results to shareholders, the society and staff of the Company.

By order of the Board
Dai Zhao Ming
Chairman

Hong Kong, 19 March 2010



MANAGEMENT DISCUSSION AND ANALYSIS

Turnover

As of 31 December 2009, the turnover of the Company amounted to HK$21,281,232,000 (2008: HK$29,349,906,000). The decrease in turnover was due to a more significant drop in the average price of crude oil in 2009 as compared with 2008. The average Brent crude oil price was US$61/barrel in 2009 compared with an average price of US$97/barrel in 2008.

Liquidity and source of finance

As at 31 December 2009, cash on hand and bank balances totalled approximately HK$28,175,000 (31 December 2008: HK$50,831,000); interest-bearing loans from a fellow subsidiary were approximately HK$1,665,992,000 (31 December 2008: HK$677,854,000), there was no bank borrowing as at 31 December 2009 (31 December 2008: HK$990,665,000). The change in borrowing structure was attributable to the fact that all of the borrowings were borrowed from a fellow subsidiary Sinopec Century Bright Capital Investment Limited ("Century Bright"), as if offers more competitive borrowing rates.

Gearing ratio

As at 31 December 2009, the Group's current ratio (current assets to current liabilities) was 1.12 (31 December 2008: 1.03) and gearing ratio (total liabilities to total assets) was 56% (31 December 2008: 50%).

Trade and other receivables

As at 31 December 2009, the Group's trade and other receivables balance was HK$2,416,188,000 (31 December 2008: HK$1,816,691,000). The increase in trade receivables was mainly due to the spread settlement of crude oil trading and the outstanding receivable due from its intermediate holding company as disclosed on note 15 to the financial statements.

Inventories

As at 31 December 2009, the Group had inventories of HK$736,334,000 (31 December 2008: HK$282,695,000). The significant increase in inventories as compared to the end of 2008 was due to the volatile market prices of commodities across the world 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 at the end of 2008. As at 31 December 2009, the Group's inventories were within the normal range.

Exchange risk

As of 31 December 2009, each entity within the Group was not exposed to significant foreign exchange risk.

Employees and emolument policies

As at 31 December 2009, the Group had a total of 187 employees. Remuneration packages, including basic salaries, bonuses and benefits-in-kind are structured by reference to market terms, trends in human resources costs in various regions and employees' contributions 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 2009 with the applicable provisions of the Code on Corporate Governance Practices (the "Code") in Appendix 14 to the Rules (the "Listing 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. When the Chairman was unable to attend the annual general meeting held on 8 May 2009 due to work engagement and Mr. Ye Zhi Jun, the managing director of the Company, took the chair of the meeting pursuant to the Bye-laws of the Company and upon the approval of the Board.

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") has been 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 is the chairperson.

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 2009.

Code for securities transactions

For the year ended 31 December 2009, all the directors confirmed that they have met with the standards of the "Model Code on Securities Transactions by Directors of Listed Issuers" (the "Model Code") as set out in Appendix 10 to 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 2009.

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 13 to the financial statements.

An analysis of the principal activities and segmental information of the operations of the company and its subsidiaries (the "group") during the financial year are set out in note 11 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	48%	
Five largest customers in aggregate	94%	
The largest supplier		50%
Five largest suppliers in aggregate		100%

China Petrochemical Corporation ("Sinopec Group Company"), the controlling shareholder indirectly holding more than 70% of the company's issued share capital, had beneficial interests in four of the five largest customers which accounted for approximately 89% of the turnover of the group and two of the five largest suppliers which accounted for approximately 44% of the purchases of the group.

Financial statements

The profit of the group for the year ended 31 December 2009 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 85.

Transfer to reserves

Profits attributable to shareholders, before dividends, of HK$196,827,000 (2008: HK$145,287,000) have been transferred to reserves. Other movements in reserves are set out in note 23 to the financial statements.

Dividends

The board declared a dividend of HK3.5 cents per share payable in cash for 2009 (2008: HK3.5 cents per share), excluding the interim dividend of HK1.5 cents per share for 2009 paid on 16 October 2009 (2008: HK1.5 cents per share), the final dividend of HK2 cents per share for 2009 (2008: HK2 cents per share) will be paid to all the shareholders whose names appear in the register of the members of the company on 18 May 2010.

The register of members of the company will be closed from 12 May 2010 (Wednesday) to 18 May 2010 (Tuesday) (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 11 May 2010 (Tuesday). The cheques for dividend payment will be sent to shareholders on or about 18 June 2010 (Friday).

Fixed assets

During the year, the group spent approximately HK$24,104,000 (2008: 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 12 to the financial statements.

Share capital

Details of the share capital of the company during the year are set out in note 23 to the financial statements.

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

Directors

The directors during the financial year were:

Board of Directors	Audit Committee	Remuneration Committee
Executive directors		
Dai Zhao Ming *(Chairman)*	Fong Chung, Mark *(Chairman)*	Tam Wai Chu, Maria *(Chairlady)*
Zhu Zeng Qing *(Deputy Chairman)*	Wong Po Yan	Dai Zhao Ming
Zhu Jian Min	Tam Wai Chu, Maria	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 Jian Min, Mr. Tan Ke Fei and Mr. Fong Chung, Mark will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Directors' service contracts

Mr. Dai Zhao Ming, Mr. Zhu Zeng Qing, Mr. Zhu Jian Min, Mr. Tan Ke Fei, Mr. Zhou Feng and Mr. Ye Zhi Jun, all of whom are existing executive directors, unconditionally and irrevocably waived their remunerations stated in clause 2 of their director service agreements to HK$1 respectively. The amendment was considered and passed at the meeting of remuneration committee on 19 March 2010 and had been effected from 1 January 2009. In addition, Mr. Dai Zhao Ming, Mr. Zhu Zeng Qing, Mr. Zhu Jian Min, Mr. Tan Ke Fei, Mr. Zhou Feng and Mr. Ye Zhi Jun, all of whom are existing executive directors, unconditionally and irrevocably waived their remuneration payable by the group respectively and so did Ms. Wang Li Sheng, Mr. Jiang Zhen Ying, Mr. Yang Shu Shan, Mr. Pan Xin Rong and Mr. Yang Dong, all of whom were former executive directors, the total amount of which was HK$18,850,666.67.

Besides, none of 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 2009, 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 (the "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.

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.

The Scheme expired on 26 May 2009. No options were granted under the Scheme since its inception.

Directors' rights 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 2009, 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 2009 are set out in note 18 and note 19 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 86 and 87 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 21 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 2009.

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 2010 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, 19 March 2010

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 (the "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 the 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 the shareholders' 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. The Ongoing Connected Transactions were approved in the special general meeting dated 18 September 2008.

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

In order to improve the efficiency of the operation of the trading activities fund, the company entered into a master financial services framework agreement with Sinopec Century Bright Capital Investment Limited, 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 services 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, as each applicable percentage is less than 2.5%, this transaction is exempted from the shareholders' approval but subject to the reporting and announcement requirement. The company made an announcement in this regard on the website of the Stock Exchange and the website of the company on 20 March 2009.

III 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 national 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.

IV Information on the connected transactions made during the year

In 2009, the connected transactions of the company taken place during the year has been fully disclosed in note 27 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)(l) of "conditions to waiver" in the section headed "Business-Connected Transactions" in the prospectus of the company dated 15 June 1999.

DIRECTORS AND SENIOR MANAGEMENT

Executive directors

Mr. Dai Zhao Ming, aged 44, 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 Sinomart KTS Development Co., Ltd., 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 54, 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 46, 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 Director of the Company since March 2004.

Mr. Tan Ke Fei, aged 43, 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 information department 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 44, 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 44, 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 86, 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 64, 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. And, she is also a Director of Samartian's Purse Hong Kong Limited, Green Fun Limited and Union Fund 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 58, the past President of the Hong Kong Institute of Certified Public Accountants. Mr. Fong has 30 years of 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 an executive director in China development of Grant Thornton International Ltd..

Other senior management

Mr. Pang Ai Bin, aged 40, 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 43, 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 47, 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 44, 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.

CORPORATE GOVERNANCE REPORT

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 2009, 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)*	Fong Chung, Mark *(Chairman)*	Tam Wai Chu, Maria *(Chairlady)*
Zhu Zeng Qing *(Deputy Chairman)*	Wong Po Yan	Dai Zhao Ming
Zhu Jian Min	Tam Wai Chu, Maria	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		

The Board sets the group's objectives and monitors its performance. The Board also decides on matters such as annual and interim results, notifiable transactions 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 six full Board meetings in 2009. Attendance of the full Board meetings are as follows:

Attendance	No. of meetings attended
Mr. Dai Zhao Ming	3
Mr. Zhu Zeng Qing	6
Mr. Zhu Jian Min	1
Mr. Tan Ke Fei	5
Mr. Zhou Feng	5
Mr. Ye Zhi Jun	6
Mr. Wong Po Yan	6
Ms. Tam Wai Chu, Maria	6
Mr. Fong Chung, Mark	6

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 2009, the Audit Committee held two meetings to review the annual results of the group for the financial year ended 2008 and the interim results for half financial year ended 30 June 2009 and had 100 percent attendance. The company's annual results for the financial year ended 31 December 2009 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.

Chairman and managing director

Mr. Dai Zhao Ming is the Chairman of the Board of the Company. 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 and other advisory services amounted to HK$2.66 million (2008: HK$1.10 million). The following remuneration was paid by the group to its auditor, KPMG:

(in HK$ millions)	**2009**	2008
Audit services	**1.00**	1.05
Taxation services	**0.05**	0.05
Other advisory services	**1.61**	0
Total	**2.66**	1.10

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 2009. The Board had, with the management, conducted a high-level risk assessment of its core business management procedures 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.sinopec.com.hk. All significant information such as announcements, annual and interim reports can be downloaded from the above websites.

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent auditor's report to the shareholders of
Sinopec Kantons Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Sinopec Kantons Holdings Limited (the "company") set out on pages 21 to 85, which comprise the consolidated and company balance sheets as at 31 December 2009, the consolidated income statement, the consolidated statement of comprehensive income, 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 2009 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

19 March 2010

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

(Expressed in Hong Kong dollars)

	Note	**2009** **$'000**	2008 $'000
Turnover	3 & 11	**21,281,232**	29,349,906
Cost of sales		**(20,971,843)**	(28,969,764)
Gross profit		**309,389**	380,142
Other revenue	4	**7,780**	3,358
Other net loss	4	**(2,251)**	(40,133)
Distribution costs		**(5,630)**	(11,002)
Administrative expenses		**(30,899)**	(38,999)
Profit from operations		**278,389**	293,366
Finance costs	5(a)	**(29,975)**	(100,440)
Profit before taxation	5	**248,414**	192,926
Income tax	6(a)	**(51,587)**	(47,639)
Profit for the year		**196,827**	145,287
Basis and diluted earnings per share (cents)	10	**18.98**	14.01

The notes on pages 29 to 85 form part of these financial statements. Details of dividends payable to equity shareholders of the company attributable to the profit for the year are set out in note 23(b).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

	2009 $'000	2008 $'000
Profit for the year	**196,827**	145,287
Other comprehensive income for the year:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong, net of nil tax	**3,879**	129,035
Total comprehensive income for the year	**200,706**	274,322

The notes on pages 29 to 85 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2009

(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000
Non-current assets			
Fixed assets	12		
– Investment properties		**34,438**	35,479
– Other property, plant and equipment		**1,850,264**	1,978,271
– Interests in leasehold land held for own use under operating leases		**66,099**	69,391
		1,950,801	2,083,141
Current assets			
Inventories	14	**736,334**	282,695
Non-current assets held for sale	12(e)	**65,597**	65,496
Trade and other receivables	15	**2,416,188**	1,816,691
Tax recoverable	20	**–**	1,033
Cash and cash equivalents	16	**28,175**	50,813
		3,246,294	2,216,728
Current liabilities			
Trade and other payables	17	**1,208,840**	482,737
Bank loans	19	**–**	990,665
Interest-bearing borrowings	18	**1,665,992**	677,854
Current taxation	20	**11,728**	2,495
		2,886,560	2,153,751
Net current assets		**359,734**	62,977
NET ASSETS		**2,310,535**	2,146,118

CONSOLIDATED BALANCE SHEET

At 31 December 2009

(Expressed in Hong Kong dollars)

	Note	**2009**	2008
		$'000	$'000
CAPITAL AND RESERVES			
Share capital	23(c)	**103,683**	103,683
Reserves	23(d)	**2,206,852**	2,042,435
TOTAL EQUITY		**2,310,535**	2,146,118

Approved and authorised for issue by the board of directors on 19 March 2010.

Dai Zhao Ming
Chairman

Ye Zhi Jun
Director

The notes on pages 29 to 85 form part of these financial statements.

BALANCE SHEET

At 31 December 2009

(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000
Non-current assets			
Interests in subsidiaries	13	**871,729**	839,325
Current assets			
Other receivables	15	**180,000**	100,000
Cash and cash equivalents	16	**23**	23
		180,023	100,023
Current liabilities			
Other payables	17	**298,744**	255,516
Net current liabilities		**(118,721)**	(155,493)
NET ASSETS		**753,008**	683,832
CAPITAL AND RESERVES	23(a)		
Share capital	23(c)	**103,683**	103,683
Reserves		**649,325**	580,149
TOTAL EQUITY		**753,008**	683,832

Approved and authorised for issue by the board of directors on 19 March 2010.

Dai Zhao Ming
Chairman

Ye Zhi Jun
Director

The notes on pages 29 to 85 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the company						
	Note	Share capital $'000	Share premium $'000	Merger reserve $'000 (Note 23 (d)(i))	General reserve $'000 (Note 23 (d)(ii))	Exchange reserve $'000 (Note 23 (d)(iii))	Retained profits $'000	Total equity $'000
Balance at 1 January 2008		103,683	333,857	23,444	94,465	213,967	1,138,669	1,908,085
Changes in equity for 2008:								
Dividends approved in respect of the previous year	23(b)	–	–	–	–	–	(20,737)	(20,737)
Appropriation of reserve		–	–	–	18,876	–	(18,876)	–
Total comprehensive income for the year		–	–	–	–	129,035	145,287	274,322
Dividends declared in respect of the current year	23(b)	–	–	–	–	–	(15,552)	(15,552)
Balance at 31 December 2008 and 1 January 2009		103,683	333,857	23,444	113,341	343,002	1,228,791	2,146,118
Changes in equity for 2009:								
Dividends approved in respect of the previous year	23(b)	**–**	**–**	**–**	**–**	**–**	**(20,737)**	**(20,737)**
Appropriation of reserve		**–**	**–**	**–**	**18,594**	**–**	**(18,594)**	**–**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**3,879**	**196,827**	**200,706**
Dividends declared in respect of the current year	23(b)	**–**	**–**	**–**	**–**	**–**	**(15,552)**	**(15,552)**
Balance at 31 December 2009		**103,683**	**333,857**	**23,444**	**131,935**	**346,881**	**1,370,735**	**2,310,535**

The notes on pages 29 to 85 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000
Operating activities			
Cash generated from/(used in) operations	16(b)	**58,281**	(902,846)
Hong Kong tax paid		**(2,735)**	(8,605)
PRC tax paid		**(38,586)**	(44,729)
Net cash generated from/(used in) operating activities		**16,960**	(956,180)
Investing activities			
Payment for the purchase of property, plant and equipment		**(14,413)**	(41,941)
Interest received		**536**	1,204
Proceeds from sale of property, plant and equipment		**490**	–
Dividend from a disposed subsidiary		**37,688**	–
Net cash generated from/(used in) investing activities		**24,301**	(40,737)
Financing activities			
Proceeds from new bank loans		**–**	16,882,979
Proceeds from interest-bearing borrowings		**9,865,005**	677,854
Repayment of bank loans and interest-bearing borrowings		**(9,867,532)**	(16,449,644)
Dividends paid		**(36,289)**	(36,289)
Finance costs paid		**(25,115)**	(100,568)
Net cash (used in)/generated from financing activities		**(63,931)**	974,332

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2009

(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000
Net decrease in cash and cash equivalents		**(22,670)**	(22,585)
Cash and cash equivalents at 1 January		**50,813**	68,781
Effect of foreign exchange rate changes		**32**	4,617
Cash and cash equivalents at 31 December	16	**28,175**	50,813

The notes on pages 29 to 85 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 2009 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 major sources of estimation uncertainty are discussed in note 30.

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 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 recognised immediately in profit or loss.

(e) Investment properties

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 and property that is being constructed or developed for future use as investment property.

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 the 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 appropriation proportion of production overheads and borrowing costs (see note 1(s)).

Gains or losses arising from the retirement or disposal of an item of other 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 item 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

1 Significant accounting policies (continued)

(f) Other property, plant and equipment (continued)

No depreciation is provided in respect of construction in progress.

Where 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.

(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 the 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 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 the 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:

– For trade and other receivables and other financial assets carried at cost, the impairment loss is measured as the difference between the carrying amount of the asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material.

– For trade and other receivables and other financial assets carried at amortised cost, 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.

1 Significant accounting policies (continued)

(h) Impairment of assets (continued)

(i) Impairment of receivables (continued)

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.

(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 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 fair value less costs to sell 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 the 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).

1 Significant accounting policies (continued)

(h) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if 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 reduce the carrying amount of the assets in the unit (or group of units) on a 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.

– 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 an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the group is required to prepare an interim financial report in compliance with HKAS 34, "Interim financial reporting", in respect of the first six months of the financial year. At the end of the interim period, the group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 1(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.

1 Significant accounting policies (continued)

(i) Inventories (continued)

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.

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(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.

1 Significant accounting policies (continued)

(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.

(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 in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using the 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.

1 Significant accounting policies (continued)

(o) Income tax (continued)

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 credit 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 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

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the group and the revenues and costs, if applicable, can be measured reliably, revenue is recognised in income statement as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customer's 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 service income

Crude oil jetty service 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 foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in items 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 closing foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operations is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(s) Borrowing costs

Borrowing costs are 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 or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

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.

(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.

1 Significant accounting policies (continued)

(t) Non-current assets held for sale (continued)

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 venture;

(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

Operating segments and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the group's most senior executive management for the purposes of allocating resources to and assessing the performance of the group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

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*

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 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 group's financial statements. The impact of the remainder of these developments 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. The adoption of HKFRS 8 does not change the group's classification of operating segments as compared with prior years. Corresponding amounts have been provided on a basis consistent with the revised segment information.

– 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. 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 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 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:

	2009	2008
	$'000	$'000
Trading of crude oil, petroleum and petrochemical products	**20,764,040**	28,842,830
Crude oil jetty services	**517,192**	507,076
	21,281,232	29,349,906

In 2009, the group derived revenue from its intermediate holding company and various entities which are under common control of this intermediate holding company from the segments of trading of crude oil, petroleum and petrochemical products and crude oil jetty services amounting to $19,082,535,000 (2008: $22,097,363,000) and $491,076,000 (2008: $490,088,000) respectively.

Details of concentration of credit risk arising from the above customers are set out in note 24(a).

4 Other revenue and net loss

	2009	2008
	$'000	$'000
Other revenue		
Rental income	**1,357**	991
Interest income	**536**	1,204
Additional dividend received from a disposed subsidiary (i)	**4,703**	–
Others	**1,184**	1,163
	7,780	3,358

(i) The amount represents an additional dividend received from a disposed subsidiary relating to its retained profits prior to 2006. The subsidiary was disposed of in 2006.

4 Other revenue and net loss (continued)

	2009 $'000	2008 $'000
Other net loss		
Net foreign exchange loss	**(112)**	(40,133)
Net loss on disposal of property, plant and equipment	**(2,225)**	–
Others	**86**	–
	(2,251)	(40,133)

5 Profit before taxation

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

		2009 $'000	2008 $'000
(a)	*Finance costs:*		
	Interest on bank advances and bank borrowings wholly repayable within five years	**29,975**	100,568
	Less: Borrowing costs capitalised as construction in progress *	**–**	(128)
		29,975	100,440

* The borrowing costs were capitalised at a rate of 3.78%-5.68% per annum in 2008.

		2009 $'000	2008 $'000
(b)	*Staff costs:*		
	Salaries, wages and other benefits (i)	**9,021**	31,954
	Contribution to defined contribution retirement plans	**2,214**	1,515
		11,235	33,469

(i) This amount included a write back of directors' fees provided for in previous years amounting to $18,851,000 as the company's executive directors have agreed to waive their entitlements to directors' fees.

5 Profit before taxation (continued)

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

		2009	2008
		$'000	$'000
(c)	*Other items:*		
	Cost of inventories	**20,703,395**	28,699,238
	Depreciation	**142,108**	141,365
	Amortisation of interests in leasehold land held for own use under operating leases	**3,402**	3,777
	Auditors' remuneration		
	– audit services	**1,079**	1,069
	– taxation services	**53**	53
	– other advisory services	**1,608**	–
	Net loss on disposal of property, plant and equipment	**2,225**	–
	Impairment loss on property, plant and equipment (note 12(a))	**–**	4,786
	Impairment loss on other receivables	**6,814**	–
	Operating lease charges		
	– property rentals	**1,978**	1,978
	– hire of other assets	**1,071**	1,173

6 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2009	2008
	$'000	$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**4,792**	5,400
(Over)/under-provision in respect of prior years	**(162)**	805
	4,630	6,205
Current tax – Outside Hong Kong		
Provision for the year	**46,957**	41,434
	51,587	47,639

The provision for Hong Kong Profits Tax for 2009 is calculated at 16.5% (2008: 16.5%) 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.

6 Income tax in the consolidated income statement (continued)

(a) Taxation in the consolidated income statement represents: (continued)

Pursuant to the notice on the Implementation Rules of the Grandfather Relief under the PRC's Corporate Income Tax Law Guofa (2007) No. 39, issued on 26 December 2007 by the State Council, the applicable income tax rate for the group's foreign-invested enterprise in the People's Republic of China (the "PRC subsidiary") is 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. At 31 December 2009, temporary differences relating to the post-2007 undistributed profits of the group's PRC subsidiary amounted to $337,571,000 (2008: $171,720,000). Deferred tax liabilities of $33,757,000 (2008: $17,172,000) 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 PRC subsidiary and the company's directors have determined that the PRC subsidiary will not declare dividends out of its post-2007 profits in the foreseeable future.

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

	2009 **$'000**	2008 $'000
Profit before taxation	**248,414**	192,926
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**50,656**	46,151
Tax effect of non-deductible expenses	**1,176**	798
Tax effect of non-taxable income	**(83)**	(115)
(Over)/under-provision in prior years	**(162)**	805
Actual tax expense	**51,587**	47,639

7 Directors' remuneration

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

	Director's fees $'000	Salaries, allowances and benefits-in-kind $'000	2009 Total $'000
Executive directors			
Dai Zhao Ming	–	–	–
Zhu Zeng Qing	–	–	–
Tan Ke Fei	–	–	–
Zhu Jian Min	–	–	–
Zhou Feng	–	–	–
Ye Zhi Jun	–	1,301	1,301
Independent non-executive directors			
Tam Wai Chu	180	–	180
Fong Chung	180	–	180
Wong Po Yan	180	–	180
	540	1,301	1,841

7 Directors' remuneration (continued)

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

	Director's 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

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, one (2008: five) is/are director(s) whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other four (2008: nil) individuals are as follows:

	2009 $'000	2008 $'000
Salaries and other emoluments	**2,765**	–
Discretionary bonuses	**964**	–
	3,729	–

8 Individuals with highest emoluments (continued)

The emoluments of the four (2008: nil) individuals with the highest emoluments are within the following bands:

$	**2009 Number of individuals**	2008 Number of individuals
Nil – 1,000,000	**2**	–
1,000,001 – 1,500,000	**2**	–

9 Profit attributable to equity shareholders of the company

The consolidated profit attributable to equity shareholders of the company includes a loss of $1,530,000 (2008: $1,749,000) 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:

	2009 $'000	2008 $'000
Amount of consolidated loss attributable to equity shareholders dealt with in the company's financial statements	**(1,530)**	(1,749)
Final dividend from a subsidiary attributable to the profits of the previous financial years and approved during the year	**80,000**	–
Income recognised in respect of financial guarantee provided by the company to its subsidiaries	**26,995**	23,916
Company's profit for the year (note 23(a))	**105,465**	22,167

10 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the company of $196,827,000 (2008: $145,287,000) and on 1,036,830,000 (2008: 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.

11 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 crude oil products and chemical and petrochemical products. Currently, the majority of the trading activities are carried out in Hong Kong.

– 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

For the purposes of assessing segment performance and allocating resources between segments, 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 and other payables attributable to the activities of the individual segments, bank loans and interest-bearing 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 deprecation 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 "segment operating profit". Segment operating profit includes the operating profit generated by the segment and finance costs directly attributable to the segment. Items that are not specifically attributed to individual segments, such as unallocated other revenue, unallocated other net income or loss, unallocated depreciation and amortisation, unallocated finance costs and other corporate administrative costs are excluded from segment operating profit.

The unallocated income, expenses, assets and liabilities are disclosed in the reconciliation of reportable segment revenues, profit or loss, assets and liabilities in note 11(b) to the financial statements.

In addition to receiving segment information concerning segment operating profit, management is also provided with segment information concerning revenue, interest income, interest expense, depreciation and amortisation and additions to non-current segment assets used by the segments in their operations.

11 Segment reporting (continued)

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

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 year ended 31 December 2009 and 2008 is set out below.

	Trading of crude oil, petroleum and petrochemical products		Crude oil jetty services		Total	
	2009	2008	**2009**	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Revenue						
Revenue from external customers	**20,764,040**	28,842,830	**517,192**	507,076	**21,281,232**	29,349,906
Inter-segment revenue	**–**	–	**2,557**	2,889	**2,557**	2,889
Reportable segment revenue	**20,764,040**	28,842,830	**519,749**	509,965	**21,283,789**	29,352,795
Reportable segment profit (segment operating profit)	**25,097**	30,828	**228,710**	223,243	**253,807**	254,071
Interest income	**17**	699	**519**	505	**536**	1,204
Finance costs	**(11,706)**	(84,253)	**–**	(2,656)	**(11,706)**	(86,909)
Depreciation and amortisation for the year	**(1,320)**	(1,320)	**(143,982)**	(143,668)	**(145,302)**	(144,988)
Reportable segment assets	**2,572,923**	1,830,343	**2,564,735**	2,382,820	**5,137,658**	4,213,163
Additions to non-current segment assets during the year	**97**	878	**24,007**	41,063	**24,104**	41,941
Reportable segment liabilities	**2,146,733**	1,397,742	**53,423**	76,281	**2,200,156**	1,474,023

11 Segment reporting (continued)

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

	2009 **$'000**	2008 $'000
Revenue		
Reportable segment revenue	**21,283,789**	29,352,795
Elimination of inter-segment revenue	**(2,557)**	(2,889)
Consolidated turnover	**21,281,332**	29,349,906
Profit		
Reportable segment profit	**253,807**	254,071
Elimination of inter-segment profits	**(1,227)**	(1,372)
Reportable segment profit derived from group's external customers	**252,580**	252,699
Unallocated other revenue and net income/(loss)	**24,380**	(36,775)
Unallocated depreciation and amortisation	**(208)**	(154)
Unallocated finance costs	**(18,269)**	(13,531)
Unallocated other corporate administrative costs	**(10,069)**	(9,313)
Consolidated profit before taxation	**248,414**	192,926
Assets		
Reportable segment assets	**5,137,658**	4,213,163
Elimination of inter-segment receivables	**(3,178)**	(621)
	5,134,480	4,212,542
Unallocated corporate assets	**62,615**	87,327
Consolidated total assets	**5,197,095**	4,299,869
Liabilities		
Reportable segment liabilities	**2,200,156**	1,474,023
Elimination of inter-segment payables	**(3,178)**	(621)
	2,196,978	1,473,402
Unallocated corporate liabilities	**689,582**	680,349
Consolidated total liabilities	**2,886,560**	2,153,751

12 Fixed assets

(a) The group

	Buildings held for own use $'000	Furniture, Leasehold improvements $'000	Motor Jetty structures $'000	Jetty facilities $'000	Plant and machinery $'000	fixtures and equipment $'000	vehicles and vessels $'000	Construction in progress $'000	Sub-total $'000	Investment properties $'000	Interests in leasehold land held for own use under operating leases $'000	Total $'000
Cost:												
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
At 1 January 2009	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
Additions	9,692	–	–	–	601	2,557	653	10,601	24,104	–	–	24,104
Transfer from construction in progress	–	–	–	–	16,512	–	–	(16,512)	–	–	–	–
Reclassification	–	–	(8,855)	1,075	9,411	(1,631)	–	–	–	–	–	–
Disposals	(12,278)	–	(1,702)	(10,562)	(1,755)	(7,073)	(1,690)	–	(35,060)	–	–	(35,060)
Exchange adjustments	97	–	2,399	1,603	344	205	111	22	4,781	–	215	4,996
At 31 December 2009	59,760	477	1,499,030	997,954	233,595	126,901	70,330	10,688	2,998,735	52,055	133,565	3,184,355

12 Fixed assets (continued)

(a) The group (continued)

	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	Sub-total $'000	Investment properties $'000	Interests in leasehold land held for own use under operating leases $'000	Total $'000
Depreciation, amortisation and impairment												
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
At 1 January 2009	21,426	239	379,484	436,923	93,129	55,944	39,494	–	1,026,639	16,576	63,959	1,107,174
Charge for the year	2,541	–	70,812	44,008	12,698	7,347	3,661	–	141,067	1,041	3,402	145,510
Written back on disposal	(2,456)	–	–	(10,562)	(1,344)	(5,236)	(1,353)	–	(20,951)	–	–	(20,951)
Reclassification	–	–	(1,685)	(2,705)	5,124	(734)	–	–	–	–	–	–
Exchange adjustments	35	–	660	720	150	87	64	–	1,716	–	105	1,821
At 31 December 2009	21,546	239	449,271	468,384	109,757	57,408	41,866	–	1,148,471	17,617	67,466	1,233,554
Net book value:												
At 31 December 2009	38,214	238	1,049,759	529,570	123,838	69,493	28,464	10,688	1,850,264	34,438	66,099	1,950,801
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

12 Fixed assets (continued)

(a) The group (continued)

In 2008, a portion of 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 was fully written down in 2008. The replacement pipeline was completed and transferred to fixed assets near the end of 2008.

(b) All investment properties of the group are carried at their costs less accumulated depreciation and any accumulated impairment losses as at 31 December 2009. 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 2009 is estimated to be $49,990,000 (2008: $44,460,000). The valuations have been carried out by a qualified independent firm of surveyors with recent experience in the location and category of properties being valued.

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

	2009	2008
	$'000	$'000
Long leases in Hong Kong	**35,515**	36,595
Medium-term leases outside Hong Kong	**103,236**	109,098
	138,751	145,693
Representing:		
Investment properties	**34,438**	35,479
Buildings held for own sue	**38,214**	40,823
Interest in leasehold land held for own use under operating leases	**66,099**	69,391
	138,751	145,693

12 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 jetty service fee to the group annually only if any vessels of the lessee with a transportation volume exceeding 120,000 tonnes pass through the dredging channel in a calendar year, otherwise no jetty service income 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.

During 2009, the group charged another customer a jetty service fee for vessels passing through its dredging channel amounting to $22,169,000. The group charged this customer based on actual tonnage passing through the dredging channel with no contingent rental arrangement.

(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:

	2009	2008
	$'000	$'000
Within 1 year	**758**	758
After 1 year but within 5 years	**695**	–
	1,453	758

(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 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 the land to SGCCS for a cash consideration of RMB152,000,000 (equivalent to approximately $172,633,000) as at 31 December 2009. 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 RMB57,720,000 (equivalent to approximately $65,597,000) are classified as non-current assets held for sale.

12 Fixed assets (continued)

(e) Non-current assets held for sale (continued)

The group obtained approval for the sales transaction from the independent shareholders in the Special General Meeting on 2 December 2008. The completion of the above mentioned transaction is conditional upon receipt of approval from the relevant local PRC governmental authorities.

(f) Reclassification of fixed assets

During 2008, the company's subsidiary in the PRC 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 considered the reclassification better defined the group's fixed assets according to their nature.

During 2008, 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.

During 2009, the group reclassified certain fixed assets to adhere to the fixed assets policy of its intermediate holding company.

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

13 Interests in subsidiaries

	The company	
	2009	2008
	$'000	$'000
Unlisted investments, at cost	**242,067**	209,663
Amounts due from subsidiaries	**629,662**	629,662
	871,729	839,325

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.

13 Interests in subsidiaries (continued)

The following list contains only the particulars of subsidiaries which principally affect the results, assets or liabilities of the group at 31 December 2009.

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

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

Note: Huade holds jetty operating rights of 35 years which expire in the year 2029.

14 Inventories

(a) Inventories in the balance sheet comprise:

	The group 2009 $'000	2008 $'000
Crude oil	**662,878**	265,018
Petroleum and petrochemical products	**70,546**	14,971
Spare parts	**2,910**	2,706
	736,334	282,695

14 Inventories (continued)

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

	2009 $'000	2008 $'000
Carrying amounts of inventories sold	**20,703,395**	28,699,238

15 Trade and other receivables

	The group		The company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Dividend receivable from a subsidiary	**–**	–	**180,000**	100,000
Trade receivables	**32,504**	49,409	**–**	–
Amounts due from holding companies and fellow subsidiaries				
– Trade-related	**2,267,177**	1,720,643	**–**	–
– Non-trade	**114,283**	34,975	**–**	–
Other receivables	**2,224**	11,664	**–**	–
	2,416,188	1,816,691	**180,000**	100,000

Debts 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.

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 or with a credit term of 30 to 90 days.

15 Trade and other receivables (continued)

Ageing analysis

Included in trade and other receivables are trade debtors 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	
	2009	2008
	$'000	$'000
Current	**1,898,085**	1,581,729
Less than 1 month past due	**44,657**	4,421
1 to 3 months past due	**135,824**	68,913
More than 3 months past due but less than 12 months past due	**221,115**	114,989
Amounts past due	**401,596**	188,323
	2,299,681	1,770,052

The group's credit policy is set out in note 24(a).

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

Receivables that were past due but not impaired mainly relate to trade receivables due from the company's intermediate holding company. The group's PRC subsidiary derived the majority of its jetty service income from its intermediate holding company ("the intermediate holding company"). The intermediate holding company has been undertaking an expansion of its refining facilities during the year and has delayed settlement. The intermediate holding company is a state-owned enterprise listed in both Hong Kong and the PRC. Based on the intermediate holding company's sound financial position, the group considers there is no collection problem due to the ongoing collections and repayment history.

The group does not hold any collateral over the trade receivable balances.

16 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	The group		The company	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Cash at bank and in hand	**28,175**	50,813	**23**	23

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	**2009**	2008
		$'000	$'000
Profit before taxation		**248,414**	192,926
Adjustments for:			
– Depreciation and amortisation	12(a)	**145,510**	145,142
– Finance costs	5(a)	**29,975**	100,440
– Interest income	4	**(536)**	(1,204)
– Impairment loss on property, plant and equipment	5(c)	**–**	4,786
– Net loss on disposal of property, plant and equipment	5(c)	**2,225**	–
– Unrealised foreign exchange loss/(gain)		**572**	(211)
– Additional dividend received from a disposed subsidiary	4	**(4,703)**	–
Operating profit before changes in working capital:		**421,457**	441,879
– (Increase)/decrease in inventories		**(453,639)**	992,808
– Increase in trade and other receivables		**(632,482)**	(1,346,582)
– Increase/(decrease) in trade and other payables		**722,945**	(990,951)
Cash generated from/(used in) operations		**58,281**	(902,846)

17 Trade and other payables

	The group		The company	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Amounts due to subsidiaries	**–**	–	**276,590**	239,271
Trade payables	**–**	4,199	**–**	–
Amounts due to holding companies and fellow subsidiaries				
– Trade-related	**1,066,415**	317,436	**–**	–
– Non-trade	**65,921**	41,369	**–**	–
Creditors and accrued charges	**76,504**	119,733	**1,971**	1,471
Financial guarantee issued	**–**	–	**20,183**	14,774
	1,208,840	482,737	**298,744**	255,516

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

Amounts due to holding companies and fellow subsidiaries are unsecured, interest free and are repayable on demand or with a credit term of 30 days.

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:

	The group	
	2009	2008
	$'000	$'000
Due within 1 month or on demand	**1,064,391**	321,064
Due after 1 month but within 3 months	**2,024**	–
Due after 3 months but within 6 months	**–**	571
	1,066,415	321,635

18 Interest-bearing borrowings

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

	The group	
	2009	2008
	$'000	$'000
Loans from a fellow subsidiary	**1,665,992**	677,854

Included in the above is a loan obtained in July 2008 from Sinopec Century Bright Capital Investment Limited ("Century Bright"), a fellow subsidiary of the company, of US$87 million, equivalent to $677,854,000 (2008: $677,854,000), to repay the consideration for the acquisition of the 30% equity interest in Huade in 2006. Pursuant to the loan agreement, the loan has a maturity of six months from the date of the loan agreement and it had been renewed semi-annually since July 2008. The loan is unsecured and bears fixed interest at 1.6% (2008: 4.7%) per annum, which is the London Interbank Offered Rate ("LIBOR") at the time of renewal of the loan agreement in August 2009 plus an interest rate spread of 0.68% (2008: 1.55%).

During 2009, the group also obtained short-term import loans for its crude oil, petroleum and petrochemical trading business from Century Bright. As at 31 December 2009, the short-term loan amounted to US$127 million (equivalent to $988,138,000). The loans are unsecured and bear fixed interest at 0.7% per annum, which is the London Interbank Offered Rate ("LIBOR") at the time of entering into the loan agreement plus an interest rate spread of 0.48%. The short-term loans obtained from Century Bright are renewed on a monthly basis.

19 Bank loans

	The group	
	2009	2008
	$'000	$'000
Within 1 year or on demand	**–**	990,665

The above bank loans as at 31 December 2008 were unsecured. These bank loans were mainly obtained for the group's crude oil, petroleum and petrochemical trading business. In 2009, the group repaid all of the above bank loans and obtained finance for its trading business from Century Bright, a fellow subsidiary of the company, as disclosed in note 18.

20 Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

	The group	
	2009	2008
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	**4,792**	5,400
Provisional Profits Tax paid	**(2,735)**	(6,433)
Hong Kong Profits Tax payable/(recoverable)	**2,057**	(1,033)
Balance of Profits Tax provision relating to prior years	**(1,195)**	–
	862	(1,033)
PRC income tax payable	**10,866**	2,495
Net tax payable	**11,728**	1,462

(b) No provision for deferred taxation has been made as the effect of all temporary differences is not material except for the temporary differences relating to the post-2007 undistributed profits of the group's PRC subsidiary as stated in note 6(a).

21 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 a 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 contributions 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.

22 Equity compensation benefits

The company had 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 which expired on 26 May 2009. Under the scheme, the 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.

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 had been granted under the scheme since its inception.

23 Capital, reserves and dividends

(a) Movement in components of equity

The reconciliation between the opening and closing balances of each component of the group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital $'000	Share premium $'000 (Note 23 (d)(iv))	Contributed surplus $'000	Retained profits $'000	Total $'000
At 1 January 2008	103,683	333,857	242,397	18,017	697,954
Changes in equity for 2008:					
Final dividends approved in respect of the previous year (note 23(b))	–	–	–	(20,737)	(20,737)
Total comprehensive income for the year	–	–	–	22,167	22,167
Interim dividends declared in respect of the current year (note 23(b))	–	–	–	(15,552)	(15,552)
Balance at 31 December 2008 and 1 January 2009	103,683	333,857	242,397	3,895	683,832
Changes in equity for 2009:					
Final dividends approved in respect of the previous year (note 23(b))	–	–	–	(20,737)	(20,737)
Total comprehensive income for the year	–	–	–	105,465	105,465
Interim dividends declared in respect of the current year (note 23(b))	–	–	–	(15,552)	(15,552)
Balance at 31 December 2009	103,683	333,857	242,397	73,071	753,008

23 Capital, reserves and dividends (continued)

(b) Dividends

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

	2009 **$'000**	2008 $'000
Interim dividend declared and paid of 1.5 cents per ordinary share (2008: 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 (2008: 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.

(ii) Dividends payable to equity shareholders of the company attributable to the previous financial year, approved and paid during the year

	2009 **$'000**	2008 $'000
Final dividend in respect of the previous financial year, approved and paid during they year, of 2.0 cents per share (2008: 2.0 cents per share)	**20,737**	20,737

(c) Share capital

	2009		2008	
	Number of shares '000	**Amount $'000**	Number of shares '000	Amount $'000
Authorised:				
Ordinary shares of $0.1 each	**3,000,000**	**300,000**	3,000,000	300,000
Issued and fully paid:				
At 1 January and 31 December	**1,036,830**	**103,683**	1,036,830	103,683

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meeting of the company. All ordinary shares rank equally with regard to the company's residual assets.

23 Capital, reserves and dividends (continued)

(d) 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 dividends to equity owners. The statutory reserve fund can be utilised to offset prior year's losses or converted into paid up capital.
For the enterprise development fund, the percentage of appropriation is determined annually by the directors of Huade. The enterprise development fund 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 Sinopec Guangzhou Petrochemical Complex ("GPC"), an affiliate of China Petrochemical Corporation, over 30% of the carrying value of the net assets of Huade acquired from GPC as at 31 March 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).

23 Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves (continued)

(iv) Contributed surplus

The contributed surplus of the company represents the differences 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.

(e) Distributability of reserves

At 31 December 2009, the aggregate amount of reserves available for distribution to equity shareholders of the company was $315,468,000 (2008: $246,292,000). After the balance sheet date the directors proposed a final dividend of 2.0 cents per share (2008: 2.0 cents per share), amounting to $20,737,000 (2008: $20,737,000). The dividend has not been recognised as a liability at the balance sheet date.

(f) 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 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.

23 Capital, reserves and dividends (continued)

(f) Capital management (continued)

During 2009, the group's strategy, which was unchanged from 2008, 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 associate with each class of capital structure is reviewed annually.

The net debt-to-adjusted capital ratio at 31 December 2009 and 2008 was as follows:

		The group		**The company**	
	Note	**2009**	2008	**2009**	2008
		$'000	$'000	**$'000**	$'000
Current liabilities:					
Trade and other payables	17	**1,208,840**	482,737	**298,744**	255,516
Interest-bearing borrowings	18	**1,665,992**	677,854	**–**	–
Bank loans	19	**–**	990,665	**–**	–
Total debts		**2,874,832**	2,151,256	**298,744**	255,516
Add: Proposed dividends	23(b)	**20,737**	20,737	**20,737**	20,737
Less: Cash and cash equivalents	16	**(28,175)**	(50,813)	**(23)**	(23)
Net debt		**2,867,394**	2,121,180	**319,458**	276,230
Total equity		**2,310,535**	2,146,118	**753,008**	683,832
Proposed dividends	23(b)	**(20,737)**	(20,737)	**(20,737)**	(20,737)
Adjusted capital		**2,289,798**	2,125,381	**732,271**	663,095
Net debt-to-adjusted capital ratio		**125%**	100%	**44%**	42%

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 borrowing facilities. When the net debt-to-adjusted capital ratio of the group reaches a high level, the group would speed up debt collection and sell off inventories to reduce the debt level. The group currently has sufficient working capital and available credit 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.

24 Financial risk management and fair values

Exposure to credit, liquidity, interest rate, currency, commodity price and fair value 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 to 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 37% (2008: 71%) and 99% (2008: 99%) 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 26, 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 15.

24 Financial risk management and fair values (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 2009, the group has unutilised credit facilities of approximately $5,759,000,000 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 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

	2009		
	Within 1 year or on demand $'000	**Total contractual undiscounted cash flow $'000**	**Balance sheet carrying amount $'000**
Interest-bearing borrowings	**1,667,298**	**1,667,298**	**1,665,992**
Trade payables, bills payable, creditors and accrued charges	**76,504**	**76,504**	**76,504**
Amounts due to holding companies and fellow subsidiaries	**1,132,336**	**1,132,336**	**1,132,336**
	2,876,138	**2,876,138**	**2,874,832**

24 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

The group (continued)

	2008		
	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
Interest-bearing borrowings	694,196	694,196	677,854
Trade payables, bills payable, creditors and accrued charges	123,932	123,932	123,932
Amounts due to holding companies and fellow subsidiaries	358,805	358,805	358,805
	2,170,556	2,170,556	2,151,256

The company

	2009		
	Within 1 year or on demand $'000	**Total contractual undiscounted cash flow $'000**	**Balance sheet carrying amount $'000**
Creditors and accrued charges	**1,971**	**1,971**	**1,971**
Amounts due to subsidiaries	**276,590**	**276,590**	**276,590**
	278,561	**278,561**	**278,561**

24 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

The company (continued)

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

(c) Interest rate risk

The group's interest rate risk arises primarily from borrowings from bank and fellow subsidiaries. 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 note (i) below.

24 Financial risk management and fair values (continued)

(c) Interest rate risk (continued)

(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			
	2009		2008	
	Effective Interest rate	**Amount $'000**	Effective Interest rate	Amount $'000
Fixed rate borrowings:				
Interest-bearing borrowings	**1.1%**	**1,665,992**	4.7%	677,854
Variable rate borrowings:				
Bank loans		**–**	0.9%	990,665
Total borrowings		**1,665,992**		1,668,519
Fixed rate borrowings as a percentage of total borrowings		**100%**		40.6%

(ii) Sensitivity analysis

At 31 December 2009, changes in market interest rates would not have any effect on the group's profit after tax and retained profits. At 31 December 2008, it was estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the group's profit after tax and retained profits by approximately $8,272,000.

The sensitivity analysis above indicates the instantaneous change in the group's profit after tax (and retained profits) that would arise assuming that the change in market interest rates had occurred at the balance sheet date and had been applied to remeasure those financial instruments held by the group which expose the group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the group at the balance sheet date, the impact on the group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates.

24 Financial risk management and fair values (continued)

(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 2009 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 2009 and 2008, Huade has no significant financial assets and liabilities denominated in a currency other than its functional currency, and thus has no significant exposure to foreign currency risk.

(e) Commodity 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 has not used commodity derivative instruments to hedge the potential price fluctuations of the petroleum products during 2008 and 2009.

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 2009 and 2008 because of the immediate or short term maturity of these financial instruments.

(g) Estimation of fair value

The following summaries 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.

25 Commitments

(a) Capital commitments outstanding at 31 December 2009 not provided for in the financial statements were as follows:

	The group	
	2009	2008
	$'000	$'000
Contracted for	**6,805**	1,490
Authorised but not contracted for	**–**	–
	6,805	1,490

(b) At 31 December 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The group	
	2009	2008
	$'000	$'000
Within 1 year	**2,622**	2,621
After 1 year but within 5 years	**3,733**	5,707
Authorised but not contracted for	**9,136**	9,765
	15,491	18,093

The group leases land and buildings with a lease term of two to thirty-two years. None of the leases includes contingent rentals.

26 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 represented the facilities drawn down by subsidiaries of $1,665,992,000 (2008: $990,665,000).

27 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 set out in note 7.

(b) During the year, 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, net of sales tax, which have been charged/(credited) to the consolidated income statement are as follows:

	2009 **$'000**	2008 $'000
Crude oil sold by the group (note (i))	**(14,177,779)**	(17,881,542)
Crude oil purchased by the group and related charges (note (i))	**9,071,312**	11,604,666
Petroleum and petrochemical products sold by the group (note (i))	**(4,904,756)**	(4,215,821)
Petroleum and petrochemical products purchased by the group (note (i))	**–**	1,637,106
Insurance premium charged to the group (note (ii))	**5,131**	4,972
Crude oil refining and processing fees charged to the group (note (iii))	**259,242**	125,038
Jetty service fees charged by the group (note (iv))	**(491,076)**	(490,088)
Interest expense charged to the group (note (v))	**27,260**	39,210
Rental expense charged to the group (note (vi))	**2,622**	1,978

27 Material related party transactions (continued)

(b) (continued)

Notes:

The above transactions were conducted in accordance with the following terms:

(i) The crude oil and petroleum products trading transactions were carried out in accordance with the terms of the relevant sales and purchase agreements and on terms agreed between the parties having regard to commercial practice of the crude oil industry and international market conditions during the year the transactions were entered into.

(ii) The insurance premium was calculated by reference to the provisions of a document jointly issued by its ultimate holding company and the Ministry of Finance in the PRC in 1998 and at a predetermined percentage as revised by its ultimate holding company from time to time.

(iii) The group engaged the intermediate holding company to refine and process crude oil into various types of petroleum products on behalf of the group. The crude oil refining and processing fees were charged in accordance with the terms of the relevant refining and processing agreements.

(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) other interest-bearing borrowings as disclosed in note 18. The interest was charged at LIBOR plus a spread ranging from 0.48% to 1.55%.

(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 15 and 17.

(d) As disclosed in note 12(e) to the 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 receipt of approval from the relevant local PRC governmental authorities.

27 Material related party transactions (continued)

(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 entered into transactions with other state-controlled entities including but not limited to the following:

– sales and purchases of crude oil, petroleum and petrochemical products;

– construction work;

– rendering and receiving services; and

– use of public utilities.

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

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

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

	2009	2008
	$'000	$'000
Crude oil, petroleum and petrochemical products purchased by the group	**11,818,924**	12,474,032
Crude oil, petroleum and petrochemical products sold by the group	**(1,530,597)**	(5,613,735)
Jetty service fees charged by the group	**(22,164)**	(8,096)
Construction work performed	**–**	16,507
Amounts due from other state-controlled entities	**30,736**	24,348
Amounts due to other state-controlled entities	**(4,461)**	(9,987)

27 Material related party transactions (continued)

(e) (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 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 in the PRC are as follows:

	2009	2008
	$'000	$'000
Interest income	**(475)**	(230)
Interest expenses	**1,651**	20,040

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

	2009	2008
	$'000	$'000
Cash and cash equivalents	**13,526**	18,622
Short-term loans	**–**	(990,665)

28 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 year'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.

29 Immediate and ultimate controlling party

At 31 December 2009, 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.

30 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 condition 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 judgements and estimates used in the preparation of the financial statements.

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. Any revision of useful life of the group's fixed assets may have a significant impact to the group's operating results.

(Expressed in Hong Kong dollars unless otherwise indicated)

30 Accounting estimates and judgements (continued)

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 that estimated.

31 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2009

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 2009 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
HKFRS 3 (revised), *Business combinations*	1 July 2009
Amendments to HKAS 27, *Consolidated and separate financial statements*	1 July 2009
Amendments to HKAS 39, *Financial instruments: Recognition and measurement-Eligible hedged items*	1 July 2009
HK(IFRIC) 17, *Distributions of non-cash assets to owners*	1 July 2009
Improvements to HKFRSs 2009	1 July 2009 or 1 January 2010

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 result in a restatement of the group's results of operations and financial position.

FIVE YEAR SUMMARY

(Expressed in Hong Kong dollars)

	2005 $'000	2006 $'000	2007 $'000	2008 $'000	**2009** **$'000**
Results					
Turnover	12,150,603	14,774,806	17,364,733	29,349,906	**21,281,232**
Profit from operations	223,757	293,905	248,154	293,366	**278,389**
Finance costs	(20,601)	(46,937)	(80,811)	(100,440)	**(29,975)**
Profit before taxation	203,156	246,968	167,343	192,926	**248,414**
Taxation	(23,774)	(28,603)	(39,463)	(47,639)	**(51,587)**
Profit for the year	179,382	218,365	127,880	145,287	**196,827**
Attributable to:					
– Equity shareholders of the company	135,578	156,856	127,880	145,287	**196,827**
– Minority interests	43,804	61,509	–	–	**–**
Profit for the year	179,382	218,365	127,880	145,287	**196,827**
Assets and liabilities					
Fixed assets	1,594,260	1,883,749	2,130,566	2,083,141	**1,950,801**
Intangible assets	80,077	–	–	–	**–**
Net current assets/ (liabilities)	461,501	(191,946)	(222,481)	62,977	**359,734**
Total assets less current liabilities	2,135,838	1,691,803	1,908,085	2,146,118	**2,310,535**
Non-current liabilities	(11,361)	–	–	–	**–**
NET ASSETS	2,124,477	1,691,803	1,908,085	2,146,118	**2,310,535**

FIVE YEAR SUMMARY

(Expressed in Hong Kong dollars)

	2005 $'000	2006 $'000	2007 $'000	2008 $'000	**2009** **$'000**
Capital and reserves					
Share capital	103,683	103,683	103,683	103,683	**103,683**
Reserves	1,551,519	1,588,120	1,804,402	2,042,435	**2,206,852**
Total equity attributable to equity shareholders of the company	1,655,202	1,691,803	1,908,085	2,146,118	**2,310,535**
Minority interests	469,275	–	–	–	**–**
TOTAL EQUITY	2,124,477	1,691,803	1,908,085	2,146,118	**2,310,535**
Earnings per share					
Basic	13.08 cents	14.30 cents	12.33 cents	14.01 cents	**18.98 cents**

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. 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 SECRETARIES

Mr. Li Wen Ping, 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 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