SINOPEC KANTONS HOLDINGS LIMITED

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

Annual Report **2010**

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Chairman's Statement

In 2010, the Board made a major decision on our development strategy, which was to seize the opportunities from Sinopec upon the expansion of their international operations and actively combine its market advantage in petrochemical trading and logistics, so as to develop our storage and petrochemical products shipping businesses to build the Group into a first-class international petrochemical storage and logistics company.

Mr. Dai Zhao Ming Chairman

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.

In 2010, the Board remained committed to its focus on scientific development, innovation and pioneering spirit. After careful analysis and research, the Board made a major decision on both our development and business strategies, which was to seize the opportunities from China Petroleum & Chemical Corporation ("Sinopec") upon the expansion of their international operations and actively combine its market advantage in petrochemical trading and logistics, so as to develop our storage and petrochemical products shipping businesses to build the Group into a first-class international petrochemical storage and logistics company. In 2010, while we actively developed our storage and logistic projects, we adjusted our business strategy. We ceased the trading of certain products during the business transformation. In order to ensure the stability of our business results, we strengthened the business and operational management, so as to enhance the operation of Huade Petrochemical Company Limited ("Huade") storage facilities. In 2010, the Group's turnover was approximately HK$16.6 billion, representing a decrease of approximately 22.0% as compared with last year, with earnings attributable to equity shareholders of HK$196 million, which is in line with last year's results.

In order to develop our storage business from integration of international petroleum trading business of Sinopec and our storage business, our controlling shareholder Sinopec conducted an internal reorganization of its shareholding structure in 2010 and transferred all of its 100% equity interest in Sinopec Kantons International Co. Ltd. to China International United Petroleum & Chemical Co., Ltd. ("UNIPEC"). UNIPEC, a wholly owned subsidiary of Sinopec, is one of the largest oil trading companies in the world, it principally engaged in import of crude oil, import and export of oil products, oil processing for Sinopec and conducts other international oil trading businesses. Through its incorporation with UNIPEC, the Group can provide ancillary storage and logistic services for UNIPEC's petroleum and petrochemical products trading business, which was an important initiative for the development of our storage business and laid a foundation for the Group to develop a stronger and larger storage and logistics business. In order to actively explore the development of our storage business and to strengthen our storage and logistics capabilities, our Group entered a joint venture framework agreement in relation to the


construction of a 2.6 million m^3 oil storage complex and ancillary facilities in Indonesia in 2010. As there are currently some uncertainties involved, alternatives proposals for the project are simultaneously being prepared. Additionally, as a major initiative for the Company to participate in the petrochemical product shipping business, after consideration and approval by the Board, we entered into the "Joint Investment Agreement of LNG Shipping Investment Company" with China Shipping Development Company Limited in 2010. The set up of the joint venture is not yet completed.

In 2010, our wholly-owned subsidiary Huade strenthened its storage and production businesses by reinforcing its operational management and optimizing its storage and production, so as to enhance the capacity and efficiency of its facilities and increase the economic benefits to ensure profitability and stability during our business transformation. In 2010, there were approximately 79 oil tankers berthed, with approximately 11.88 million tonnes of crude oil unloaded and approximately 11.76 million tonnes of crude oil transported, representing an increase of approximately 6.0% and approximately 4.9% respectively as compared with last year. Segment profit of Huade amounted to approximately HK$235 million, representing an increase of approximately 2.9% as compared with last year.

To achieve our business transformation and focus on the development of our storage and logistics businesses, we ceased the trading of certain petrochemical products, which has temporarily affected the results of our trading business. Our trading of crude oil reached approximately 3.16 million tonnes for the year, a decrease of approximately 28.4% as compared with last year; export of processed oil products reached approximately 387,000 tonnes, a decrease of approximately 69.5% as compared with last year. The trading business recorded revenue of approximately HK$16.0 billion, representing a decrease of approximately 22.8% as compared with last year; and the segment profit declined by approximately 38.9% to approximately HK$15.34 million as compared with last year.


Chairman's Statement

Looking forward into 2011, it is expected that the global economy will gradually recover from the economic downturn and the Chinese economy will continue to maintain its rapid economic growth. The demand for petroleum and petrochemical products will increase with the economic growth. We will seize this opportunity by profiting from the continued growth in the trading of petroleum and petrochemical products, paying attention to the needs for the development of Sinopec's international operation and actively carrying out the establishment and operation of the petrochemical storage and logistics business, so as to achieve an ideal strategic positioning for the Group as soon as possible and create better returns for our shareholders.

By order of the Board
Dai Zhao Ming
Chairman

Hong Kong, 22 March 2011

Management Discussion and Analysis

TURNOVER

For the year ended 31 December 2010, the turnover of the Group amounted to HK$16,592,880,000 (2009: HK$21,281,232,000). The decrease in turnover was due to our business transformation in 2010. In order to focus on the development of our storage business, we ceased the trading of processed oil and petrochemical products, which significantly reduced the revenue from the trading of processed oil and petrochemical products.

LIQUIDITY AND SOURCE OF FINANCE

As at 31 December 2010, cash on hand and bank balances totalled approximately HK$724,711,000 (31 December 2009: HK$28,175,000); interest-bearing loans from a fellow subsidiary were approximately HK$156,034,000 (31 December 2009: HK$1,665,992,000). There was no bank borrowing as at 31 December 2010.

GEARING RATIO

As at 31 December 2010, the Group's current ratio (current assets to current liabilities) was 3.16 (31 December 2009: 1.12) and gearing ratio (total liabilities to total assets) was 10.2% (31 December 2009: 55.5%).

TRADE AND OTHER RECEIVABLES

As at 31 December 2010, the Group's trade and other receivables balance was HK$188,176,000 (31 December 2009: HK$2,416,188,000). The significant decrease in trade receivables was due to the cessation of the trading of processed oil and petrochemical products during the year.

INVENTORIES

As at 31 December 2010, the Group had inventories of HK$4,370,000 (31 December 2009: HK$736,334,000). The significant decrease in inventories as compared to 2009 was due to the cessation of trading of processed oil and petrochemical products resulting from our business transformation in 2010.

EMPLOYEES AND EMOLUMENT POLICIES

As at 31 December 2010, the Group had a total of 188 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 2010 with the applicable code 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.

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 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 information for the year ended 31 December 2010.

CODE FOR SECURITIES TRANSACTIONS

For the year ended 31 December 2010, all the directors confirmed that they have met with the standards of the Model Code on Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

Report of the Directors

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2010.

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES

The company acts as an investment holding company. The principal activities and other particulars of its principal subsidiaries are set out in note 14 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 12 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the group's total	
	Sales	**Purchase**
The largest customer	75%	
Five largest customers in aggregate	97%	
The largest supplier		83%
Five largest suppliers in aggregate		100%

China Petrochemical Corporation ("Sinopec Group Company"), the controlling shareholder indirectly holds more than 70% of the company's issued share capital, had beneficial interests in all of the five largest customers and two of the five largest suppliers.

FINANCIAL STATEMENTS

The profit of the group for the year ended 31 December 2010 and the state of affairs of the company and the group as at that date are set out in the financial statements on pages 23 to 86.

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of HK$195,687,000 (2009: HK$196,827,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

Report of the Directors

DIVIDENDS

The board declared a dividend of HK$0.035 per share payable in cash for 2010 (2009: HK$0.035 per share), excluding the interim dividend of HK$0.015 per share for 2010 paid on 18 October 2010 (2009: HK$0.015 per share), the final dividend of HK$0.02 per share for 2010 (2009: HK$0.02 per share) will be paid to all the shareholders whose names appear in the register of the members of the company on 20 May 2011.

The register of members of the company will be closed from 16 May 2011 (Monday) to 20 May 2011 (Friday) (both days inclusive) during which period no transfer of shares can be registered. In order to qualify for the proposed final dividend, all share transfers, accompanied by the relevant share certificates, must be lodged with Tricor Secretaries Limited, the branch share registrars of the company at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 13 May 2011 (Friday). The cheques for dividend payment will be sent to shareholders on or about 20 June 2011 (Monday).

FIXED ASSETS

During the year, the group spent approximately HK$25,896,000 (2009: HK$24,104,000) on the construction of jetty storage facilities situated in the People's Republic of China (the "PRC"). Details of movements in fixed assets are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of the share capital of the company during the year are set out in note 23(c) 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. Dai Zhao Ming, Mr. Ye Zhi Jun and Ms. Tam Wai Chu, Maria will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election

DIRECTORS' SERVICE CONTRACTS

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 2010, 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, or any of its holding companies, subsidiaries or other 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.

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 2010, 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:

	Total number of ordinary shares held	Approximate percentage of total issued shares
Sinopec Kantons International Limited	750,000,000	72.34%

Note: The entire issued share capital of Sinopec Kantons International Limited is held by China International United Petroleum & Chemical Co., Ltd. ("UNIPEC"). UNIPEC is a wholly owned subsidiary of China Petroleum & Chemical Corporation which is a subsidiary of 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

As at 31 December 2010, the Company had no bank loans. Particulars of interest-bearing loans of the group as at 31 December 2010 are set out in note 19 to the financial statements.

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 page 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 2010.

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

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

By order of the Board of Directors
Dai Zhao Ming
Chairman

Hong Kong, 22 March 2011

Connected Transactions

I REGARDING APPROVAL OF THE CONTINUING CONNECTED TRANSACTIONS FOR THE THREE FINANCIAL YEARS ENDING 31 DECEMBER 2013

The approval for the continuing connected transactions for the three financial years ended 31 December 2010 at the special general meeting of the Company convened on 21 September 2007 and approval for amendment at the special general meeting of the Company convened on 18 September 2008 expired on 31 December 2010. In compliance with relevant requirements of Chapter 14A of the Listing Rules and to ensure the normal development of our business and to adapt to our business transformation, the Company announced on 16 November 2010 and despatched a circular to the shareholders on 17 November 2010 to convene a special general meeting of the Company on 6 December 2010 for the approval and ratification of the continuing connected transactions including crude oil jetty services, crude oil supply, crude oil sourcing, vessel charter and financial services for the three financial years ending 31 December 2013 in relation to such continuing connected transactions, the Group entered into Framework Agreements on 15 November 2010 as below:

1. The Company entered into the "Sinopec Guangzhou Branch Framework Master Agreement" with Sinopec Guangzhou Branch for the provision of crude oil jetty services;

2. The Company entered into the "UNIPEC Framework Master Agreement" with UNIPEC for the provision of crude oil jetty services, crude oil sourcing and crude oil supply services;

3. The Company entered into the "UNIPEC Vessel Charter Framework Master Agreement" with UNIPEC for the provision of vessel charter services;

4. The Company entered into the "Century Bright Financial Services Framework Master Agreement" with Sinopec Century Bright Capital Investment Limited for the provision of financial services outside the PRC;

5. The Company's subsidiary Huade entered into the "Financial Services Framework Master Agreement" with Sinopec Company Finance for the provision of financial services within the PRC.

The Company has obtained approval for the above Framework Agreements and the Continuing Connected Transactions at the special general meeting held on 6 December 2010. For details of the Continuing Connected Transactions, please refer to the announcement released on 16 November 2010 on the website of HKEx (http://www.hkex.com.hk) and the Company (www.sinopec.com.hk).

II REGARDING THE TERMINATION OF THE SALE OF LAND USE RIGHT TO SINOPEC GROUP CRUDE OIL COMMERCIAL STORAGE COMPANY LIMITED FROM HUADE

The Company's subsidiary Huade entered into a Conditional Sale and Purchase Agreement (the "Agreement") of Land Use Right with Sinopec Group Crude Oil Commercial Storage Company Limited ("SGCCS") on 22 October 2008. As set out in the Agreement, Huade will sell the land use rights in relation to the Land located at the north side of Yan Bei Village, Ao Tou, Huizhou City, Guangdong Province, PRC to SGCCS at a consideration of RMB151,953,600. The Company obtained approval for the Agreement in the Special General Meeting held on 2 December 2008. As at 30 August 2010, one of the conditions of the Agreement, which is the "approval by the relevant local PRC governmental authorities of the transfer of the Land", is not fulfilled. Therefore, after approval of the Board, the Termination of Land Sale Agreement was signed on 30 August 2010.

III REGARDING THE ACQUISITION OF PROPERTIES

Due to the needs for production and living stability of Huade, Huade bid for the Properties at auction at a consideration of RMB4,100,600 for the acquisition of certain properties at Jinhui Huayuan, Danshui Town, Huiyang City, Guangdong Province was approved by the Board. According to Rule 14A.34 of the Listing Rules, the transaction was exempted from approval by independent shareholders. Details of the transaction were set out on the website of HKEx (http://www.hkex.com.hk) and the Company (www.sinopec.com.hk) on 19 March 2010.

IV INFORMATION ON THE CONNECTED TRANSACTIONS MADE DURING THE YEAR

In 2010, 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 45, 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., 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. 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 and sole executive director of Unipec. With working experience of more than 20 years, he has accumulated profound practicing knowledge in company's integrated planning, 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 55, 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 47, 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; and Party Secretary and deputy general manager of China Petroleum & Chemical Corporation Baling Branch since September 2008; and general manager of China Petroleum & Chemical Corporation Baling Branch since July 2010. Mr. Zhu has been the Director of the Company since March 2004.

Mr. Tan Ke Fei, aged 44, 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, 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. from 2006 to October 2010, and deputy officer of Human Resource Department of China Petroleum & Chemical Corporation since November 2010. Mr. Tan has been the Executive Director of Sinopec Kantons Holdings Limited since April 2007.

Mr. Zhou Feng, aged 45, 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 45, 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 87, 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 65, 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 and Green Fun Limited. She is a member of Advisory Committee on Corruption and Witness Protection Review Board of Independent Commission Against Corruption of Hong Kong, 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.

Directors and Senior Management

Mr. Fong Chung, Mark, aged 59, the former 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 41, 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 44, 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 48, 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 45, 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 2010, 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 eight full Board meetings in 2010. Attendance of the full Board meetings are as follows:

Attendance	No. of meetings attended
Mr. Dai Zhao Ming	5
Mr. Zhu Zeng Qing	6
Mr. Zhu Jian Min	3
Mr. Tan Ke Fei	2
Mr. Zhou Feng	8
Mr. Ye Zhi Jun	8
Mr. Wong Po Yan	8
Ms. Tam Wai Chu, Maria	8
Mr. Fong Chung, Mark	8

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 2010, the Audit Committee held two meetings to review the annual results of the group for the financial year ended 31 December 2009 and the interim results for the six months ended 30 June 2010 and had 100 percent attendance. The company's annual results for the financial year ended 31 December 2010 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

In 2010, auditors' remuneration in relation to audit and other advisory services amounted to HK$1.70 million (2009: HK$2.66 million). The following remuneration was paid by the group to its auditor, KPMG:

(in HK$ millions)	**2010**	2009
Audit services	**1.03**	1.00
Taxation services	**0.05**	0.05
Other advisory services	**0.62**	1.61
Total	**1.70**	2.66

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 2010. The Board had, with the management, conducted a high-level risk assessment of its core business management procedures and risk management function for enhancing the internal control policies and procedures of the Company.

DIRECTORS' RESPONSIBILITIES FOR PREPARING ACCOUNTS

The Board acknowledge that they are responsible for the preperation of financial statements which give a true and fair view.

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

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") and its subsidiaries (together "the group") set out on pages 23 to 86, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the company are responsible for the preparation of consolidated financial statements that give a true and fair view 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 and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 consolidated 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 2010, 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

22 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

(Expressed in Hong Kong dollars)

	Note	2010 *$'000*	2009 *$'000*
Turnover	4 & 12	**16,592,880**	21,281,232
Cost of sales		**(16,292,059)**	(20,971,843)
Gross profit		**300,821**	309,389
Other revenue	5	**9,313**	7,780
Other net income/(loss)	5	**9,892**	(2,251)
Distribution costs		**(6,241)**	(5,630)
Administrative expenses		**(45,839)**	(30,899)
Profit from operations		**267,946**	278,389
Finance costs	6(a)	**(15,898)**	(29,975)
Profit before taxation	6	**252,048**	248,414
Income tax	7(a)	**(56,361)**	(51,587)
Profit for the year		**195,687**	196,827
Basic and diluted earnings per share (cents)	11	**18.87**	18.98

The notes on pages 30 to 86 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 2010

(Expressed in Hong Kong dollars)

	2010	2009
	$'000	*$'000*
Profit for the year	**195,687**	196,827
Other comprehensive income for the year (Note):		
Exchange differences on translation of financial statements of overseas subsidiaries	**73,663**	3,879
Total comprehensive income for the year	**269,350**	200,706

Note: The component of the other comprehensive income does not have any tax effect for the years ended 31 December 2010 and 2009.

The notes on pages 30 to 86 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Non-current assets			
Fixed assets	13		
– Investment properties		**33,397**	34,438
– Other property, plant and equipment		**1,801,816**	1,850,264
– Interests in leasehold land held for own use under operating leases		**79,548**	66,099
		1,914,761	1,950,801
Current assets			
Inventories	15	**4,370**	736,334
Non-current assets held for sale	13(e)	**–**	65,597
Trade and other receivables	16	**188,176**	2,416,188
Tax recoverable	20	**2,072**	–
Cash and cash equivalents	17	**724,711**	28,175
		919,329	3,246,294
Current liabilities			
Trade and other payables	18	**125,122**	1,208,840
Interest-bearing borrowings	19	**156,034**	1,665,992
Tax payable	20	**9,338**	11,728
		290,494	2,886,560
Net current assets		**628,835**	359,734
NET ASSETS		**2,543,596**	2,310,535

Consolidated Statement of Financial Position

At 31 December 2010

(Expressed in Hong Kong dollars)

	Note	**2010**	2009
		$'000	*$'000*
CAPITAL AND RESERVES			
Share capital	23(c)	**103,683**	103,683
Reserves	23(d)	**2,439,913**	2,206,852
TOTAL EQUITY		**2,543,596**	2,310,535

Approved and authorised for issue by the board of directors on 22 March 2011.

Dai Zhao Ming
Chairman

Ye Zhi Jun
Director

The notes on pages 30 to 86 form part of these financial statements.

Statement of Financial Position

At 31 December 2010

(Expressed in Hong Kong dollars)

	Note	**2010**	2009
		$'000	*$'000*
Non-current assets			
Interests in subsidiaries	14	**971,730**	871,729
Current assets			
Other receivables	16	**–**	180,000
Cash and cash equivalents	17	**22**	23
		22	180,023
Current liabilities			
Other payables	18	**237,926**	298,744
Net current liabilities		**(237,904)**	(118,721)
NET ASSETS		**733,826**	753,008
CAPITAL AND RESERVES	23(a)		
Share capital	23(c)	**103,683**	103,683
Reserves		**630,143**	649,325
TOTAL EQUITY		**733,826**	753,008

Approved and authorised for issue by the board of directors on 22 March 2011.

Dai Zhao Ming
Chairman

Ye Zhi Jun
Director

The notes on pages 30 to 86 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

(Expressed in Hong Kong dollars)

	Note	Attributable to equity shareholders of the company						
		Share capital (Note 23 (c))	**Share premium** (Note 23 (d)(i))	**Merger reserve** (Note 23 (d)(ii))	**General reserves** (Note 23 (d)(iii))	**Exchange reserve** (Note 23 (d)(iv))	**Retained profits**	**Total equity**
		$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Balance at 1 January 2009		103,683	333,857	23,444	113,341	343,002	1,228,791	2,146,118
Changes in equity for 2009:								
Profit for the year		–	–	–	–	–	196,827	196,827
Other comprehensive income		–	–	–	–	3,879	–	3,879
Total comprehensive income		–	–	–	–	3,879	196,827	200,706
Dividends approved in respect of the previous year	23(b)	–	–	–	–	–	(20,737)	(20,737)
Appropriation of reserves		–	–	–	18,594	–	(18,594)	–
Dividends declared in respect of the current year	23(b)	–	–	–	–	–	(15,552)	(15,552)
Balance at 31 December 2009 and 1 January 2010		103,683	333,857	23,444	131,935	346,881	1,370,735	2,310,535
Changes in equity for 2010:								
Profit for the year		**–**	**–**	**–**	**–**	**–**	**195,687**	**195,687**
Other comprehensive income		**–**	**–**	**–**	**–**	**73,663**	**–**	**73,663**
Total comprehensive income		**–**	**–**	**–**	**–**	**73,663**	**195,687**	**269,350**
Dividends approved in respect of the previous year	23(b)	**–**	**–**	**–**	**–**	**–**	**(20,737)**	**(20,737)**
Appropriation of reserves		**–**	**–**	**–**	**36,244**	**–**	**(36,244)**	**–**
Dividends declared in respect of the current year	23(b)	**–**	**–**	**–**	**–**	**–**	**(15,552)**	**(15,552)**
Balance at 31 December 2010		**103,683**	**333,857**	**23,444**	**168,179**	**420,544**	**1,493,889**	**2,543,596**

The notes on pages 30 to 86 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2010

(Expressed in Hong Kong dollars)

	Note	2010 *$'000*	2009 *$'000*
Operating activities			
Cash generated from operations	17(b)	**2,332,040**	58,281
Hong Kong Profits Tax paid		**(5,638)**	(2,735)
PRC tax paid		**(55,515)**	(38,586)
Net cash generated from operating activities		**2,270,887**	16,960
Investing activities			
Payment for the purchase of property, plant and equipment		**(26,553)**	(14,413)
Interest received		**547**	536
Proceeds from disposal of property, plant and equipment		**4**	490
Dividends received from a disposed subsidiary		**–**	37,688
Net cash (used in)/generated from investing activities		**(26,002)**	24,301
Financing activities			
Proceeds from new interest-bearing borrowings		**10,696,544**	9,865,005
Repayment of bank loans and interest-bearing borrowings		**(12,206,502)**	(9,867,532)
Dividends paid		**(36,289)**	(36,289)
Finance costs paid		**(19,461)**	(25,115)
Net cash used in financing activities		**(1,565,708)**	(63,931)
Net increase/(decrease) in cash and cash equivalents		**679,177**	(22,670)
Cash and cash equivalents at 1 January		**28,175**	50,813
Effect of foreign exchange rate changes		**17,359**	32
Cash and cash equivalents at 31 December	17	**724,711**	28,175

The notes on pages 30 to 86 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 2010 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 financial guarantees issued that are stated at their fair value as explained in the accounting policy set out in note 1(o)(i) 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(s)).

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 29.

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.

Changes in the group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

In the company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(g)).

(d) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(f)) 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.

The group accounts for its investment properties under the cost method and they are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line basis so as to amortise the cost of each investment property over its estimated useful life of 50 years. Rental income from investment properties is accounted for as described in note 1(p)(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(f)), 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)*

(e) Other property, plant and equipment

The following items of property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 1(g)):

– 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(f)).

– 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(f)); 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(r)).

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 life, being from 8 years to 50 years, and the unexpired term of the leases; and

– Leasehold improvements are depreciated over the shorter of their estimated useful life, being 10 years from the date of completion, and the unexpired term of the relevant lease; and

–	Jetty structures	20 – 25 years
–	Jetty facilities	12 – 20 years
–	Plant and machinery	5 – 20 years
–	Furniture, fixtures and equipment	5 – 30 years
–	Motor vehicles and vessels	5 – 10 years

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) 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.

(f) 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(d)); 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 held 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Leased assets *(continued)*

(ii) Operating lease charges *(continued)*

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except the property is classified as an investment property (see note 1(d)).

(g) Impairment of assets

(i) Impairment of receivables

Trade and other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period 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, 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)*

(g) 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 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 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 the end of each reporting period 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)*

(g) 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 and impairment

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

(h) 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)*

(h) 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.

(i) 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(g)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(j) Interest-bearing borrowings

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

(k) 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(o)(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.

(l) 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)*

(m) 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.

(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.

(n) 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 tax rates enacted or substantively enacted at the end of the reporting period, 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)*

(n) 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 end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period 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.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) 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.

(o) 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Financial guarantees issued, provisions and contingent liabilities *(continued)*

(i) Financial guarantees issued *(continued)*

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

(ii) Other provisions and contingent liabilities

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

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

(p) 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 revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Revenue recognition *(continued)*

(ii) Crude oil jetty service income

Crude oil jetty service income is recognised when the services are rendered. Revenue excludes 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.

(q) 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 end of the reporting period. Exchange gains and losses are recognised in profit or loss.

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. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates ruling at the end of the reporting period. 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) 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 is 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.

(s) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the group and the company are concerned are deferred tax assets, financial assets (other than investments in subsidiaries) 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) 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.

(u) 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 two revised HKFRSs, a number of amendments to HKFRSs and two 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 3 (revised 2008), *Business combination*
- Amendments to HKAS 27, *Consolidation and separate financial statements*
- Improvements to HKFRSs (2009)

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

These developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

– The impact of the majority of the revisions to HKFRS 3 and HKAS 27 have not yet had a material effect on the group's financial statements as these changes will first be effective as and when the group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

– The amendments to HKFRS 3 (in respect of recognition of an acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have no impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

– The amendment introduced by the *Improvements to HKFRSs (2009)* omnibus standard in respect of HKAS 17, *Leases*, resulted in a change of classification of certain of the group's leasehold land interests located in the Hong Kong Special Administrative Region, but this had no material impact on the amounts recognised in respect of these leases as the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.

3 CHANGES OF ACCOUNTING ESTIMATES

Effective from 1 January 2010, the group revised its estimate of the useful lives of property, plant and equipment as follows:

	2010	2009
Buildings	**Shorter of their useful lives of 8 – 50 years and the unexpired terms of leases**	Shorter of their useful lives of 15 – 50 years and the unexpired terms of leases
Jetty structures	**20 – 25 years**	5 – 30 years
Jetty facilities	**12 – 20 years**	10 – 30 years
Plant and machinery	**5 – 20 years**	8 – 20 years
Furniture, fixtures and equipment	**5 – 30 years**	5 – 8 years
Motor vehicles	**5 – 10 years**	5 – 18 years
Residual values of all types of fixed assets	**3%**	10%

These changes were made, after taking into account commercial and technological obsolescence as well as normal wear and tear, to better reflect the estimated periods during which such assets will remain in service. Such changes had the effect of increasing the depreciation expense by approximately $22,573,000 and decreasing profit after taxation by approximately $17,607,000 for the year ended 31 December 2010 and each of the subsequent years until the assets are fully depreciated or disposed of.

4 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:

	2010 *$'000*	2009 *$'000*
Trading of crude oil, petroleum and petrochemical products	**16,033,182**	20,764,040
Crude oil jetty services	**559,698**	517,192
	16,592,880	21,281,232

4 TURNOVER *(continued)*

During the year ended 31 December 2010, the group derived revenue from its intermediate holding company and fellow subsidiaries from the segments of trading of crude oil, petroleum and petrochemical products and crude oil jetty services amounting to $15,821,907,000 (2009: $19,082,535,000) and $539,663,000 (2009: $491,076,000) respectively.

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

Further details regarding the group's principal activities are disclosed in note 12 to these financial statements.

5 OTHER REVENUE AND OTHER NET INCOME/(LOSS)

	2010	2009
	$'000	*$'000*
Other revenue		
Rental income	**1,312**	1,357
Interest income	**547**	536
Additional dividends received from a disposed subsidiary (note)	**–**	4,703
Recovery of doubtful other receivables	**6,884**	–
Others	**570**	1,184
	9,313	7,780

Note: The amount represented additional dividends received from a disposed subsidiary relating to its retained profits prior to 2006. The subsidiary was disposed of in 2006.

	2010	2009
	$'000	*$'000*
Other net income/(loss)		
Net foreign exchange gain/(loss)	**10,612**	(112)
Net loss on disposal of property, plant and equipment	**(169)**	(2,225)
Others	**(551)**	86
	9,892	(2,251)

For the year ended 31 December 2010

(Expressed in Hong Kong dollars)

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		2010 $'000	2009 $'000
(a)	**Finance costs**		
	Interest on bank borrowings and other interest-bearing borrowings wholly repayable within five years	**15,898**	29,975
(b)	**Staff costs**		
	Salaries, wages and other benefits (note)	**32,623**	9,021
	Contribution to defined contribution retirement plans	**4,297**	2,214
		36,920	11,235

Note: Salaries, wages and other benefits for the year ended 31 December 2009 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 of the directors' fees.

		2010 $'000	2009 $'000
(c)	**Other items**		
	Cost of inventories	**15,983,530**	20,703,395
	Depreciation	**174,819**	142,108
	Amortisation of interests in leasehold land held for own use under operating leases	**4,488**	3,402
	Auditors' remuneration		
	– audit services	**1,030**	1,079
	– taxation services	**56**	53
	– other advisory services	**624**	1,608
	Impairment losses on other receivables	**–**	6,814
	Operating lease charges: minimum lease payments		
	– property rentals	**1,978**	1,978
	– hire of other assets	**667**	1,071

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2010 *$'000*	2009 *$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**2,712**	4,792
Over-provision in respect of prior years	**(8)**	(162)
	2,704	4,630
Current tax – The PRC		
Provision for the year	**53,245**	46,957
Under-provision in respect of prior years	**412**	–
	53,657	46,957
	56,361	51,587

The provision for Hong Kong Profits Tax for 2010 is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the year. Taxation for the PRC and overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

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 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 entities 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 2010, temporary differences relating to the post-2007 undistributed profits of the group's PRC subsidiary amounted to $489,692,000 (2009: $337,571,000). Deferred tax liabilities of $48,969,000 (2009: $33,757,000) 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.

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(continued)*

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

	2010 *$'000*	2009 *$'000*
Profit before taxation	**252,048**	248,414
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**55,915**	50,656
Tax effect of non-deductible expenses	**131**	1,176
Tax effect of non-taxable income	**(16)**	(83)
Under/(over)-provision in prior years	**404**	(162)
Others	**(73)**	–
Actual tax expense	**56,361**	51,587

8 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*	2010 Total *$'000*
Executive directors			
Dai Zhao Ming	–	–	–
Zhu Zeng Qing	–	–	–
Tan Ke Fei	–	–	–
Zhu Jian Min	–	–	–
Zhou Feng	–	–	–
Ye Zhi Jun	–	1,358	1,358
Independent non-executive directors			
Tam Wai Chu	180	–	180
Fong Chung	180	–	180
Wong Po Yan	180	–	180
	540	1,358	1,898

8 DIRECTORS' REMUNERATION *(continued)*

	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

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2009: one) is a director whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other four (2009: four) individuals are as follows:

	2010 ***$'000***	2009 *$'000*
Salaries and other emoluments	**3,528**	2,765
Discretionary bonuses	**576**	964
	4,104	3,729

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS *(continued)*

The emoluments of the four (2009: four) individuals with the highest emoluments are within the following bands:

$	**2010 Number of individuals**	2009 Number of individuals
Nil-1,000,000	**1**	2
1,000,001-1,500,000	**3**	2

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the company includes a loss of $893,000 (2009: $1,530,000) 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:

	2010 ***$'000***	2009 *$'000*
Amount of consolidated loss attributable to equity shareholders dealt with in the company's financial statements	**(893)**	(1,530)
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 guarantees issued by the company to its subsidiaries	**18,000**	26,995
Company's profit for the year (note 23(a))	**17,107**	105,465

11 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the company of approximately $195,687,000 (2009: $196,827,000) and 1,036,830,000 (2009: 1,036,830,000) ordinary shares in issue throughout the year.

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

12 SEGMENT REPORTING

The group manages its businesses by divisions, which are organised by business lines (products and services). 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 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 petroleum and trades 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 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 investment properties, tax recoverable and other corporate assets. Segment liabilities include trade and other payables attributable to the activities of the individual segments, 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 12(b) to the financial statements.

12 SEGMENT REPORTING *(continued)*

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

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.

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 2010 and 2009 is set out below.

	Trading of crude oil, petroleum and petrochemical products		Crude oil jetty services		Total	
	2010	2009	**2010**	2009	**2010**	2009
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Revenue						
Revenue from external customers	**16,033,182**	20,764,040	**559,698**	517,192	**16,592,880**	21,281,232
Inter-segment revenue	**–**	–	**1,565**	2,557	**1,565**	2,557
Reportable segment revenue	**16,033,182**	20,764,040	**561,263**	519,749	**16,594,445**	21,283,789
Reportable segment profit (segment operating profit)	**15,343**	25,097	**235,433**	228,710	**250,776**	253,807
Interest income	**3**	17	**251**	519	**254**	536
Finance costs	**(10,188)**	(11,706)	**–**	–	**(10,188)**	(11,706)
Depreciation and amortisation for the year	**(1,301)**	(1,320)	**(177,798)**	(143,982)	**(179,099)**	(145,302)
Reportable segment assets	**822**	2,572,923	**2,077,337**	2,564,735	**2,078,159**	5,137,658
Additions to non-current segment assets during the year	**139**	97	**25,757**	24,007	**25,896**	24,104
Reportable segment liabilities	**94,580**	2,146,733	**43,371**	53,423	**137,951**	2,200,156

12 SEGMENT REPORTING *(continued)*

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

	2010 $'000	2009 $'000
Revenue		
Reportable segment revenue	16,594,445	21,283,789
Elimination of inter-segment revenue	(1,565)	(2,557)
Consolidated turnover	16,592,880	21,281,232
Profit		
Reportable segment profit	250,776	253,807
Elimination of inter-segment profits	(704)	(1,227)
Reportable segment profit derived from group's external customers	250,072	252,580
Unallocated other revenue and net income/(loss)	19,205	24,380
Unallocated depreciation and amortisation	(208)	(208)
Unallocated finance costs	(5,710)	(18,269)
Unallocated other corporate administrative costs	(11,311)	(10,069)
Consolidated profit before taxation	252,048	248,414
Assets		
Reportable segment assets	2,078,159	5,137,658
Elimination of inter-segment receivables	(4,249)	(3,178)
	2,073,910	5,134,480
Unallocated corporate assets	760,180	62,615
Consolidated total assets	2,834,090	5,197,095
Liabilities		
Reportable segment liabilities	137,951	2,200,156
Elimination of inter-segment payables	(4,249)	(3,178)
	133,702	2,196,978
Unallocated corporate liabilities	156,792	689,582
Consolidated total liabilities	290,494	2,886,560

13 FIXED ASSETS

(a) The group

	Buildings held for own use	Leasehold improve-ments	Jetty structures	Jetty facilities	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles and vessels	Construction in progress	Sub-total	Investment properties	Interests in leasehold land held for own use under operating leases	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost:												
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
Exchange adjustments	97	–	2,399	1,603	344	205	111	22	4,781	–	215	4,996
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)
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
At 1 January 2010	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
Exchange adjustments	2,181	–	53,596	29,745	189	4,364	2,395	827	93,297	–	5,239	98,536
Additions	315	–	–	–	–	55	84	25,442	25,896	–	–	25,896
Transfer from construction in progress	4,860	–	–	–	538	973	316	(6,687)	–	–	–	–
Transfer from non-current assets held for sale (note 13(e))	–	–	62,821	–	–	–	–	–	62,821	–	17,328	80,149
Disposals	–	–	–	–	(101)	(1,214)	(402)	–	(1,717)	–	–	(1,717)
At 31 December 2010	67,116	477	1,615,447	1,027,699	234,221	131,079	72,723	30,270	3,179,032	52,055	156,132	3,387,219

13 FIXED ASSETS *(continued)*

(a) The group *(continued)*

	Buildings held for own use $'000	Leasehold improve-ments $'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 2009	21,426	239	379,484	436,923	93,129	55,944	39,494	–	1,026,639	16,576	63,959	1,107,174
Exchange adjustments	35	–	660	720	150	87	64	–	1,716	–	105	1,821
Depreciation and amortization for the year	2,541	–	70,812	44,008	12,698	7,347	3,661	–	141,067	1,041	3,402	145,510
Reclassification	–	–	(1,685)	(2,705)	5,124	(734)	–	–	–	–	–	–
Written back on disposals	(2,456)	–	–	(10,562)	(1,344)	(5,236)	(1,353)	–	(20,951)	–	–	(20,951)
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
At 1 January 2010	21,546	239	449,271	468,384	109,757	57,408	41,866	–	1,148,471	17,617	67,466	1,233,554
Exchange adjustments	848	–	18,137	17,469	3,850	2,183	1,577	–	44,064	–	2,525	46,589
Depreciation and amortization for the year	3,523	88	86,541	49,529	15,754	11,473	6,870	–	173,778	1,041	4,488	179,307
Transfer from non-current assets held for sale (note 13(e))	–	–	12,447	–	–	–	–	–	12,447	–	2,105	14,552
Written back on disposals	–	–	–	–	(97)	(1,051)	(396)	–	(1,544)	–	–	(1,544)
At 31 December 2010	25,917	327	566,396	535,382	129,264	70,013	49,917	–	1,377,216	18,658	76,584	1,472,458
Net book value:												
At 31 December 2010	41,199	150	1,049,051	492,317	104,957	61,066	22,806	30,270	1,801,816	33,397	79,548	1,914,761
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

13 FIXED ASSETS *(continued)*

(b) All investment properties of the group are carried at their costs less accumulated depreciation and any accumulated impairment losses as at 31 December 2010. For disclosure purposes, the fair values of investment properties have been estimated on an open market value basis calculated by reference to recent market transactions in comparable properties. The fair value of the investment properties as at 31 December 2010 is estimated to be $59,100,000 (2009: $49,990,000). The valuations have been carried out by an independent firm of surveyors, Asset Appraisal Limited, who have among their Fellows of the Hong Kong Institute 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:

	2010	2009
	$'000	*$'000*
Long leases in Hong Kong	**33,397**	34,438
Medium-term leases in the PRC and Macau	**120,747**	104,313
	154,144	138,751
Representing:		
Investment properties	**33,397**	34,438
Buildings held for own use	**41,199**	38,214
Interests in leasehold land held for own use under operating leases	**79,548**	66,099
	154,144	138,751

(d) Fixed assets leased out under operating leases

(i) Jetty structures

In 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 group charged this customer based on actual tonnage passing through the dredging channel with no contingent rental arrangement.

The lessee is also required to pay a RMB3,000,000 fixed jetty service fee to the group annually if any vessels of the lessee with a transportation volume exceeding 120,000 tonnes passing through the dredging channel in a calendar year, otherwise no fixed 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.

13 FIXED ASSETS *(continued)*

(d) Fixed assets leased out under operating leases *(continued)*

(i) Jetty structures *(continued)*

In 2010, the group charged another customer a jetty service fee for vessels passing through its dredging channel. The group charged this customer based on actual tonnage passing through the dredging channel with no contingent rental arrangement. The lease arrangement runs for an initial period of one year with an option to renew the lease after that date at which time all terms will be renegotiated.

For the year ended 31 December 2010, the total jetty service fee charged to the customers under the above arrangements amounting to $20,687,000 (2009: $22,169,000).

(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:

	2010	2009
	$'000	*$'000*
Within 1 year	**695**	758
After 1 year but within 5 years	**–**	695
	695	1,453

(e) Non-current assets held for sale

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

In accordance with the Agreement, the group will sell the land use rights in relation to a parcel of land in the PRC and the structures associated with it to SGCCS for a cash consideration of RMB152,000,000. 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 as at 31 December 2010.

13 FIXED ASSETS *(continued)*

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

Since the sales transaction had not been approved by the relevant authorities in the PRC, Huade and SGCCS unconditionally agreed to terminate the Sale Agreement on 30 August 2010. Accordingly, the group's related non-current assets ceased to be classified as held for sale and were reclassified to fixed assets on 30 August 2010. The carrying amount of the non-current assets at that date was approximately $60,894,000, which represents the carrying amount of the fixed assets before they were classified as held for sale, adjusted for depreciation and amortisation that would have been recognised had the fixed assets not been classified as held for sale.

(f) Reclassification of fixed assets

During the year ended 31 December 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 of the reclassified fixed assets remain unchanged.

14 INTERESTS IN SUBSIDIARIES

	The company	
	2010	2009
	$'000	*$'000*
Unlisted shares or investments, at cost	**242,067**	242,067
Amounts due from subsidiaries	**729,663**	629,662
	971,730	871,729

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. The amounts are not expected to be repayable within one year from the end of the reporting period and accordingly, the balances are classified as non-current assets.

14 INTERESTS IN SUBSIDIARIES *(continued)*

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

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the group's 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 with a term of 35 years which expire in the year 2029.

15 INVENTORIES

(a) Inventories in the statement of financial position comprise:

	The group	
	2010	2009
	$'000	*$'000*
Crude oil	**–**	662,878
Petroleum and petrochemical products	**–**	70,546
Spare parts	**4,370**	2,910
	4,370	736,334

15 INVENTORIES *(continued)*

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The group	
	2010	2009
	$'000	*$'000*
Carrying amounts of inventories sold	**15,983,530**	20,703,395

16 TRADE AND OTHER RECEIVABLES

	The group		The company	
	2010	2009	**2010**	2009
	$'000	*$'000*	***$'000***	*$'000*
Dividend receivable from a subsidiary	**–**	–	**–**	180,000
Trade receivables	**2,028**	32,504	**–**	–
Amounts due from intermediate holding company and fellow subsidiaries				
– Trade	**184,280**	2,267,177	**–**	–
– Non-trade	**732**	114,283	**–**	–
Other receivables	**1,136**	2,224	**–**	–
	188,176	2,416,188	**–**	180,000

All of the trade and other receivables are expected to be recovered within one year. The amounts due from intermediate holding company and fellow subsidiaries are unsecured and interest free. The amounts due from intermediate holding company and fellow subsidiaries arising from trade-related transaction and non-trade related transactions are repayable with a credit term of 30 to 90 days and repayable on demand respectively.

16 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 end of the reporting period:

	The group	
	2010	2009
	$'000	*$'000*
Current	**48,391**	1,898,085
Less than 1 month past due	**47,589**	44,657
1 to 3 months past due	**17,745**	135,824
More than 3 months past due but less than 12 months past due	**72,583**	221,115
Amounts past due	**137,917**	401,596
	186,308	2,299,681

Trade debtors 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. Further details on the group's credit policy are 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 derived majority of its jetty service income from its intermediate holding company. 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 recoverability issue due to the ongoing collections and repayment history.

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

17 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The group		The company	
	2010	2009	**2010**	2009
	$'000	*$'000*	***$'000***	*$'000*
Deposits with banks	**419,016**	–	**–**	–
Cash at bank and in hand	**305,695**	28,175	**22**	23
	724,711	28,175	**22**	23

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

	Note	**2010**	2009
		$'000	*$'000*
Profit before taxation		**252,048**	248,414
Adjustments for:			
Depreciation and amortisation	13(a)	**179,307**	145,510
Finance costs	6(a)	**15,898**	29,975
Interest income	5	**(547)**	(536)
Net loss on disposal of property, plant and equipment	5	**169**	2,225
Foreign exchange (gain)/loss		**(8,018)**	572
Additional dividends received from a disposed subsidiary	5	**–**	(4,703)
		438,857	421,457
Changes in working capital:			
Decrease/(increase) in inventories		**731,964**	(453,639)
Decrease/(increase) in trade and other receivables		**2,228,012**	(632,482)
(Decrease)/increase in trade and other payables		**(1,066,793)**	722,945
Cash generated from operations		**2,332,040**	58,281

18 TRADE AND OTHER PAYABLES

	The group		The company	
	2010	2009	**2010**	2009
	$'000	*$'000*	***$'000***	*$'000*
Amounts due to subsidiaries	**–**	–	**233,843**	276,590
Amounts due to immediate holding company and fellow subsidiaries				
– Trade	**–**	1,066,415	**–**	–
– Non-trade	**69,448**	65,921	**–**	–
Creditors and accrued charges	**55,674**	76,504	**1,900**	1,971
Financial guarantees issued	**–**	–	**2,183**	20,183
	125,122	1,208,840	**237,926**	298,744

As at 31 December 2010 and 2009, the Company's amounts due to subsidiaries are not expected to be repayable within one year. All of the trade and other payables are expected to be settled within one year.

The amounts due to immediate holding company and fellow subsidiaries are unsecured and interest free. The amounts due to immediate holding company and fellow subsidiaries arising from trade-related transactions and non-trade related transactions are repayable with a credit term of 30 days and repayable on demand respectively.

Included in trade and other payables are amounts due to fellow subsidiaries arising from trade-related transactions with the following ageing analysis as of the end of the reporting period:

	The group	
	2010	2009
	$'000	*$'000*
Due within 1 month or on demand	**–**	1,064,391
Due after 1 month but within 3 months	**–**	2,024
	–	1,066,415

19 INTEREST-BEARING BORROWINGS

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

	The group	
	2010	2009
	$'000	*$'000*
Loans from a fellow subsidiary	**156,034**	1,665,992

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 amounting to US$87,000,000 (equivalent to $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. In July 2010, the group partially repaid the outstanding loan amounting to US$68,000,000 (equivalent to $530,400,000) upon renewal of the loan agreement. The outstanding loan amounting to US$19,000,000 (equivalent to $147,454,000) (2009: US$87,000,000 (equivalent to $677,854,000)) as at 31 December 2010 is unsecured and bears interest at 2.1% (2009: 1.6%) per annum, which is the London Interbank Offered Rate ("LIBOR") at the time of renewal of the loan agreement plus an interest rate spread of 1.15% (2009: 0.68%).

In addition, the group also obtained short-term import loans for its crude oil, petroleum and petrochemical trading business from Century Bright. As at 31 December 2010, the outstanding short-term loan amounting to US$1,100,000 (equivalent to $8,580,000) (2009: US$127,000,000 (equivalent to $988,138,000)) are unsecured and bear interest at 1.21% (2009: 0.7%) per annum, which is the LIBOR at the time of entering into the loan agreement plus an interest rate spread of 0.95% (2009: 0.48%). These short-term loans obtained from Century Bright are renewed on a monthly basis.

20 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the statement of financial position represents:

	The group	
	2010	2009
	$'000	*$'000*
Provision for Hong Kong Profits Tax for the year	**2,712**	4,792
Provisional Profits Tax paid	**(4,784)**	(2,735)
	(2,072)	2,057
Balance of Hong Kong Profits Tax provision relating to prior years	**–**	(1,195)
	(2,072)	862
PRC income tax payable	**9,338**	10,866
	7,266	11,728
Representing:		
Tax recoverable	**(2,072)**	–
Tax payable	**9,338**	11,728
	7,266	11,728

(b) No provision for deferred taxation has been made as the tax effect of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases are insignificant.

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 a defined contribution retirement scheme organised by the local government. Huade is required to make contributions to the pension fund schemes at a certain percentage of the employees' relevant basic salaries. Contributions to the scheme vest immediately.

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. 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. No options had been granted under the scheme since its inception. No options had been granted under the scheme since its inception. The scheme expired on 26 May 2009.

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 *$'000* (Note 23 (c))	Share premium *$'000* (Note 23 (d)(i))	Contributed surplus *$'000* (Note 23 (d)(v))	Retained profits *$'000*	Total *$'000*
Balance at 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)*

(a) Movement in components of equity *(continued)*

	Share capital *$'000* (Note 23 (c))	Share premium *$'000* (Note 23 (d)(i))	Contributed surplus *$'000* (Note 23 (d)(v))	Retained profits *$'000*	Total *$'000*
Balance at 1 January 2010	**103,683**	**333,857**	**242,397**	**73,071**	**753,008**
Changes in equity for 2010:					
Final dividends approved in respect of the previous year (note 23(b))	–	–	–	(20,737)	(20,737)
Total comprehensive income for the year	–	–	–	17,107	17,107
Interim dividends declared in respect of the current year (note 23(b))	–	–	–	(15,552)	(15,552)
Balance at 31 December 2010	**103,683**	**333,857**	**242,397**	**53,889**	**733,826**

(b) Dividends

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

	2010 *$'000*	2009 *$'000*
Interim dividend declared and paid of 1.5 cents (2009: 1.5 cents) per ordinary share	**15,552**	15,552
Final dividend proposed after the end of the reporting period of 2.0 cents (2009: 2.0 cents) per ordinary share	**20,737**	20,737
	36,289	36,289

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

23 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends *(continued)*

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

	2010	2009
	$'000	*$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of 2.0 cents (2009: 2.0 cents) per share	**20,737**	20,737

(c) Share capital

	2010		2009	
	Number of shares	**Amount**	Number of shares	Amount
	'000	***$'000***	*'000*	*$'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.

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by section 40 of Bermuda Companies Act 1981.

23 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(d) Nature and purpose of reserves *(continued)*

(ii) 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.

(iii) 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 for the year, as determined under the PRC accounting rules and regulations, to the statutory general reserve until the reserve balance reaches 50% of the paid-up capital of Huade. The transfer to this reserve must be made before distribution of dividends to equity owners. The statutory general 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.

The general reserves also included the excess of the consideration over the carrying value of the net assets acquired in respect of the acquisition of a 30% equity interest in Huade from Sinopec Guangzhou Petrochemical Complex in 2006 amounting to a debit balance of $141,279,000.

(iv) 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).

(v) 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.

23 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(d) Nature and purpose of reserves *(continued)*

(v) Contributed surplus *(continued)*

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 2010, the aggregate amount of reserves available for distribution to equity shareholders of the company was $296,286,000 (2009: $315,468,000). After the end of the reporting period the directors proposed a final dividend of 2.0 cents (2009: 2.0 cents) per ordinary share, amounting to $20,737,000 (2009: $20,737,000). The dividend has not been recognised as a liability at the end of the reporting period.

(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 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.

The group's strategy 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, 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.

23 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(f) Capital management *(continued)*

During the year ended 31 December 2010, the group has sped up its debt collection to reduce its debt and increase the amount of cash held in order to to meet the capital needs for various potential investment projects. As a result, the group was at a negative net debt position as at 31 December 2010.

The net debt-to-adjusted capital ratio at 31 December 2010 and 2009 was as follows:

		The group		The company	
	Note	**2010**	2009	**2010**	2009
		$'000	*$'000*	***$'000***	*$'000*
Current liabilities					
Trade and other payables	18	**125,122**	1,208,840	**237,926**	298,744
Interest-bearing borrowings	19	**156,034**	1,665,992	**–**	–
Total debts		**281,156**	2,874,832	**237,926**	298,744
Add: Proposed dividends	23(b)	**20,737**	20,737	**20,737**	20,737
Less: Cash and cash equivalents	17	**(724,711)**	(28,175)	**(22)**	(23)
Net debt		**(422,818)**	2,867,394	**258,641**	319,458
Total equity		**2,543,596**	2,310,535	**733,826**	753,008
Proposed dividends	23(b)	**(20,737)**	(20,737)	**(20,737)**	(20,737)
Adjusted capital		**2,522,859**	2,289,798	**713,089**	732,271
Net debt-to-adjusted capital ratio		**-17%**	125%	**36%**	44%

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 the 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 end of the reporting period, the group has a certain concentration of credit risk as 98% (2009: 37%) and 98% (2009: 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 statement of financial position 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 16.

(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 its current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions and a fellow subsidiary to meet its liquidity requirements in the short and longer term. As at 31 December 2010, the group has unutilised credit facilities of approximately $7,269,000,000 (2009: $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 twelve months.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(b) Liquidity risk *(continued)*

The following table details the remaining contractual maturities at the end of the reporting period 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 end of the reporting period) and the earliest date the group and the company can be required to pay:

The group

	2010		
	Within 1 year or on demand *$'000*	**Total contractual undiscounted cash flow** *$'000*	**Carrying amount at 31 December** *$'000*
Interest-bearing borrowings	**156,331**	**156,331**	**156,034**
Creditors and accrued charges	**55,674**	**55,674**	**55,674**
Amounts due to immediate holding company and fellow subsidiaries	**69,448**	**69,448**	**69,448**
	281,453	**281,453**	**281,156**

	2009		
	Within 1 year or on demand *$'000*	Total contractual undiscounted cash flow *$'000*	Carrying amount at 31 December *$'000*
Interest-bearing borrowings	1,667,298	1,667,298	1,665,992
Creditors and accrued charges	76,504	76,504	76,504
Amounts due to immediate holding company 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 company

	2010		
	Within 1 year or on demand	**Total contractual undiscounted cash flow**	**Carrying amount at 31 December**
	$'000	***$'000***	***$'000***
Creditors and accrued charges	**1,900**	**1,900**	**1,900**

	2009		
	Within 1 year or on demand	Total contractual undiscounted cash flow	Carrying amount at 31 December
	$'000	*$'000*	*$'000*
Creditors and accrued charges	1,971	1,971	1,971

As at 31 December 2010 and 2009, the amounts due to subsidiaries $233,843,000 (2009: $276,590,000) have no fixed terms of repayment. The directors do not expect these amounts to be repayable within one year from the end of the reporting period.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(c) Interest rate risk

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

(i) Interest rate profile

The following table details the interest rate profile of the group's interest-bearing borrowings at the end of the reporting period.

	2010		2009	
	Effective interest rate	**Amount**	Effective interest rate	Amount
		$'000		*$'000*
Variable rate borrowings:				
Interest-bearing borrowings	**2.1%**	**156,034**	1.1%	1,665,992

(ii) Sensitivity analysis

At 31 December 2010, it was estimated that a general decrease/increase of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the group's profit after tax and retained profits by approximately $1,303,000 (2009: $13,911,000).

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 interest rates had occurred at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the group at the end of the reporting period, the impact on the group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense of such a change in interest rates. The analysis is performed on the same basis for 2009.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(d) Foreign currency risk

(i) Exposure to currency risk

Sales and purchases arising from the group's trading business are mainly denominated in United States dollars. The loan from a fellow subsidiary as at the end of the reporting period of 2010 and 2009 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 2010 and 2009, Huade has no significant financial assets and liabilities denominated in a currency other than its functional currency, and thus it has no significant exposure to foreign currency risk.

The functional currency of the group's BVI subsidiary, KII, is Hong Kong dollars. At 31 December 2010, KII held a Renminbi dominated bank deposits amounted to RMB611,708,000 (equivalent to $718,574,000) (2009: nil). The group is therefore exposed to foreign currency risk arising from holding such bank deposits.

(ii) Sensitivity analysis

At 31 December 2010, it is estimated that a general increase/decrease of 3% in Renminbi against Hong Kong dollar, with other variables held constant, would have increased/decreased the Group's profit after taxation and retained earnings by approximately $21,532,000 (2009: nil).

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the group which expose the group to foreign currency risk at the end of the reporting period.

(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 the year ended 31 December 2010 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 price risk.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(f) Fair values

The amendments to HKFRS 7, Financial Instruments: Disclosures, require disclosures relating to fair value measurements of financial instruments across three levels of a "fair value hierarchy". The fair value of each financial instrument is categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair value measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

As 31 December 2010 and 2009, the fair value of company's financial guarantees issued to its subsidiaries is categorised as Level 2 instrument.

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2010 and 2009 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) 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 2010 not provided for in the financial statements were as follows:

	The group	
	2010	2009
	$'000	*$'000*
Contracted for	**44,038**	6,805
Authorised but not contracted for	**11,610**	–
	55,648	6,805

(b) At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The group	
	2010	2009
	$'000	*$'000*
Within 1 year	**1,821**	2,622
After 1 year but within 5 years	**2,669**	3,733
After 5 years	**8,786**	9,136
	13,276	15,491

The group leases a number of properties with an initial lease term of three to thirty-two years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

26 CONTINGENT LIABILITIES

Financial guarantees issued by the company

As at the end of the reporting period, 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 end of the reporting period under the guarantees issued represented the facilities drawn down by the subsidiaries amounting to $156,034,000 (2009: $1,665,992,000).

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 of the directors of the company is set out in note 8 to the financial statements.

(b) During the year, the group had the following significant transactions with its intermediate holding company and fellow subsidiaries which were carried out in the ordinary course of business.

	2010	2009
	$'000	*$'000*
Crude oil sold to fellow subsidiaries (note (i))	**13,878,875**	14,177,779
Crude oil purchased from a fellow subsidiary and related charges (note (i))	**2,466,057**	9,071,312
Petroleum products and petrochemical products sold to fellow subsidiaries (note (i))	**1,941,943**	4,904,756
Petroleum and petrochemical products purchased from a fellow subsidiary (note (i))	**110,598**	–
Petrochemical products sold to a fellow subsidiary (note (i))	**1,089**	–
Insurance premium charged by a fellow subsidiary (note (ii))	**2,013**	5,131
Crude oil refining and processing fees charged by a fellow subsidiary (note (iii))	**61,468**	259,242
Jetty service fees charged to intermediate holding company and a fellow subsidiary (note (iv))	**539,663**	491,076
Interest expense charged by a fellow subsidiary (note (v))	**15,898**	27,260
Rental expenses charged by a fellow subsidiary (note (vi))	**2,629**	2,622
Property, plant and equipment purchased from a fellow subsidiary (note (vii))	**4,658**	–

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 sale 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 carried out.

(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 a fellow subsidiary 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 agreements 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 19. The interest was charged at LIBOR plus a spread ranging from 0.95% to 1.15% (2009: 0.48% to 0.68%) per annum.

(vi) Rental expenses were charged by a fellow subsidiary for leasing of office premises and a factory. The leases run for a period of three to thirty-two years and the monthly rent was determined at the market rate at the date when the lease arrangement was entered into.

(vii) During the year ended 31 December 2010, the group acquired 21 units of properties from a fellow subsidiary amounting to $4,856,000 through an open market auction.

(c) The balances with related companies are disclosed in notes 16 and 18 to the financial statements.

(d) As disclosed in note 13(e) to the financial statements, the company's subsidiary in the PRC has conditionally entered into an Agreement with SGCCS for the sale of land use rights and the development costs associated with the land. The Agreement was unconditionally agreed to be terminated during the year ended 31 December 2010. More details relating to this transaction are disclosed in note 13(e) to the financial statements.

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 immediate holding company 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 require disclosure of numeric details:

(i) Transactions with other state-controlled entities

	2010	2009
	$'000	*$'000*
Crude oil, petroleum and petrochemical products purchased by the group	**12,613,548**	11,818,924
Crude oil, petroleum and petrochemical products sold by the group	**121,478**	1,530,597
Jetty service fees charged by the group	**19,995**	22,164
Construction costs paid by the group	**8,952**	8,196
Amounts due from other state-controlled entities	**1,980**	30,736
Amounts due to other state-controlled entities	**8,967**	4,461

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 bank loans 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:

	2010	2009
	$'000	*$'000*
Interest income	**246**	475
Interest expenses	**–**	1,651

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

	2010	2009
	$'000	*$'000*
Cash and cash equivalents	**723,342**	13,526

28 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2010, the directors consider the immediate parent and ultimate controlling party of the group to be Sinopec Kantons International Limited ("SKI") and China Petrochemical Corporation. China Petroleum and Chemical Corporation, an intermediate holding company of SKI, produces financial statements available for public use.

29 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 lives of the group's fixed assets may have a significant impact to the group's operating results.

(Expressed in Hong Kong dollars)

29 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 trade 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.

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements. These include the following which may be relevant to the group.

	Effective for accounting periods beginning on or after
Revised HKAS 24, *Related party disclosures*	1 January 2011
HKFRS 9, *Financial instruments*	1 January 2013
Improvements to HKFRSs 2010	1 July 2010 or 1 January 2011
Amendments to HKAS 12, *Income taxes*	1 January 2012

The group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the company's results of operations and financial position.

Five Year Summary

(Expressed in Hong Kong dollars)

	2006	2007	2008	2009	**2010**
	$'000	*$'000*	*$'000*	*$'000*	***$'000***
Results					
Turnover	14,774,806	17,364,733	29,349,906	21,281,232	**16,592,880**
Profit from operations	293,905	248,154	293,366	278,389	**267,946**
Finance costs	(46,937)	(80,811)	(100,440)	(29,975)	**(15,898)**
Profit before taxation	246,968	167,343	192,926	248,414	**252,048**
Taxation	(28,603)	(39,463)	(47,639)	(51,587)	**(56,361)**
Profit for the year	218,365	127,880	145,287	196,827	**195,687**
Attributable to:					
– Equity shareholders of the company	156,856	127,880	145,287	196,827	**195,687**
– Non-controlling interests	61,509	–	–	–	**–**
Profit for the year	218,365	127,880	145,287	196,827	**195,687**
Assets and liabilities					
Fixed assets	1,883,749	2,130,566	2,083,141	1,950,801	**1,914,761**
Net current (liabilities)/assets	(191,946)	(222,481)	62,977	359,734	**628,835**
NET ASSETS	1,691,803	1,908,085	2,146,118	2,310,535	**2,543,596**
Capital and reserves					
Share capital	103,683	103,683	103,683	103,683	**103,683**
Reserves	1,588,120	1,804,402	2,042,435	2,206,852	**2,439,913**
TOTAL EQUITY	1,691,803	1,908,085	2,146,118	2,310,535	**2,543,596**
Earnings per share					
Basic and diluted	14.30 cents	12.33 cents	14.01 cents	18.98 cents	**18.87 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