SINOPEC KANTONS HOLDINGS LIMITED

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

2011

Annual Report

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Chairman's Statement

2011 was a year of development and growth of the Company, with the joint efforts of all staff, significant progress and breakthroughs were made in the development of storage and logistics. The acquisition of the 50% equity interest of Zhan Jiang Port Petrochemical Terminal was completed and with the great support of Sinopec, the Group and Sinopec entered into five crude oil terminal companies equity acquisition agreements. A solid step forward was taken in achieving the strategic positioning of the Company's development.

Mr. Dai Zhao Ming Chairman

Dear Shareholders,

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

2011 was a year of development and growth of the Company. Faced with the dual challenge of the US financial crisis and the European debt crisis, the Board of the Company remained committed to its focus on the strategic positioning and development goals of the Company's development, grasped different favourable opportunities, and actively propelled the development of the Company. With the joint efforts of all staff members together with careful and substantial preparation and preliminary works during the past two years, we have accumulated profound knowledge and achieved significant progress and breakthrough in the storage and logistics projects. Moreover, the Company also attaches great importance to its daily operation. We continued to optimize our operation, strived to lower operating costs, and achieved steady growth in operating activities. In 2011, the turnover of the Company and its subsidiaries (collectively "the Group") was approximately HK$19.685 billion, representing an increase of approximately 18.63% as compared with last year, and with earnings attributable to equity shareholders of approximately HK$214 million, representing an increase of approximately 9.11% as compared with last year.

On 27 May 2011, the Group entered into the Zhan Jiang Port Petrochemical Terminal Co. Ltd. ("Zhan Jiang Port Petrochemical Terminal") equity interest acquisition agreement with Zhan Jiang Port Group, pursuant to which the Group acquired 50% of the equity interest in Zhan Jiang Port Petrochemical Terminal. Zhang Jiang Port is one of the major coastal ports of China, and is a key transit hub port and a major water channel in southwestern and southern China. Zhan Jiang Port Petrochemical Terminal is responsible for the provision of oil unloading and petrochemical products storage services for Maoming Refinery, Dongxing Refinery and North Sea Refinery of Sinopec as well as other third parties. Through the acquisition of 50% equity interest in Zhan Jiang Port Petrochemical Terminal, the Group achieved a breakthrough in the development of storage and logistics projects. With the great support of China Petroleum & Chemical Corporation ("Sinopec"), the Group and Sinopec entered into five crude oil terminal companies equity acquisition agreements on 3 December 2011 to acquire the 50% equity interest in Ningbo Shihua Crude Oil Terminal Co. Ltd., the 50% equity interest in Qingdao Shihua Crude

Oil Terminal Co. Ltd., the 50% equity interest in Tianjin Shihua Crude Oil Terminal Co. Ltd., the 50% equity interest in Rizhao Shihua Crude Oil Terminal Co. Ltd., and the 90% equity interest in Tangshan Caofeidian Shihua Crude Oil Terminal Co. Ltd., held by Sinopec. On 31 December 2011, approval of the acquisition of the five crude oil terminal companies was successfully obtained in the special general meeting of the Company. The acquisition of equity interests in Zhan Jiang Port Petrochemical Terminal and the five crude oil terminal companies is a great milestone for the future development of the Group. First of all, it will quickly increase the number of deep-water oil terminals controlled or jointly owned by the Group, and the unloading capacity of the Group will also be increased. In view of the trend of the increase in the size of international oil transport tankers, the requirement of deep water conditions for the berthing of oil tankers is very strict. However, deep water coastline is rare along the coast of China and, through acquisition, the number of oil terminal companies controlled or jointly owned by the Group will increase from 1 to 7. The grasp and control of coastal terminals and particularly deep water coastline resources is of great significance to the Group. Secondly, it will significantly reinforce the competitive advantage of the Group's core business, such that the Group's oil terminal business could expand rapidly to northern China, eastern China and southern China, which are the regions that have the most prosperous economy development and the fastest growth in energy demand in China. This layout matches the distribution of existing refineries of the Sinopec Group. With the existing oil transmission pipelines, the Group will be at a dominant position in the oil terminal business in China. Thirdly, it will significantly enhance the capability of the Group's core business, such that the designed unloading capacity of crude oil terminals which the Group holds or has equity participation will increase from approximately 30 million tonnes/year at present to approximately 225 million tonnes/year and the number of oil terminal berths for VLCC will increase from 1 at present to 9, and the Group will become the largest oil terminal service provider in China and even in Asia. Fourthly, it will further enhance the Group's profitability. In particular, with the continued growth in crude oil demand in China, the successive commencement of operation of newly constructed crude oil terminals, and the further increase in throughput of oil terminals, the profits of the oil terminal companies are expected to grow further. Moreover, the Group has achieved good results in the development of international storage projects. On 9 January 2012, the Group entered into an equity acquisition agreement with Concord Energy Oil Terminal (Hong Kong) Limited to acquire 50% equity interest in Fujairah Oil Terminal FZC in United Arab Emirates, achieving a breakthrough in the Company's development of international storage projects. Meanwhile, negotiation is still in progress between the parties to the joint venture regarding the 2.6 million m^3 storage capacity and ancillary facilities joint venture project planned to be built in Indonesia.

In 2011, the Group continued to actively develop petrochemical products transportation projects, and also achieved good results in the development of LNG transportation projects. On 19 December 2011, the Group established a joint venture with China Shipping Group Gas Investment Co. Ltd. for the transportation of 4.3 million tonnes of LNG under the Australia Pacific LNG project, so as to participate in the investment and transportation management of LNG vessel and sharing of profit from the transportation link within the industrial chain of the LNG business thereby further enhancing the profitability of the Group.

While putting great efforts into driving the storage and logistics projects, good results were also achieved in the daily operation of the Group. In 2011, Huade Petrochemical Co. Ltd ("Huade Petrochemical"), a wholly-owned subsidiary of the Company, strived to overcome unfavorable factors in storage and production by organizing production meticulously to ensure the stable operation of crude oil pipelines. In 2011, there were 88 oil tankers berthed, approximately 12.1 million tonnes of crude oil unloaded and approximately 12.05 million tonnes of crude oil transported by Huade Petrochemical, representing an increase of approximately 1.85% and approximately 1.60% respectively as compared with last year. During the year, Huade Petrochemical realized segment profit of approximately HK$272 million, representing an increase of approximately 15.71% as compared with last year. In 2011, due to business transformation, only crude oil trading was kept in Sinomart KTS Development Limited ("Sinomart Development") a wholly-owned subsidiary of the Company. Trading of crude oil reached 3.12 million tonnes during the year, representing approximately 1.29% decrease compared with last year. In order to reverse the fall of trading volume and profit in Sinomart Development during the business transformation period, Sinomart Development commenced the vessel charter business in 2011. During the year two oil tankers were chartered with 8 voyages achieved in total that provided a positive effect to improve the profitability of Sinomart Development.

In 2011, the Group achieved good results in the development of the storage and logistics projects. We will continue our efforts in adhering to the development strategies formulated by the Board, keep innovating with keen determination and exploring aggressively. We will focus more on the quality and efficiency of development, technological advance, to be green and low-carbon and people oriented, make persistent efforts, strive hard to achieve greater results in the development of storage and logistics projects, and create better return for shareholders.

By order of the Board
Dai Zhao Ming
Chairman

Hong Kong, 21 February 2012

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors of the Company determined the strategic position of the Company, that is to make efforts to develop petrochemical storage and logistics projects to strive hard in making and developing the Company into a world class storage and logistics company. In 2011, the Company continued to actively expand storage and logistics projects according to the strategic positioning for development determined by the Board. We successively completed the acquisition of 50% equity interest in Zhan Jiang Port Petrochemical Jetty Co. Ltd, and established a joint venture with China Shipping Group Gas Investment Co. Ltd for the transportation of natural gas under APLNG. In addition, the Group entered into equity acquisition agreements with Sinopec to acquire the equity interests in five crude oil terminal companies held by Sinopec. On 9 January 2012, the Group entered into an equity acquisition agreement with Concord Energy Oil Terminal (Hong Kong) Limited for the acquisition of 50% equity interest in Fujairah Oil Terminal FZC. These acquisitions and developments are of very positive effect to the continued expansion of the Group's storage and logistics business.

TURNOVER

As at 31 December 2011, the Group's turnover was approximately HK$19,684,732,000 (2010: HK$16,592,880,000), representing an increase of approximately 18.6% as compared with last year. The increase in turnover was mainly due to increase in average crude oil price in 2011 as compared with last year.

LIQUIDITY AND SOURCE OF FINANCE

As at 31 December 2011, cash on hand and bank balances of the Group totalled approximately HK$771,753,000 (31 December 2010: HK$724,711,000) and interest-bearing borrowings from a fellow subsidiary were approximately HK$267,228,000 (31 December 2010: HK$156,034,000). As at 31 December 2011, the Group had no bank borrowings.

GEARING RATIO

As at 31 December 2011, the Group's current ratio (current assets to current liabilities) was approximately 1.37 (31 December 2010: 3.16) and gearing ratio (total liabilities to total assets) was approximately 33.0% (31 December 2010: 10.2%).

TRADE AND OTHER RECEIVABLES

As at 31 December 2011, the Group's trade and other receivables totalled HK$1,083,095,000 (31 December 2010: HK$188,176,000). HK$510,971,000 of trade receivables were fees receivable from China Petroleum & Chemical Guangzhou Branch for the oil unloading and storage and logistics services provided by Huade Petrochemical, and HK$516,942,000 of other receivables were prepayments made to a state-controlled entity for the provision of crude oil.

INVENTORIES

As at 31 December 2011, the Group had inventories of HK$41,588,000 (31 December 2010: HK$4,370,000). The significant increase in inventories as compared to 31 December 2010 was mainly due to the fuel oil in the oil tankers of the chartered vessels which is a new business in 2011.

INTEREST IN ASSOCIATES

As at 31 December 2011, the Group's interest in associates amounted to HK$419,030,000 (31 December 2010: HK$Nil), mainly due to the Group's acquisition of 50% equity interest in Zhan Jiang Port Petrochemical Terminal and establishment of a joint venture, East China LNG Shipping Investment Co. Ltd (the Group holds 30% equity interests in the joint venture), with China Shipping Development Company Limited during 2011.

FOREIGN EXCHANGE RISK

As at 31 December 2011, the Group was not exposed to material foreign exchange risk.

EMPLOYEES AND EMOLUMENT POLICIES

As at 31 December 2011, the Group had a total of 200 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.

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting the annual report and the audited financial statements for the year ended 31 December 2011.

PRINCIPAL PLACE OF BUSINESS

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 13 to the financial statements.

An analysis of the principal activities and segmental information of the operations of the Group during the financial year are set out in note 11 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the group's total	
	Sales	**Purchases**
The largest customer	95%	
Five largest customers in aggregate	99%	
The largest supplier		95%
Five largest suppliers in aggregate		98%

China Petrochemical Corporation ("Sinopec Group Company"), the controlling shareholder indirectly holds more than 72.34% of the Company's issued share capital, had beneficial interests in two of the five largest customers and three of the five largest suppliers.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2011 and the financial positions of the Company and the Group as at that date are set out in the financial statements on pages 28 to 92.

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of HK$213,512,000 (2010: HK$195,687,000) have been transferred to reserves. Other movements in reserves are set out in consolidated statement of changes in equity of the financial statements.

FINAL DIVIDENDS

The board declared a dividend of HK$0.035 per share payable in cash for 2011 (2010: HK$0.035), excluding the interim dividend of HK$0.015 per share in cash for 2011 paid on 18 October 2011 (2010: HK$0.015 per share), the final dividend of HK$0.02 per share in cash for 2011 (2010: 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 22 June 2012 (Friday).

The register of members of the Company will be closed from 18 June 2012 (Monday) to 22 June 2012 (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 15 June 2012 (Friday). The cheques for dividend payment will be sent to shareholders on or about 6 July 2012 (Friday).

2011 ANNUAL GENERAL MEETING

The Company will convene the 2011 Annual General Meeting on 28 May 2012 (Monday), and the register of members will be closed from 22 May 2012 (Tuesday) to 28 May 2012 (Monday) (both days inclusive). In order to qualify for attending the 2011 Annual General Meeting of the Company and cast votes in the meeting, all share transfers, accompanied by the relevant share certificates, must be lodged with Tricor Secretaries Limited, the branch share registrar of the Company at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 21 May 2012 (Monday).

FIXED ASSETS

During the year, the Group spent approximately HK$60,501,000 (2010: HK$25,896,000) mainly 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 12 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company during the year are set out in note 22(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.

THE BOARD OF DIRECTORS AND MEMBERS OF EACH PROFESSIONAL COMMITTEE

Members of the Board of the Company and the professional committees under which they sit are as follows:

Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors			
Mr. Dai Zhao Ming *(Chairman)*	Mr. Fong Chung, Mark *(Chairman)*	Ms. Tam Wai Chu, Maria *(Chairlady)*	Mr. Wong Po Yan *(Chairman)*
Mr. Zhu Zeng Qing *(Deputy Chairman)*	Mr. Wong Po Yan	Mr. Dai Zhao Ming	Mr. Dai Zhao Ming
Mr. Zhu Jian Min	Ms. Tam Wai Chu, Maria	Mr. Wong Po Yan	Ms. Tam Wai Chu, Maria
Mr. Tan Ke Fei		Mr. Fong Chung, Mark	Mr. Fong Chung, Mark
Mr. Zhou Feng		Mr. Ye Zhi Jun	Mr. Ye Zhi Jun
Mr. Ye Zhi Jun *(Managing Director)*			
Independent non-executive Directors			
Mr. Wong Po Yan			
Ms. Tam Wai Chu, Maria			
Mr. Fong Chung, Mark			

In accordance with Bye-law 111 of the Company's Bye-laws, Mr. Zhu Zeng Qing, Mr. Zhou Feng and Mr. Wong Po Yan will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the 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 2011, none of the Directors and chief executives of the Company or any of their spouses or children under eighteen years of age has any interests or short positions in the shares, underlying shares and debentures of the company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which will be required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which will be required to be notified to the company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

As at 31 December 2011, the Company has not established and implemented any share option scheme.

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 2011, 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"). The controlling interest in the registered capital of UNIPEC is ultimately held by Sinopec Group Company.

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 2011, the Company had no bank loans. Particulars of interest-bearing loans of the Company and the Group as at 31 December 2011 are set out in note 19 to the financial statements.

FIVE YEAR 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 93 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

Save for those disclosed in this annual report, 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.

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 2011.

AUDIT COMMITTEE

The Company has set up an Audit Committee with written terms of reference. Currently, the Audit Committee comprises three independent non-executive Directors and reports to the Board of Directors. The Audit Committee meets with the Group's senior management and external auditors regularly to review the effectiveness of the internal control systems and the interim and annual reports of the Group and reports directly to the Board of Directors of the Company.

AUDITORS

In 2012, 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, 21 February 2012

Connected Transactions

I AGREEMENTS ENTERED INTO BY THE COMPANY FOR CONTINUING CONNECTED TRANSACTIONS

In order to ensure the normal development of the business of the Group and to comply with the relevant requirements of Chapter 14A of the Listing Rules, on 15 November 2010, the Group entered into continuing connected transaction framework agreements for crude oil jetty services, crude oil supply, crude oil sourcing, vessel charter and financial services respectively for the three financial years from 1 January 2011 to 31 December 2013, including the following agreements:

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 Petrochemical, 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 agreements and the Continuing Connected Transactions at the special general meeting held on 6 December 2010. For details of the above 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 THE ACQUISITION OF EQUITY INTERESTS IN THE FIVE CRUDE OIL TERMINAL LIMITED COMPANIES OF NINGBO SHIHUA, QINGDAO SHIHUA, TIANJIN SHIHUA, RIZHAO SHIHUA AND TANGSHAN CAOFEIDIAN SHIHUA

In order to strengthen the competitiveness of the Group's core businesses and raise profitability, the Company (through its wholly-owned subsidiary, Sinomart Development (as Buyer)) entered into an equity acquisition agreement with Sinopec (as Vendor) on 3 December 2011. Pursuant to the equity acquisition agreement, Sinomart Development conditionally agreed to acquire the 50% equity interest in Ningbo Shihua Crude Oil Terminal Co. Ltd., 50% equity interest in Qingdao Shihua Crude Oil Terminal Co. Ltd., 50% equity interest in Tianjian Shihua Crude Oil Terminal Co. Ltd., 50% equity interest in Rizhao Shihua Crude Oil Terminal Co. Ltd. and 90% equity interest in Tangshan Caofeidian Shihua Crude Oil Terminal Co. Ltd. respectively held by Sinopec. The total consideration for the acquisition of equity interests in the five oil terminal companies was RMB1,809,807,300 (approximately HK$2,220,622,454). Since Sinopec is an intermediate holding company of the Company, the above transactions were connected transactions and constituted very substantial acquisitions according to relevant requirements of the Listing Rules, which are required to be approved by independent shareholders of the Company. For this purpose, the Company held a special general meeting on 31 December 2011, and the acquisition of the equity interests of the five crude oil terminal joint ventures was approved in the special general meeting. However, the equity acquisition agreement shall only become effective after all the conditions precedent as stated in the announcement of the Company dated 3 December 2011 regarding the acquisition of the five oil terminal companies are satisfied.

III INFORMATION ON THE CONNECTED TRANSACTIONS MADE DURING THE YEAR

In 2011, the connected transactions of the Group that took place during the year have been fully disclosed in note 26 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 is a senior economist and has a doctoral degree in economics. He 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. Since December 1996, Mr. Dai had 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 Branch Company. From March 2004, he served as Deputy General Manager of China International United Petroleum & Chemicals Co. Ltd. Since December 2005, Mr. Dai has been serving as General Manager and Executive Director of China International United Petroleum & Chemicals Co. Ltd. Mr. Dai has been the Chairman of the Company since October 2008.

Mr. Zhu Zeng Qing, aged 56, Deputy Chairman of Sinopec Kantons Holdings Limited. Mr. Zhu is a senior accountant. He 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 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 Deputy Chairman of Sinopec Kantons Holdings Limited since April 2007.

Mr. Zhu Jian Min, aged 47, Executive Director of Sinopec Kantons Holdings Limited. Mr. Zhu is a senior engineer at professor level, and has a doctoral degree in industrial studies. He possesses extensive experience in corporate management. He graduated from China Textile University in July 1992, and was deputy chief of long term planning division of planning department of the former China Petrochemical Corporation from June 1993 to June 1996; assistant to general manager of Sinopec Shanghai Petrochemical Company Limited from June 1996 to June 1998; assistant to officer of planning department of China Petrochemical Corporation from June 1998 to December 1998; deputy general manager of China Petrochemical Corporation Consulting Ltd from December 1998 to February 2000; deputy officer of integrated planning department of China Petroleum & Chemical Corporation from February 2000 to December 2001; deputy officer of production operation management department of China Petroleum & Chemical Corporation from December 2001 to August 2008; 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 an Executive Director of the Company since March 2004.

Mr. Tan Ke Fei, aged 44, Executive Director of Sinopec Kantons Holdings Limited. Mr. Tan obtained a bachelor's degree in arts and a bachelor's degree in law, he is a practising lawyer and possesses substantial legal and foreign trade management experience. He was a project manager, legal counsel of Sinopec International Co. Ltd from 1992 to 1997, chartering manager of China International United Petroleum & Chemicals Co. Ltd. from 1997 to 1999, 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, 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 an Executive Director of Sinopec Kantons Holdings Limited since April 2007.

Mr. Zhou Feng, aged 46, Executive Director of Sinopec Kantons Holdings Limited. Mr. Zhou has a masters degree in MBA and professional qualification of senior accountant. He graduated from chemical engineering of Eastern China Polytechnic University in July 1987 and is well experienced in financial management. He worked in Sinopec Guangzhou Petroleum and Chemical Plant in August 1987. 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. He also worked as chief legal adviser of Guangzhou Petroleum and Chemical Plant of China Petrochemical Corporation and Sinopec Guangzhou Company during the period from April 2004 to December 2007. Mr. Zhou has been an 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 has a masters degree in MBA and was an engineer. He worked in Sinopec Guangzhou Petroleum and Chemical Plant in August 1988. 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; 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 88, is the founder of United Overseas Enterprises, Ltd. and the Honorary President of the 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., Fintronics Holdings Co. Ltd, Mingfa Group (International) Co. Ltd., Allied Group Ltd. and China Electronic Corporation Holdings Co. Ltd., all listed companies on The Stock Exchange of Hong Kong Limited. Mr. Wong holds an honorary doctorate degree in business administration from the City University of Hong Kong and an honorary doctorate degree in social science from Hong Kong Baptist University.

Ms. Tam Wai Chu, Maria, *GBS, JP*, aged 66, was educated at London University. She qualified as a barrister-at-law at Gray's Inn, 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 listed companies on The Stock Exchange of Hong Kong Limited. She is also a Director of Green Fun Limited. She is a member of the 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 a member of the Hong Kong Basic Law Committee. She is also a member of various community services organisations.

Mr. Fong Chung, Mark, aged 60, the former President of the Hong Kong Institute of Certified Public Accountants. Mr. Fong has over 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 independent non-executive director of New China Life Insurance Co., Ltd., a company listed on The Stock Exchange of Hong Kong Limited, and a non-executive director of Worldsec Limited, a company listed on London Stock Exchange. Mr. Fong is also currently an Executive Director in China development of Grant Thornton International Ltd..

OTHER SENIOR MANAGEMENT

Mr. Pang Ai Bin, aged 42, Deputy General Manager of Sinopec Kantons Holdings Limited. Mr. Pang holds a bachelor's degree and has professional qualification of senior economist. He joined Sinopec Jiujiang Petrochemical Factory in August 1991. 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 45, CFO of Sinopec Kantons Holdings Limited. Ms. Zhang holds a bachelor's degree and has professional qualification of senior accountant, and is a certified public accountant of China. She joined Beijing Yanshan Petrochemical Company in August 1989 and has worked in 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 49, Secretary to the Board of Sinopec Kantons Holdings Limited. Mr. Li holds a research graduate of MBA and has the professional qualification of senior economist. He joined the research institute of Sinopec Yangzi Petrochemical Co. Ltd. in August 1985. 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 relations 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. Tian Yong Liang, aged 41, Mr. Tian holds a doctoral degree in engineering and has the professional qualification of senior engineer. He joined Sinopec Qingdao Petrochemical Co. Ltd. in July 1996, and has served as plant engineer, plant deputy supervisor and secretary and supervisor and secretary. He was deputy officer and secretary of integrated planning department of Sinopec Qingdao Petrochemical Co. Ltd. From December 2004 to May 2007, he served as officer of integrated planning department of Sinopec Qingdao Petrochemical Co. Ltd. Since December 2010, he has been seconded to Sinopec Kantons Holdings Limited to assist the General Manager in the development of storage projects.

Mr. Zhu Jian, aged 36, Deputy General Manager of Sinopec Kantons Holdings Limited. Mr. Zhu holds a bachelor's degree in engineering and has the professional qualification of economist. He worked in Ningbo Port Company Ltd. Oil Handling & Tug (Barge) Branch in August 1998 and joined China International United Petroleum & Chemicals Co. Ltd. in 2000, in which he served as deputy officer of transportation department from October 2007 to July 2011. Mr. Zhu has served as Deputy General Manager of the Company since July 2011.

Mr. Qiao Ming Qian, aged 46, Director and General Manager of Huade Petrochemical Co. Ltd., a wholly owned subsidiary of Sinopec Kantons Holdings Limited. Mr. Qiao holds a bachelor's degree and has professional qualification of engineer, and joined Qinghai Petrol Administration in August 1988. 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 served as the assistant to the 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

GENERAL MEETING

In 2011, the Company held two general meetings strictly in accordance with laws, regulations and the relevant notice, convening and holding requirements under the Bye-laws of the Company, and the details are as follows:

On 20 May 2011, the Company convened the 2010 Annual General Meeting at Conference Room 3-4, M Floor, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong. Under the authorization and appointment of the Board, Mr. Ye Zhi Jun (Director and General Manager) presided over the Annual General Meeting, and the auditor, KPMG, also attended the meeting upon invitation. For details of this meeting, please refer to the relevant announcements of the Company published on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the website of the Company (http://www.sinopec.com.hk) on 20 May 2011.

On 31 December 2011, the Company convened the Special General Meeting at Conference Room 3-4, M Floor, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong, so as to consider resolutions relating to the acquisition of the equity interests in five crude oil terminal joint ventures held by Sinopec and the carrying out of rights issue, etc. Under the authorization and appointment of the Board, Mr. Ye Zhi Jun (Director and General Manager) presided over the Special General Meeting. Related personnel such as Mr. Fong Chung, Mark (Chairman of the Independent Board Committee established for the aforesaid project) and Merrill Lynch Far East Limited (financial advisor), Somerley Limited (independent financial advisor), KPMG (auditor) and Lister Lo Lui & Choy (legal advisor) also attended the meeting upon invitation. For details of this meeting, please refer to the relevant announcements of the Company published on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the website of the Company (http://www.sinopec.com.hk) on 2 January 2012.

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 2011, the Board comprises six executive directors and three independent non-executive directors. The Board has appointed the Audit Committee and the Remuneration Committee, and on 21 February 2012, the Nomination Committee is appointed. The Board and the committees are responsible for overseeing 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	Nomination Committee
Executive Directors			
Mr. Dai Zhao Ming *(Chairman)*	Mr. Fong Chung, Mark *(Chairman)*	Ms. Tam Wai Chu, Maria *(Chairlady)*	Mr. Wong Po Yan *(Chairman)*
Mr. Zhu Zeng Qing *(Deputy Chairman)*	Mr. Wong Po Yan	Mr. Dai Zhao Ming	Mr. Dai Zhao Ming
	Ms. Tam Wai Chu, Maria	Mr. Wong Po Yan	Ms. Tam Wai Chu, Maria
Mr. Zhu Jian Min		Mr. Fong Chung, Mark	Mr. Fong Chung, Mark
Mr. Tan Ke Fei		Mr. Ye Zhi Jun	Mr. Ye Zhi Jun
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			

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 business 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 seven full Board meetings in 2011. Attendance of the full Board meetings are as follows:

Attendance	No. of meetings attended	Attendance %
Mr. Dai Zhao Ming	5	71.4
Mr. Zhu Zeng Qing	5	71.4
Mr. Zhu Jian Min	3	42.9
Mr. Tan Ke Fei	0	0.0
Mr. Zhou Feng	6	85.7
Mr. Ye Zhi Jun	7	100.0
Mr. Wong Po Yan	6	85.7
Ms. Tam Wai Chu, Maria	7	100.0
Mr. Fong Chung, Mark	7	100.0

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. 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 ("Audit Committee") comprises all three independent non-executive Directors. It is responsible for reviewing the 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 Audit Committee is chaired by Mr. Fong Chung, Mark, a qualified accountant with extensive experience in financial reporting and control. In 2011, the Audit Committee held two meetings to review the annual results of the Group for the financial year ended 2010 and the interim results for the six months ended 30 June 2011, review the accounting principles and practices adopted by the Group with the management and external auditors, and discuss and review the internal control and financial reports. The attendance of members of the Audit Committee in the Audit Committee meeting were as follows:

Attendance	No. of meetings attended	Attendance %
Mr. Fong Chung	2	100.0
Mr. Wong Po Yan	1	50.0
Ms. Tam Wai Chu, Maria	2	100.0

The Company's annual results for the financial year ended 31 December 2011 have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

A remuneration committee ("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 an Independent Non-executive Director, Ms. Tam Wai Chu, Maria, is the chairperson. The Remuneration Committee is responsible for studying and determining the remuneration of the Company's Directors and senior management as well as the incentive policies, and such Directors' remuneration and incentive policies will be proposed to the Board of the Company. To avoid conflicts 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 the performance of the individual, and the complexity, duties and responsibility of the position.

In 2011, the Remuneration Committee of the Company convened two meetings in total, during which the performance of duties of Directors and the assessment and incentive mechanisms for the staff of the Company respectively were carefully evaluated. The report in relation to the adjustment of Independent Directors' remuneration and the temporary measures for the evaluation of the performance of the company's projects were reviewed, on which recommendations were submitted to the Board for approval. The attendances of members of the Remuneration Committee in the Remuneration Committee meeting were as follows:

Attendance	No. of meetings attended	Attendance %
Ms. Tam Wai Chu, Maria	2	100.0
Mr. Wong Po Yan	1	50.0
Mr. Fong Chung	2	100.0

NOMINATION COMMITTEE

Pursuant to the relevant requirements of the Listing Rules of the Hong Kong Stock Exchange, the Company established a nomination committee ("Nomination Committee") on 21 February 2012. The chairperson of the Nomination Committee is Mr. Wong Po Yan, and the members of the Nomination Committee include Mr. Wong Po Yan, Mr. Dai Zhao Ming, Ms. Tam Wai Chu, Maria, Mr. Fong Chung, Mark and Mr. Ye Zhi Jun. Among the 5 members of the Nomination Committee, 3 members are Independent Non-executive Directors.

The Nomination Committee is responsible for formulating and implementing policies relating to the nomination of Directors and evaluating candidates based on factors such as experience, qualification and academic background related to business of the Company, integrity of nominees and time being invested. Other functions of the Nomination Committee include: (i) to review structure, number of member and composition (including skills, knowledge and experience) of the Board and to propose changes in the Board to adapt to the strategy of the Company; (ii) to look for candidates with adequate qualification for director, select and nominate such candidates to the Board and advise thereon; (iii) to make proposals to the Board on the appointment or re-appointment of Directors and successors of Director (in particular chairman and CEO); (iv) to evaluate independence of Independent Non-executive Directors; and (v) in the event that the Board intends to propose resolution in relation to appointment of a particular person as Independent Non-executive Director at a general meeting, the circular and/or explanatory letter to shareholders attached to the notice convening the meeting shall state the reasons for the appointment of such person and for such person being deemed to be an independent party.

FUNCTION OF CORPORATE GOVERNANCE

The Company sets its corporate governance policies pursuant to the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules of Hong Kong Stock Exchange, and it accordingly reviews and monitors the training and continuous development in profession of Directors and senior management and its policies and practices in compliance with relevant laws and regulatory requirements.

CHAIRMAN OF THE BOARD AND GENERAL MANAGER OF THE COMPANY

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. Details of the responsibilities of the Board and the management of the Company are as follows.

Responsibilities of the Board:

(1) responsible for convening the general meeting;

(2) execute the resolutions of the general meeting;

(3) determine the development plans and operation plans of the Company;

(4) formulate the Company's profit distribution plan and loss recovery plan;

(5) prepare material acquisition or disposal plans of the Company, as well as the plans for merger, separation, change of corporate form and dissolution of the Company;

(6) under the authorization of the general meeting, determine matters such as the Company's external investment, acquisition and disposal of assets, pledge of assets, disposal and repurchase of the Company's shares, and connected transactions, etc;

(7) appoint or dismiss the general manager of the Company, and appoint or dismiss the Company Secretary according to the nomination of the general manager;

(8) based on the recommendation of the Nomination Committee, determine the Director candidates and submit to the general meeting for approval;

(9) based on the recommendation of the Remuneration Committee, determine the remuneration of its Directors and senior management;

(10) formulate the basic management system of the Company;

(11) manage the information disclosure of the Company;

(12) propose to the general meeting the appointment or change of the Company's auditor;

(13) formulate the amendment plans of the Bye-laws, and submit to the general meeting for approval;

(14) determine other material matters and administrative matters other than those required to be determined by the general meeting of the Company according to laws, regulations and the Bye-laws, as well as enter into other important agreements.

Responsibilities of the Management

(1) responsible for the daily operation and management of the Company, the organization and implementation of resolutions of the Board and the reporting of works to the Board;

(2) organize and implement the annual operation plan and investment plan of the Company;

(3) formulate the internal management system of the Company;

(4) formulate the Company's fundamental management system;

(5) formulate the specific regulations of the Company;

(6) propose the appointment or dismissal of the deputy general manager and financial officer of the Company; appoint or dismiss other management staff that are not appointed or removed by the Board;

(7) determine the salaries, benefits, rewards and punishment for the staff of the Company, and determine the appointment and dismissal of the staff of the Company;

(8) propose to convene extraordinary meetings of the Board;

(9) other responsibilities granted by the Bye-laws and the Board.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Save as disclosed in the annual report, the Group has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") in Appendix 14 to the Listing Rules of Hong Kong Stock Exchange throughout the year ended 31 December 2011. Furthermore, with the approval of the Board, which established the responsibilities of the Board, the Audit Committee, the Remuneration Committee and the Nomination Committee, the Board and the specialized committees of the Company has performed their duties in accordance with their responsibilities.

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.

LIABILITY INSURANCE FOR DIRECTORS

China Petroleum & Chemical Corporation (the intermediate controlling shareholder which indirectly holds 72.34% of the Company) has bought commercial insurance for all its Directors and all the Directors of all its listed subsidiaries (including the Company) in respect of the liability risks that the Directors bear in the performance of their duties. Hence, the Company has not bought additional commercial insurance for the liability risks of the Directors of the Company.

AUDITORS' REMUNERATION

Auditors' remuneration in relation to audit services amounted to HK$1.15 million in 2011 (2010: HK$1.03 million). The following remuneration was paid/payable by the Group to its auditor, KPMG:

(in HK$ millions)	**2011**	2010
Audit services	**1.15**	1.03
Taxation services	**0.07**	0.05
Other advisory services	**2.15**	0.62
Total	**3.37**	1.70

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 2011. 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.

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. As at the year ended 31 December 2011, all Directors confirmed that they have complied with the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules.

COMPANY SECRETARY

Mr. Li Wen Ping and Mr. Lai Yang Chau, Eugene are the joint Company Secretaries of the Company. Mr. Li Wen Ping has extensive experience in the management of listed companies, and he participated in trainings related to the monitoring of listed companies in 2011. Mr. Lai Yang Chau, Eugene is a practising lawyer in Hong Kong and is responsible for assisting Mr. Li Wen Ping in completing the performance of the Company Secretary's duties.

COMMUNICATIONS WITH SHAREHOLDERS

The Company is committed to ensuring the Group's compliance with its 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 28 to 92, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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 CONSOLIDATED 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 2011 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

21 February 2012

Consolidated Income Statement

For the year ended 31 December 2011

(Expressed in Hong Kong dollars)

	Note	2011 *$'000*	2010 *$'000*
Turnover	3 & 11	**19,684,732**	16,592,880
Cost of sales		**(19,365,538)**	(16,292,059)
Gross profit		**319,194**	300,821
Other revenue	4	**10,591**	9,313
Other net income	4	**35,997**	9,892
Distribution costs		**(7,045)**	(6,241)
Administrative expenses		**(74,314)**	(45,839)
Profit from operations		**284,423**	267,946
Finance costs	5(a)	**(3,505)**	(15,898)
Profit before taxation	5	**280,918**	252,048
Income tax	6(a)	**(67,406)**	(56,361)
Profit for the year		**213,512**	195,687
Basic and diluted earnings per share (cents)	10	**20.59**	18.87

The notes on pages 36 to 92 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 22(b).

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

(Expressed in Hong Kong dollars)

	2011 *$'000*	2010 *$'000*
Profit for the year	**213,512**	195,687
Other comprehensive income for the year (note):		
Exchange differences on translation of financial statements of overseas subsidiaries	**104,763**	73,663
Total comprehensive income for the year	**318,275**	269,350

Note: The component of the other comprehensive income does not have any tax effect for the years ended 31 December 2011 and 2010.

The notes on pages 36 to 92 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2011

(Expressed in Hong Kong dollars)

	Note	2011 *$'000*	2010 *$'000*
Non-current assets			
Fixed assets	12		
– Property, plant and equipment		**1,783,062**	1,801,816
– Investment properties		**32,356**	33,397
– Interests in leasehold land held for own use under operating leases		**79,209**	79,548
		1,894,627	1,914,761
Interest in associates	14	**419,030**	–
		2,313,657	1,914,761
Current assets			
Inventories	15	**41,588**	4,370
Trade and other receivables	16	**1,083,095**	188,176
Tax recoverable	20	**4,955**	2,072
Cash and cash equivalents	17	**771,753**	724,711
		1,901,391	919,329
Current liabilities			
Trade and other payables	18	**1,112,785**	125,122
Interest-bearing borrowings	19	**267,228**	156,034
Tax payable	20	**9,453**	9,338
		1,389,466	290,494
Net current assets		**511,925**	628,835
NET ASSETS		**2,825,582**	2,543,596

Consolidated Statement of Financial Position

At 31 December 2011

(Expressed in Hong Kong dollars)

	Note	**2011**	2010
		$'000	*$'000*
CAPITAL AND RESERVES			
Share capital	22(c)	**103,683**	103,683
Reserves		**2,721,899**	2,439,913
TOTAL EQUITY		**2,825,582**	2,543,596

Approved and authorised for issue by the board of directors on 21 February, 2012

Dai Zhao Ming
Chairman

Ye Zhi Jun
Managing Director

The notes on pages 36 to 92 form part of these financial statements.

Statement of Financial Position

At 31 December 2011

(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Non-current assets			
Interests in subsidiaries	13	**971,730**	971,730
Current assets			
Cash and cash equivalents	17	**22**	22
Current liabilities			
Other payables	18	**296,625**	237,926
Net current liabilities		**(296,603)**	(237,904)
NET ASSETS		**675,127**	733,826
CAPITAL AND RESERVES	22(a)		
Share capital		**103,683**	103,683
Reserves		**571,444**	630,143
TOTAL EQUITY		**675,127**	733,826

Approved and authorised for issue by the board of directors on 21 February, 2012

Dai Zhao Ming
Chairman

Ye Zhi Jun
Managing Director

The notes on pages 36 to 92 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

(Expressed in Hong Kong dollars)

	Note	Share capital (Note 22(c)) $'000	Share premium (Note 22(d)(i)) $'000	Merger reserve (Note 22(d)(ii)) $'000	General reserves (Note 22(d)(iii)) $'000	Exchange reserve (Note 22(d)(iv)) $'000	Retained profits $'000	Total equity $'000
		Attributable to equity shareholders of the company						
Balance at 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 – Exchange differences on translation of financial statements of overseas subsidiaries		–	–	–	–	73,663	–	73,663
Total comprehensive income		–	–	–	–	73,663	195,687	269,350
Final dividends approved in respect of the previous year	22(b)	–	–	–	–	–	(20,737)	(20,737)
Appropriation of reserves		–	–	–	36,244	–	(36,244)	–
Interim dividends declared in respect of the current year	22(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

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2011

(Expressed in Hong Kong dollars)

	Note	Attributable to equity shareholders of the company						
		Share capital (Note 22(c))	Share premium (Note 22(d)(i))	Merger reserve (Note 22(d)(ii))	General reserves (Note 22(d)(iii))	Exchange reserve (Note 22(d)(iv))	Retained profits	Total equity
		$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Balance at 1 January 2011		103,683	333,857	23,444	168,179	420,544	1,493,889	2,543,596
Changes in equity for 2011:								
Profit for the year		–	–	–	–	–	213,512	213,512
Other comprehensive income								
– Exchange differences on translation of financial statements of overseas subsidiaries		–	–	–	–	104,763	–	104,763
Total comprehensive income		–	–	–	–	104,763	213,512	318,275
Final dividends approved in respect of the previous year	22(b)	–	–	–	–	–	(20,737)	(20,737)
Appropriation of reserves		–	–	–	21,729	–	(21,729)	–
Interim dividends declared in respect of the current year	22(b)	–	–	–	–	–	(15,552)	(15,552)
Balance at 31 December 2011		103,683	333,857	23,444	189,908	525,307	1,649,383	2,825,582

The notes on pages 36 to 92 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011

(Expressed in Hong Kong dollars)

	Note	2011 *$'000*	2010 *$'000*
Operating activities			
Cash generated from operations	17(b)	**74,558**	2,332,040
Hong Kong Profits Tax paid		**(981)**	(5,638)
PRC tax paid		**(69,193)**	(55,515)
Net cash generated from operating activities		**4,384**	2,270,887
Investing activities			
Payment for the purchase of property, plant and equipment		**(60,501)**	(26,553)
Payment for the acquisition of an associate		**(11,700)**	–
Interest received		**7,074**	547
Proceeds from disposal of property, plant and equipment		**325**	4
Net cash used in investing activities		**(64,802)**	(26,002)
Financing activities			
Proceeds from new interest-bearing borrowings		**774,801**	10,696,544
Repayment of interest-bearing borrowings		**(663,607)**	(12,206,502)
Dividends paid		**(36,289)**	(36,289)
Finance costs paid		**(3,505)**	(19,461)
Net cash generated from/(used in) financing activities		**71,400**	(1,565,708)
Net increase in cash and cash equivalents		**10,982**	679,177
Cash and cash equivalents at 1 January	17(a)	**724,711**	28,175
Effect of foreign exchange rate changes		**36,060**	17,359
Cash and cash equivalents at 31 December	17(a)	**771,753**	724,711

The notes on pages 36 to 92 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2011

(Expressed in Hong Kong dollars unless otherwise indicated)

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 (the "Listing Rules"). 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 2011 comprise the company and its subsidiaries (together referred to as the "group") and the group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

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 28.

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.

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

(d) Associates and jointly controlled entities

An associate is an entity in which the group or company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the group or company and other parties, where the contractual arrangement establishes that the group or company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the group's share of the investee's net assets and any impairment loss relating to the investment (see note 1(i)). Any acquisition-date excess over cost, the group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the group's share of the post-acquisition post tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Associates and jointly controlled entities *(continued)*

When the group's share of losses exceeds its interest in the associate or the jointly controlled entity, the group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the group's interest is the carrying amount of the investment under the equity method together with the group's long-term interests that in substance form part of the group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the group and its associates and jointly controlled entities are eliminated to the extent of the group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the company's statement of financial position, interest in associates and jointly controlled entities are stated at cost less impairment losses (see note 1(i)).

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(i)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(h)) 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 investment properties are stated at cost less accumulated depreciation and impairment losses (see note 1(i)). 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(r)(v).

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(h)), and the same accounting policies are applied to the interest as are applied to other investment properties leased under finance leases.

(g) Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(i)), with the exception of construction in progress which is stated at cost less any impairment losses:

– 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(h)); 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(t)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Property, plant and equipment *(continued)*

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of their estimated useful lives (being from 20 years to 30 years), and the unexpired term of the leases; and

– Leasehold improvements are depreciated over the shorter of their estimated useful lives, being 10 years from the date of completion, and the unexpired 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

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.

(h) 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Leased assets *(continued)*

(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(f)); 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) Assets acquired under finance leases

Where the group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the group will obtain ownership of the asset, the life of the asset, as set out in note 1(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) 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)*

(h) Leased assets *(continued)*

(iii) 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(f)).

(i) Impairment of assets

(i) Impairment of investments in equity securities and receivables

Investments in equity investments and 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;

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

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in subsidiaries, associates and jointly controlled entities (including those recognised using the equity method (see note 1(d))), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(i)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(i)(ii).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Impairment of assets *(continued)*

(i) Impairment of investments in equity securities and receivables *(continued)*

– 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 these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors 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, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– interests in leasehold land held for own use under operating leases;

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Impairment of assets *(continued)*

(ii) Impairment of other assets *(continued)*

- investment properties; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- 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).

- 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 are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on 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

  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

  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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Impairment of assets *(continued)*

(iii) Interim financial reporting and impairment

Under the Listing Rules, 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(i)(i) and (ii)).

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(i)(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.

(l) 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) 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(q)(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.

(n) 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.

(o) 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.

(p) 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Income tax *(continued)*

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.

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Income tax *(continued)*

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

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.

(q) 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)*

(q) 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(q)(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) Provisions and contingent liabilities

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

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

(r) 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 to the port agreed on the sales contract which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Crude oil jetty service income

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Revenue recognition *(continued)*

(iii) Vessel charter service income

Vessel charter service income is recognised when the service are rendered.

(iv) Interest income

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

(v) 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. Contingent rentals are recognised as income in the accounting period in which they are earned.

(s) 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)*

(t) 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.

(u) Related parties

(i) A person, or a close member of that person's family, is related to the group if that person:

(1) has control or joint control over the group;

(2) has significant influence over the group; or

(3) is a member of the key management personnel of the group or the group's parent.

(ii) An entity is related to the group if any of the following conditions applies:

(1) The entity and the group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Related parties *(continued)*

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) Segment reporting

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

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

2 CHANGES IN ACCOUNTING POLICIES

The HKIPCA has issued a number of amendments to HKFRSs and one new Interpretation 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:

– HKAS 24 (revised 2009), *Related party disclosures*

– Improvements to HKFRSs (2010)

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

The impacts of the above are discussed below:

– HKAS 24 (revised 2009) simplifies the definition of "related party" and removes inconsistencies, which emphasises a symmetrical view of related party transactions. The revised standard also provides limited relief from disclosure of information by government-related entities in respect of transactions with the government to which the group is related, or transactions with other entities related to the same government. These amendments have had no material impact on the Group's financial statements.

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

– Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, *Financial instruments: Disclosures*. The disclosures about the group's financial instruments in note 23 has been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

3 TURNOVER

The principal activities of the group are (i) trading of crude oil, petroleum and petrochemical products; (ii) operating crude oil jetty and its ancillary facilities; and (iii) providing vessel chartering for crude oil transportation and floating oil storage facilities for oil tankers.

Turnover represents the sales value of goods supplied to customers and income from providing crude oil jetty services and vessel charter services, net of related sales taxes. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2011	2010
	$'000	*$'000*
Trading of crude oil, petroleum and petrochemical products	**18,791,627**	16,033,182
Crude oil jetty services	**612,137**	559,698
Vessel charter services	**280,968**	–
	19,684,732	16,592,880

During the year ended 31 December 2011, the group derived revenue from its intermediate holding company and fellow subsidiaries, net of related sales taxes from the segments of trading of crude oil, crude oil jetty services and vessel charter services amounting to $18,791,627,000 (2010: $15,821,907,000), $583,959,000 (2010: $539,663,000) and $280,968,000 (2010: Nil), respectively.

Details of concentration of credit risk arising from the above customers are set out in note 23(a).

Further details regarding the group's principal activities are disclosed in note 11 to these financial statements.

4 OTHER REVENUE AND NET INCOME

	2011 $'000	2010 $'000
Other revenue		
Rental income	1,235	1,312
Interest income	7,074	547
Recovery of doubtful other receivables	–	6,884
Others	2,282	570
	10,591	9,313
Other net income		
Net foreign exchange gain	36,308	10,612
Net loss on disposal of property, plant and equipment	(265)	(169)
Others	(46)	(551)
	35,997	9,892

5 PROFIT BEFORE TAXATION

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

	2011 $'000	2010 $'000
(a) Finance costs		
Interest expenses on bank and other borrowings wholly repayable within five years	3,505	15,898
(b) Staff costs		
Salaries, wages and other benefits	39,331	32,623
Contributions to defined contribution retirement plans	3,584	4,297
	42,915	36,920

5 PROFIT BEFORE TAXATION *(continued)*

(c) Other items

	2011 $'000	2010 $'000
Cost of inventories	**18,924,126**	15,983,530
Depreciation	**166,841**	174,819
Amortisation of interests in leasehold land held for own use under operating leases	**4,198**	4,488
Auditors' remuneration		
– audit services	**1,150**	1,030
– taxation services	**70**	56
– other advisory services	**2,152**	624
Rental receivables from investment properties less direct outgoings of $330,000 (2010: $154,000)	**(905)**	(1,158)
Operating lease charges: minimum lease payments		
– hire of other assets (including property rentals)	**3,623**	2,645

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2011 $'000	2010 $'000
Current tax-Hong Kong Profits Tax		
Provision for the year	**–**	2,712
Over-provision in respect of prior years	**(1,902)**	(8)
	(1,902)	2,704
Current tax-The PRC		
Provision for the year	**68,782**	53,245
Under-provision in respect of prior years	**526**	412
	69,308	53,657
	67,406	56,361

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

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

In 2011, no Hong Kong Profits Tax provision has been made as the group sustained an adjusted tax loss during the year. The provision for Hong Kong Profits Tax for 2010 is calculated at 16.5% of the estimated assessable profits for the year. Taxation for the PRC and overseas subsidiaries are 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 2011, temporary differences relating to the post-2007 undistributed profits of the group's PRC subsidiary amounted to $692,160,000 (2010: $489,692,000). Deferred tax liabilities of $69,216,000 (2010: $48,969,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the company controls the dividend policy of this PRC subsidiary and the company's directors have determined that the PRC subsidiary will not declare dividends out of its post-2007 profits in the foreseeable future.

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

	2011	2010
	$'000	*$'000*
Profit before taxation	**280,918**	252,048
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**64,869**	55,915
Tax effect of non-deductible expenses	**3,634**	131
Tax effect of non-taxable income	**(16)**	(16)
(Over)/under-provision in prior years	**(1,376)**	404
Tax effect of unused tax loss not recognised	**295**	(73)
Actual tax expense	**67,406**	56,361

7 DIRECTORS' REMUNERATION

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

	Director's fees *$'000*	Salaries, allowances and benefits-in-kind *$'000*	2011 Total *$'000*
Executive directors			
Dai Zhao Ming *(Chairman)*	–	–	–
Zhu Zeng Qing *(Deputy Chairman)*	–	–	–
Zhu Jian Min	–	–	–
Tan Ke Fei	–	–	–
Zhou Feng	–	–	–
Ye Zhi Jun *(Managing Director)*	–	1,197	1,197
Independent non-executive directors			
Wong Po Yan	260	–	260
Tam Wai Chu	260	–	260
Fong Chung	260	–	260
	780	1,197	1,977

	Director's fees *$'000*	Salaries, allowances and benefits-in-kind *$'000*	2010 Total *$'000*
Executive directors			
Dai Zhao Ming *(Chairman)*	–	–	–
Zhu Zeng Qing *(Deputy Chairman)*	–	–	–
Zhu Jian Min	–	–	–
Tan Ke Fei	–	–	–
Zhou Feng	–	–	–
Ye Zhi Jun *(Managing Director)*	–	1,358	1,358
Independent non-executive directors			
Wong Po Yan	180	–	180
Tam Wai Chu	180	–	180
Fong Chung	180	–	180
	540	1,358	1,898

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2010: one) is a director whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other four (2010: four) individuals are as follows:

	2011 *$'000*	2010 *$'000*
Salaries and other emoluments	3,783	3,528
Discretionary bonuses	722	576
	4,505	4,104

The emoluments of the four (2010: four) individuals with the highest emoluments are within the following bands:

$	2011 Number of individuals	2010 Number of individuals
Nil-1,000,000	1	1
1,000,001-1,500,000	3	3

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the company includes a loss of $24,593,000 (2010: $893,000) 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:

	2011 *$'000*	2010 *$'000*
Amount of consolidated loss attributable to equity shareholders dealt with in the company's financial statements	(24,593)	(893)
Income recognised in respect of financial guarantees issued by the company to its subsidiaries	2,183	18,000
Company's (loss)/profit for the year (note 22(a))	(22,410)	17,107

10 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the company of $213,512,000 (2010: $195,687,000) and 1,036,830,000 (2010: 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.

11 SEGMENT REPORTING

Management 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 presented three reportable segments, namely trading of crude oil, petroleum and petrochemical products, rendering of crude oil jetty services and rendering of vessel charter 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, petroleum and petrochemical products. Currently, the majority of the trading activities are carried out in Hong Kong.

– Crude oil jetty services: this segment provides crude oil transportation, unloading, storage and other jetty services for oil tankers. Currently, the group's activities in this regard are carried out in the PRC.

– Vessel charter services: this segment provides vessel chartering for crude oil transportation and floating oil storage facilities for oil tankers. Currently, the group's activities in this regard are carried out in the Middle East and 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.

11 SEGMENT REPORTING *(continued)*

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

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

The measure used for reporting segment profit is “segment operating profit”. Segment operating profit includes the operating profit generated by the segment and finance costs directly attributable to the segment. Items that are not specifically attributed to individual segments, such as unallocated other revenue, unallocated other net income or loss, unallocated depreciation and amortisation, unallocated finance costs and other corporate administrative costs are excluded from segment operating profit.

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

In addition to receiving segment information concerning segment operating profit, management is also provided with segment information concerning revenue, interest income, finance costs, depreciation and amortisation and additions to non-current segment assets used by the segments in their operations. Inter-segment revenue are priced with reference to prices charged to external parties for similar orders.

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 2011 and 2010 is set out below.

11 SEGMENT REPORTING *(continued)*

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

	Trading of crude oil, petroleum and petrochemical products		Crude oil jetty services		Vessel charter services		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Revenue								
Revenue from external customers	18,791,627	16,033,182	612,137	559,698	280,968	–	19,684,732	16,592,880
Inter-segment revenue	–	–	1,359	1,565	–	–	1,359	1,565
Reportable segment revenue	18,791,627	16,033,182	613,496	561,263	280,968	–	19,686,091	16,594,445
Reportable segment (loss)/profit	(314)	15,343	272,428	235,433	(1,853)	–	270,261	250,776
Interest income	–	3	307	251	2	–	309	254
Finance costs	(119)	(10,188)	–	–	(799)	–	(918)	(10,188)
Depreciation and amortisation for the year	(158)	(1,301)	(169,666)	(177,798)	(1,058)	–	(170,882)	(179,099)
Reportable segment assets	517,464	822	2,786,333	2,077,337	92,094	–	3,395,891	2,078,159
Additions to non-current segment assets during the year	6	139	60,456	25,757	39	–	60,501	25,896
Reportable segment liabilities	542,467	94,580	450,685	43,371	121,245	–	1,114,397	137,951

11 SEGMENT REPORTING *(continued)*

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

	2011 *$'000*	2010 *$'000*
Revenue		
Reportable segment revenue	19,686,091	16,594,445
Elimination of inter-segment revenue	(1,359)	(1,565)
Consolidated turnover	19,684,732	16,592,880
Profit		
Reportable segment profit	270,261	250,776
Elimination of inter-segment profits	(652)	(704)
Reportable segment profit derived from group's external customers	269,609	250,072
Unallocated other revenue and net income	44,944	19,205
Unallocated depreciation and amortisation	(157)	(208)
Unallocated finance costs	(2,587)	(5,710)
Unallocated other corporate administrative costs	(30,891)	(11,311)
Consolidated profit before taxation	280,918	252,048
Assets		
Reportable segment assets	3,395,891	2,078,159
Elimination of inter-segment receivables	–	(4,249)
	3,395,891	2,073,910
Unallocated corporate assets	819,157	760,180
Consolidated total assets	4,215,048	2,834,090
Liabilities		
Reportable segment liabilities	1,114,397	137,951
Elimination of inter-segment payables	–	(4,249)
	1,114,397	133,702
Unallocated corporate liabilities	275,069	156,792
Consolidated total liabilities	1,389,466	290,494

11 SEGMENT REPORTING *(continued)*

(c) Geographic information

In the view of the fact that substantially all the group's revenue was generated from the customers operated in the PRC and substantially all segment assets and capital expenditure are in the PRC, no geographical segment information is presented.

(d) Major customers

For the year ended 31 December 2011, one (2010: one) customer from trading of crude oil, petroleum and petrochemical products has transactions that exceeded 10% of the group's revenue, amounting to HK$18,732,282,000 (2010: HK$12,487,890,000). This customer operates in the PRC.

Further details of concertration of credit risk are set out in note 23(a).

12 FIXED ASSETS

(a) The group

	Property, plant and equipment											
	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 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	–	–	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
At 1 January 2011	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
Exchange adjustments	3,304	–	80,162	50,881	11,272	6,802	4,643	1,275	158,339	–	7,747	166,086
Additions	–	–	–	–	–	55	–	60,446	60,501	–	–	60,501
Transfer from construction in progress	–	–	–	115	4,280	14,946	51,827	(71,168)	–	–	–	–
Reclassification	–	–	–	–	(1,361)	1,361	–	–	–	–	–	–
Disposals	–	–	–	–	(1,060)	(2,402)	(1,008)	–	(4,470)	–	–	(4,470)
At 31 December 2011	70,420	477	1,695,609	1,078,695	247,352	151,841	128,185	20,823	3,393,402	52,055	163,879	3,609,336

12 FIXED ASSETS *(continued)*

(a) The group *(continued)*

	Property, plant and equipment										Interests in leasehold land held for own use under operating leases	Total
	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		
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Accumulated depreciation, amortisation and impairment losses:												
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 amortisation 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	–	–	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
At 1 January 2011	25,917	327	566,396	535,382	129,264	70,013	49,917	–	1,377,216	18,658	76,584	1,472,458
Exchange adjustments	1,350	–	29,735	27,656	6,225	3,632	2,606	–	71,204	–	3,888	75,092
Depreciation and amortisation for the year	2,004	150	76,928	51,284	16,991	9,917	8,526	–	165,800	1,041	4,198	171,039
Reclassification	–	–	–	–	(900)	900	–	–	–	–	–	–
Written back on disposals	–	–	–	–	(825)	(2,048)	(1,007)	–	(3,880)	–	–	(3,880)
At 31 December 2011	29,271	477	673,059	614,322	150,755	82,414	60,042	–	1,610,340	19,699	84,670	1,714,709
Net book value:												
At 31 December 2011	41,149	–	1,022,550	464,373	96,597	69,427	68,143	20,823	1,783,062	32,356	79,209	1,894,627
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

12 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 2011. For disclosure purposes, the fair values of investment properties have been estimated at their open market value by reference to recent market transactions in comparable properties. The fair value of the investment properties as at 31 December 2011 is estimated to be $68,170,000 (2010: $59,100,000). The valuations were carried out by an independent firm of surveyors, Asset Appraisal Limited, who is an associate member 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:

	2011 *$'000*	2010 *$'000*
Long leases in Hong Kong	**32,356**	33,397
Medium-term leases in the PRC and Macau	**120,358**	120,747
	152,714	154,144
Representing:		
Investment properties	**32,356**	33,397
Buildings held for own use	**41,149**	41,199
Interests in leasehold land held for own use under operating leases	**79,209**	79,548
	152,714	154,144

(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.

The lessee is required to pay an additional fixed jetty service fee of RMB 3,000,000 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.

12 FIXED ASSETS *(continued)*

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

(i) Jetty structures *(continued)*

In 2011, the group entered into a similar operating lease arrangement with another customer, granting the right to use part of its jetty facilities and charging based on actual tonnage passing through the dredging channel. 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 2011, the total jetty service fee charged to these customers under the above arrangements amounting to $21,900,000 (2010: $20,687,000).

(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:

	2011	2010
	$'000	*$'000*
Within 1 year	**–**	695

13 INTERESTS IN SUBSIDIARIES

	The company	
	2011	2010
	$'000	*$'000*
Unlisted shares or investments, at cost	**242,067**	242,067
Amounts due from subsidiaries	**729,663**	729,663
	971,730	971,730

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.

13 INTERESTS IN SUBSIDIARIES *(continued)*

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

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the company	Held by a subsidiary	Principal activities
Huade Petrochemical Company Limited ("Huade") (note)	The PRC, wholly foreign owned enterprise	Registered capital US$93,758,200	100%	–	100%	Operating 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 and rendering vessel charter services
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 2029.

14 INTEREST IN ASSOCIATES

	The group 2011 $'000	2010 $'000
Share of net assets	**419,030**	–

14 INTEREST IN ASSOCIATES *(continued)*

The following list contains only the particulars of associates, all of which are unlisted corporate entities, which principally affected the results or assets of the group:

Name of associate	Note	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the company	Held by a subsidiary	Principal activities
East China LNG Shipping Investment Co., Limited ("East China LNG")	(i)	Hong Kong	5,000,000 ordinary shares of US$1 each	30%	–	30%	Transportation of liquefied natural gas
Zhan Jiang Port Petrochemical Jetty Co. ("Zhan Jiang Port")	(ii)	The PRC	Registered capital RMB180,000,000	50%	–	50%	Provision of logistic services

Note:

(i) In February 2011, the group set up an associate, East China LNG in Hong Kong, together with a PRC state-owned entity. The group invested capital of $11,700,000, representing 30% equity interest in the associate. The associate is engaged in the transportation of liquefied natural gas and is yet to report its first trade.

(ii) In May 2011, the group entered into an acquisition agreement to acquire 50% of equity interest in Zhan Jiang Port. The consideration for the acquisition amounted to RMB331,990,000 (equivalent to approximately $407,330,000). The acquisition has been completed in October 2011, upon the approval obtained from the relevant government authorities in the PRC. The consideration has been settled in full on 9 January 2012. No significant goodwill was recognised upon the completion of the acquisition.

In accordance with the acquisition agreement, the group does not entitle to share any profit or loss from Zhan Jiang Port for the period from the completion date of acquisition to 31 December 2011. From 1 January 2012 onwards, the profit or loss in Zhan Jiang Port shall be borne by its shareholders, in accordance with their respective equity interest in Zhan Jiang Port.

Summary financial information on associates

The financial information is derived from the unaudited management accounts of the associates:

	Assets $'000	Liabilities $'000	Equity $'000	Revenues $'000	Profit for the year $'000
2011					
100 per cent	1,596,190	(759,980)	836,210	519,419	226,351

15 INVENTORIES

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

	The group	
	2011	2010
	$'000	*$'000*
Spare parts	**4,266**	4,370
Fuel oil for vessels	**37,322**	–
Total	**41,588**	4,370

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

	The group	
	2011	2010
	$'000	*$'000*
Carrying amount of inventories sold	**18,924,126**	15,983,530

16 TRADE AND OTHER RECEIVABLES

	The group	
	2011	2010
	$'000	*$'000*
Trade receivables		
– Amounts due from intermediate holding company and fellow subsidiaries	**561,107**	184,280
– Third parties	**1,864**	2,028
	562,971	186,308
Other receivables and prepayments		
– Amounts due from intermediate holding company and fellow subsidiaries	**314**	732
– Third parties	**519,810**	1,136
	520,124	1,868
	1,083,095	188,176

16 TRADE AND OTHER RECEIVABLES *(continued)*

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 transactions and non-trade related transactions are repayable with a credit term of 30 to 90 days and repayable on demand respectively.

Ageing analysis

Included in trade and other receivables are trade debtors and amounts due from intermediate holding company and fellow subsidiaries arising from trading transactions with the following ageing analysis as of the end of the reporting period:

	The group	
	2011	2010
	$'000	*$'000*
Current	**106,465**	48,391
Less than 1 month past due	**51,588**	47,589
1 to 3 months past due	**51,040**	17,745
More than 3 months but less than 12 months past due	**353,878**	72,583
Amounts past due	**456,506**	137,917
	562,971	186,308

Trade debtors, including amounts due from intermediate holding company, fellow subsidiaries and third parties, are due within 30 to 90 days from the date of billing. Further details on the group's credit policy are set out in note 23(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, management 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	
	2011	2010	**2011**	2010
	$'000	*$'000*	***$'000***	*$'000*
Deposits with banks	**761,323**	419,016	**–**	–
Cash at bank and in hand	**10,430**	305,695	**22**	22
	771,753	724,711	**22**	22

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

	Note	**2011**	2010
		$'000	*$'000*
Profit before taxation		**280,918**	252,048
Adjustments for:			
Depreciation and amortisation	12(a)	**171,039**	179,307
Finance costs	5(a)	**3,505**	15,898
Interest income	4	**(7,074)**	(547)
Net loss on disposal of property, plant and equipment	4	**265**	169
Foreign exchange gain		**(22,291)**	(8,018)
Changes in working capital:			
(Increase)/decrease in inventories		**(37,218)**	731,964
(Increase)/decrease in trade and other receivables		**(894,919)**	2,228,012
Increase/(decrease) in trade and other payables		**580,333**	(1,066,793)
Cash generated from operations		**74,558**	2,332,040

18 TRADE AND OTHER PAYABLES

	The group		The company	
	2011	2010	**2011**	2010
	$'000	*$'000*	***$'000***	*$'000*
Trade payable				
– Amounts due to a fellow subsidiary	**66**	–	**–**	–
– Third parties	**20,005**	–	**–**	–
	20,071	–	**–**	–
Amounts due to subsidiaries	**–**	–	**271,524**	233,843
Other payables				
– Amounts due to immediate holding company and fellow subsidiaries	**613,884**	69,448	**–**	–
Creditors and accrued charges	**71,500**	55,674	**25,101**	1,900
Consideration payable to acquire equity interest in an associate (note 14)	**407,330**	–	**–**	–
Financial guarantees issued	**–**	–	**–**	2,183
	1,112,785	125,122	**296,625**	237,926

As at 31 December 2011 and 2010, the Company's amounts due to subsidiaries are not expected to be repayable within one year, and the remaining 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.

18 TRADE AND OTHER PAYABLES *(continued)*

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

	The group	
	2011	2010
	$'000	*$'000*
Due within 1 month or on demand	**20,005**	–
Due after 1 month but within 3 months	**66**	–
	20,071	–

19 INTEREST-BEARING BORROWINGS

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

	The group	
	2011	2010
	$'000	*$'000*
Loans from a fellow subsidiary	**267,228**	156,034

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 period 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 repaid the entire outstanding loan, amounting to US$68,000,000 (equivalent to $530,400,000). The outstanding loan amounting to US$18,910,000 (equivalent to $147,498,000) (2010: US$19,000,000 (equivalent to $147,454,000)) as at 31 December 2011 is unsecured and bears interest at 1.78% (2010: 2.1%) 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 1.35% (2010: 1.15%).

In addition, the group also obtained short-term import loans to finance the crude oil trading business from Century Bright. As at 31 December 2011, the aggregated amount of outstanding short-term loans is US$15,350,000 (equivalent to $119,730,000) (2010: US$1,100,000 (equivalent to $8,580,000)), which are unsecured and bear weighted average interest rate of 1.55% (2010: 1.21%) per annum, which is the LIBOR at the time of entering into the loan agreement plus an interest rate spread of 1.25% (2010: 0.95%). These short-term loans 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	
	2011	2010
	$'000	*$'000*
Provision for Hong Kong Profits Tax for the year	**–**	2,712
Provisional Profits Tax paid	**(2,883)**	(4,784)
	(2,883)	(2,072)
Balance of Hong Kong Profits Tax provision relating to prior years	**(2,072)**	–
	(4,955)	(2,072)
PRC income tax payable	**9,453**	9,338
	4,498	7,266
Representing:		
Tax recoverable	**(4,955)**	(2,072)
Tax payable	**9,453**	9,338
	4,498	7,266

(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 scheme at a certain percentage of the employees' relevant basic salaries. Contributions to the scheme vest immediately.

The group's contributions to employee retirement benefits for the year ended 31 December 2011 were $3,584,000 (2010: $4,297,000). As at 31 December 2011, there was no material outstanding contribution to employee retirement benefits. The group does not have any other obligations other than the contributions described above.

22 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 *$'000* (Note 22(c))	Share premium *$'000* (Note 22(d)(i))	Contributed surplus *$'000* (Note 22(d)(v))	Retained profits *$'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 22(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 22(b))	–	–	–	(15,552)	(15,552)
Balance at 31 December 2010	103,683	333,857	242,397	53,889	733,826

	Share capital *$'000* (Note 22(c))	Share premium *$'000* (Note 22(d)(i))	Contributed surplus *$'000* (Note 22(d)(v))	Retained profits/ (accumulated losses) *$'000*	Total *$'000*
Balance at 1 January 2011	103,683	333,857	242,397	53,889	733,826
Changes in equity for 2011:					
Final dividends approved in respect of the previous year (note 22(b))	–	–	–	(20,737)	(20,737)
Total comprehensive loss for the year	–	–	–	(22,410)	(22,410)
Interim dividends declared in respect of the current year (note 22(b))	–	–	–	(15,552)	(15,552)
Balance at 31 December 2011	103,683	333,857	242,397	(4,810)	675,127

22 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends

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

	2011	2010
	$'000	*$'000*
Interim dividend declared and paid of 1.5 cents (2010: 1.5 cents) per ordinary share	**15,552**	15,552
Final dividend proposed after the end of the reporting period of 2.0 cents (2010: 2.0 cents) per ordinary share (Note)	**41,473**	20,737
	57,025	36,289

Note: The amount of final dividend proposed in 2011 has already taken account the effect of rights issue announced on 21 February 2012, on the basis of one rights share for every one existing share held on the record date.

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.

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

	2011	2010
	$'000	*$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of 2.0 cents (2010: 2.0 cents) per share	**20,737**	20,737

(c) Share capital

	2011		2010	
	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

22 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Share capital *(continued)*

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.

(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 an 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 paid 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(s).

22 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

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

(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.

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 2011, the aggregate amount of reserves available for distribution to equity shareholders of the company was $237,587,000 (2010: $296,286,000). After the end of the reporting period the directors proposed a final dividend of 2.0 cents (2010: 2.0 cents) per ordinary share, amounting to $41,473,000 (2010: $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 an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as the sum of interest-bearing borrowings, trade and other payables and unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity, less unaccrued proposed dividends.

22 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(f) Capital management *(continued)*

During 2011, the group's strategy, which was unchanged from 2010, was to maintain the adjusted net debt-to-capital ratio at less than 30%. 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.

During the year ended 31 December 2010, the group has speeded up its debt collection to reduce its debt and increase the amount of cash held in order 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 adjusted net debt-to-capital ratio at 31 December 2011 and 2010 was as follows:

		The group		The company	
	Note	**2011**	2010	**2011**	2010
		$'000	*$'000*	***$'000***	*$'000*
Current liabilities					
Trade and other payables	18	**1,112,785**	125,122	**296,625**	237,926
Interest-bearing borrowings	19	**267,228**	156,034	**–**	–
Proposed dividends	22(b)	**41,473**	20,737	**41,473**	20,737
Less: Cash and cash equivalents	17	**(771,753)**	(724,711)	**(22)**	(22)
Adjusted net debt		**649,733**	(422,818)	**338,076**	258,641
Total equity		**2,825,628**	2,543,596	**675,127**	733,826
Less: proposed dividends	22(b)	**(41,473)**	(20,737)	**(41,473)**	(20,737)
Adjusted capital		**2,784,155**	2,522,859	**633,654**	713,089
Adjusted net debt-to-capital ratio		**23%**	(17)%	**53%**	36%

Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate, currency and fair value risks arises in the normal course of the group's business. The group's exposure to these risks and the financial risk management policies and practices used by the group to manage these risks are described as 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, individual 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. 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, 90% (2010: 98%) and 99% (2010: 98%) of the total trade and other receivables was due from the group's largest customer and the five largest customers respectively.

Except for the financial guarantees given by the company in favour of its subsidiaries as set out in note 25, the group does not provide any guarantees which would expose the group or the company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 25.

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 loans to cover expected cash demands, subject to approval by the parent company's board when borrowings exceed certain predetermined levels of authority. The group's policy is to regularly monitor its current and expected liquidity requirements and its compliance with lending covenants (if any), 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 2011, the group has unutilised credit facilities of approximately $4,314,726,000 (2010: $7,269,000,000) 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.

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

(b) Liquidity risk *(continued)*

The following tables show 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

	2011		
	Within 1 year or on demand *$'000*	**Total contractual undiscounted cash flow** *$'000*	**Carrying amount at 31 December** *$'000*
Interest-bearing borrowings	**268,373**	**268,373**	**267,228**
Trade payables – third parties	**20,005**	**20,005**	**20,005**
Creditors, accrued charges and consideration payable to acquire equity interest in an associate	**478,830**	**478,830**	**478,830**
Amounts due to immediate holding company and fellow subsidiaries	**613,950**	**613,950**	**613,950**
	1,381,158	**1,381,158**	**1,380,013**

	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

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

(b) Liquidity risk *(continued)*

The company

	2011		
	Within 1 year or on demand	**Total contractual undiscounted cash flow**	**Carrying amount at 31 December**
	$'000	***$'000***	***$'000***
Creditors and accrued charges	**25,101**	**25,101**	**25,101**
Amounts due to subsidiaries	**271,524**	**271,524**	**271,524**
	296,625	**296,625**	**296,625**

	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
Amounts due to subsidiaries	233,843	233,843	233,843
	235,743	235,743	235,743

(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.

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

(c) Interest rate risk *(continued)*

(i) Interest rate profile

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

	2011		2010	
	Effective interest rate	Amount	Effective interest rate	Amount
		$'000		$'000
Variable rate borrowings:				
Interest-bearing borrowings	1.61%	267,228	1.63%	156,034

(ii) Sensitivity analysis

At 31 December 2011, 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 $2,672,000 (2010: $1,303,000).

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 2010.

(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 loans obtained from a fellow subsidiary as at the end of the reporting period of 2011 and 2010 were also denominated in United States dollars. Management 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 2011 and 2010, 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.

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

(d) Foreign currency risk *(continued)*

(i) Exposure to currency risk *(continued)*

The functional currency of the group's BVI subsidiary, KII, is Hong Kong dollars. At 31 December 2011, KII held a Renminbi dominated bank deposits amounted to RMB619,532,000 (equivalent to $764,193,000) (2010: RMB611,708,000 (equivalent to $718,574,000)). The group is therefore exposed to foreign currency risk arising from holding such bank deposits.

(ii) Sensitivity analysis

At 31 December 2011, 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 $19,143,000 (2010: $21,532,000).

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.

(f) Fair values

HKFRS 7, Financial instruments: Disclosures, requires 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 at 31 December 2011 and 2010, 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 2011 and 2010 because of the immediate or short term maturity of these financial instruments.

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

(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.

24 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2011 not provided for in the financial statements were as follows:

	The group	
	2011	2010
	$'000	***$'000***
Contracted for	**2,658,558**	44,038
Authorised but not contracted for	**999,153**	11,610
	3,657,711	55,648

These capital commitments related to the group's share of capital commitments of jointly controlled entities and associates, and construction of oil depots.

24 COMMITMENTS *(continued)*

(b) At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The group	
	2011	2010
	$'000	***$'000***
Within 1 year	**2,645**	1,821
After 1 year but within 5 years	**5,800**	2,669
After 5 years	**8,118**	8,786
	16,563	13,276

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.

25 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 $267,228,000 (2010: $156,034,000).

26 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 7 to the financial statements.

26 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with intermediate holding company, fellow subsidiaries and a director

The group is part of a larger group of the companies under Sinopec Group Company, which is owned by the PRC government, and has significant transactions and relationships with Sinopec Group Company and fellow subsidiaries.

During the year, the group had the following significant transactions with its intermediate holding company, fellow subsidiaries and a director:

	2011	2010
	$'000	*$'000*
Crude oil sold to an intermediate holding company and a fellow subsidiary (note (i))	**18,791,627**	13,878,875
Crude oil purchased from a fellow subsidiary and the related charges (note (i))	**337,628**	2,466,057
Fuel oil purchased from a fellow subsidiary (note (i))	**95,057**	–
Petroleum and petrochemical products sold to fellow subsidiaries (note (i))	**–**	1,941,943
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))	**1,276**	2,013
Crude oil refining and processing fees charged by a fellow subsidiary (note (iii))	**–**	61,468
Jetty service fees charged to a fellow subsidiary (note (iv))	**583,959**	539,663
Vessel charter service fee charged to a fellow subsidiary (note (v))	**280,968**	–
Interest expense charged by a fellow subsidiary (note (vi))	**3,505**	15,898
Rental expenses charged by a fellow subsidiary (note (vii))	**2,678**	2,629
Property, plant and equipment purchased from a fellow subsidiary (note (viii))	**–**	4,658
Rental income received from a director (note (ix))	**57**	57
Cash and cash equivalents placed in fellow subsidiaries (note (x))	**7,811**	596

26 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with intermediate holding company, fellow subsidiaries and a director *(continued)*

The balances with related companies are disclosed in note 16, 18 and 19 to the financial statements.

The directors of the company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions, and this has been confirmed by the independent non-executive directors.

Notes:

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

(i) The crude oil, fuel oil, petroleum and petrochemical 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) The vessel charter fees were charged in accordance with the relevant vessel charter agreements and were determined by reference to the prevailing market rate on a transaction-by-transaction basis.

(vi) 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 0.75% to 1.55% (2010: 0.95% to 1.15%) per annum.

(vii) 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.

(viii) During the year ended 31 December 2010, the group acquired 21 units of properties from a fellow subsidiary amounting to $4,658,000 through an open market auction.

(ix) Rental income was received from a director for leasing an apartment. The leases run for a period till the resignation of the position.

(x) The amount represented the current deposit placed as at the end of the reporting period with fellow subsidiaries.

26 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(c) Transactions with other state-controlled entities in the PRC

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 intermediate holding company and fellow subsidiaries as set out in note 26(b), 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.

(i) Transactions with other state-controlled entities

	2011 ***$'000***	2010 ***$'000***
Crude oil, petroleum and petrochemical products purchased by the group	**18,449,588**	12,613,548
Crude oil, petroleum and petrochemical products sold by the group	**–**	121,478
Jetty service fees charged by the group	**–**	19,995
Construction costs paid by the group	**4,308**	8,952
Prepayment to/amounts due from other state-controlled entities	**518,676**	1,980
Amounts due to other state-controlled entities	**3,590**	8,967

26 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(c) Transactions with other state-controlled entities in the PRC *(continued)*

(ii) Transactions with state-controlled banks

The group deposits its cash with several state-controlled banks in the PRC. The interest rates of the bank deposits in the PRC are regulated by the People's Bank of China. The group's interest income received from these state-controlled banks in the PRC is as follows:

	2011	2010
	$'000	***$'000***
Interest income	**1,046**	246

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

	2011	2010
	$'000	***$'000***
Cash and cash equivalents	**763,346**	723,342

27 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2011, 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.

28 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. Management bases the assumptions and estimates on historical experience and on various other assumptions that it 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 significant accounting policies are set forth in note 1. Management believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

28 ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

Impairment of long lived assets

If circumstances indicate that the net book value of a long lived asset may not be recoverable, the asset may be considered "impaired" and an impairment loss may be recognised in accordance with HKAS 36, Impairment of assets. The carrying amounts of long lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. For goodwill, the recoverable amount is estimated annually. The recoverable amount is the greater of the fair value less costs to sell and the value in use. It is difficult to precisely estimate fair values 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. Management 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 are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. Management 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.

Impairment of bad and doubtful debts

Management estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. Management 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.

29 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in note 22(b).

(b) Acquisition of five joint ventures and rights issue

On 3 December 2011, the board of directors announced its proposed acquisition of five joint ventures from the intermediate holding company, which is conditional upon the proposed issue of rights shares by the company. On 31 December 2011, the proposed acquisition and rights issue was appointed in the Special General Meeting. Upon the completion of the acquisitions of these joint ventures, these five joint ventures will become jointly controlled entities of the group.

Both the acquisition and rights issue have not been completed as at the date of the financial statements.

(Expressed in Hong Kong dollars unless otherwise indicated)

29 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD *(continued)*

(c) On 9 January 2012, KTS, a subsidiary of the group, entered into an equity acquisition agreement with a third party to acquire 50% equity interest in an oil storage company incorporated in United Arab Emirates (the "acquiree"), at a cash consideration of USD25,050,000 (equivalent to approximately $194,889,000) and in addition, KTS may request to purchase the control share, (as defined therein) representing 1% of the issued share capital of the acquiree, at a cash consideration of US9,001,000 (equivalent to approximately $70,028,000). The completion of the acquisition is subject to certain conditions including certain regulatory approvals. The acquisition has not yet been completed up to the date of this report.

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 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
Amendments to HKFRS 7, *Financial instruments: Disclosures-Transfers of financial assets*	1 July 2011
Amendments to HKAS 12, *Income taxes-Deferred tax: Recovery of underlying assets*	1 January 2012
Amendments to HKAS 1, *Presentation of financial statements-Presentation of items of other comprehensive income*	1 July 2012
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 11, *Joint arrangements*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
HKFRS 27, *Separate financial statements (2011)*	1 January 2013
HKAS 28, *Investments in associates and joint ventures*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013
HKFRS 9, *Financial instruments*	1 January 2015

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)

	2007 *$'000*	2008 *$'000*	2009 *$'000*	2010 *$'000*	**2011** ***$'000***
Results					
Turnover	17,364,733	29,349,906	21,281,232	16,592,880	**19,684,732**
Profit from operations	248,154	293,366	278,389	267,946	**284,423**
Finance costs	(80,811)	(100,440)	(29,975)	(15,898)	**(3,505)**
Profit before taxation	167,343	192,926	248,414	252,048	**280,918**
Taxation	(39,463)	(47,639)	(51,587)	(56,361)	**(67,406)**
Profit for the year	127,880	145,287	196,827	195,687	**213,512**
Assets and liabilities					
Fixed assets	2,130,566	2,083,141	1,950,801	1,914,761	**1,894,627**
Interest in associates	–	–	–	–	**419,030**
Net current assets/(liabilities)	(222,481)	62,977	359,734	628,835	**511,925**
NET ASSETS	1,908,085	2,146,118	2,310,535	2,543,596	**2,825,582**
Capital and reserves					
Share capital	103,683	103,683	103,683	103,683	**103,683**
Reserves	1,804,402	2,042,435	2,206,852	2,439,913	**2,721,899**
TOTAL EQUITY	1,908,085	2,146,118	2,310,535	2,543,596	**2,825,582**
Earnings per share					
Basic	12.33 cents	14.01 cents	18.98 cents	18.87 cents	**20.59 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. Fong Chung, Mark
Mr. Wong Po Yan
Ms. Tam Wai Chu, Maria

REMUNERATION COMMITTEE MEMBERS

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

NOMINATION COMMITTEE

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

COMPANY SECRETARIES

Mr. Li Wen Ping, Mr. Lai Yang Chau, Eugene

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LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
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