ANNUAL REPORT 2012

SINOPEC KANTONS HOLDINGS LIMITED
(Incorporated in Bermuda with Limited Liability)
(Stock Code: 934)

GROWTH, SUSTAINABILITY & BREAKTHROUGH

CONTENTS

CHAIRMAN'S STATEMENT

In 2012, the Board of the Company together with its whole staff focused on the Company's strategic positioning and development goals, grasped various opportunities to actively develop the storage and logistic projects. Since the completion of acquisition of equity interests in five crude oil terminal companies within the PRC, major breakthroughs have been made on overseas storage business with a network of overseas projects initially taking shape.

Mr. Dai Zhao Ming Chairman

Dear Shareholders,

First of all, on behalf of the Board of Directors ("the Board") 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 in the past year.

In 2012, the world economy witnessed weak recovery, leading to a slower growth of China's economy. Hampered by the macro-economic environment, the world shipping market further declined, posing some challenges for the Company's operation and production. Facing this situation, the Board of the Company together with the whole staff focused on the Company's strategic positioning and development goals, grasped various opportunities to actively develop storage and logistic projects. Since the completion of acquisition of equity interests in five crude oil terminal companies within the PRC, major breakthrough has been made on overseas storage business, with a network of overseas projects initially taking shape. While actively pursuing development, the Company also conducted its daily operation in a prudent way. Facing up to the temporary difficulties arising from the worsening market environment, we made timely adjustments and concrete measures to minimize the negative impact exerted by it. In 2012, the turnover of the Company and its subsidiaries (collectively, "the Group") was approximately HK$22.042 billion, representing an increase of approximately 11.97% as compared with last year, with profit for the year of approximately HK$292 million, representing an increase of 36.64% as compared with last year.

2012 proved to be a significant year for the Company's international storage and transportation business. In January 2012, the Group with Concord Energy Oil Terminal (Hong Kong) Limited entered into an agreement in respect of acquisition of 50% equity interest in Fujairah Oil Terminal FZC in the United Arab Emirates, after extensive preparation and rounds of business negotiations. The relevant acquisition was completed on 3 January 2013 after going through relevant legal formalities. Fujairah Port in the United Arab Emirates is the second biggest bunker refueling port in the world and the distributing center of refined oil in the Middle East with great market potentials, providing a perfect environment for developing storage business. Both parties plan to, through a 50% to 50% joint venture, Fujairah Oil Terminal FZC, construct oil storage facilities of approximately 1.155 million m^3 storage capacity in Fujairah free trade zone to conduct oil storage business. In addition, after tough negotiations for more than two years, in October 2012, the Group and its Indonesian partner finally entered into an agreement in relation to the acquisition of 95% equity interest in P.T. West Point Terminal. The two parties proposed to jointly build the oil storage tanks and terminals ancillary facilities of approximately 2.6 million m^3 storage capacity in Batam, Indonesia, through P.T. West Point Terminal (the Group 95% equity interest; Indonesian partner 5% equity interest). Adjacent to Malacca Strait, the project is in a unique strategic location which enables it to cover

CHAIRMAN'S STATEMENT

Southeast Asia, Northeast Asia and the Middle East market, and the adjoining Singapore is also one of the world trading centers of refined oil. All these are of great significance for fully utilizing the storage facilities of Batam project to increase project investment return in the future. Such acquisition was completed on 19 March 2013. Apart from the above two overseas storage projects, in 2012, the Company entered into a conditional acquisition agreement to acquire 50% equity interest in Vesta Terminals B.V. ("Vesta") under Mercuria Energy Group after thorough examination and feasibility analysis study. Vesta has aggregated terminals and port ancillary facilities of approximately 1.6 million m^3 storage capacity located at Antwerp in Belgium, Flushing in Netherlands and Tallinn in Estonia, respectively. Upon completion of the acquisition of Vesta, the Company will swiftly set up a storage network in Europe, which reinforces the Company's positioning and strategy of "going global". Apart from these, following a conditional acquisition agreement entered into by the Group and China Petroleum & Chemical Corporation ("Sinopec Corp.") in late 2011 for acquiring the equity interests in five crude oil terminal companies, the Company had arranged staff members to prepare related documents for obtaining government approval, strengthened communication with relevant government departments and finally won their strong support for this acquisition. All government approval proceedings were completed in October 2012 and then the five crude oil terminal companies officially became jointly controlled entities of the Company, which significantly improved the Group's core competitiveness and profitability.

In 2012, the Company conducted its first equity financing since its listing by way of a 1-for-1 rights issue to fund its growing storage and logistics projects. With full support of the shareholders, the rights issue was a great success and was over-subscribed by approximately 500%. After the rights issue, not only did the Company improve liquidity of its shares, its shareholder structure was further optimized as well.

In 2012, Huade Petrochemical Co. Ltd ("Huade Petrochemical"), a wholly-owned subsidiary of the Company, further strengthened its internal management to ensure safety and stability of its operation. For the whole year, there were 85 oil tankers berthed with 12.42 million tonnes of crude oil unloaded, representing an increase of 2.64% compared with last year; 12.42 million tonnes of crude oil transported, raised by 3.07% as compared with last year; a segment profit of HK$259 million generated, decreased by 4.82% as compared with last year. In 2012, Sinomart KTS Development Limited ("Sinomart Development"), another wholly-owned subsidiary of the Company increased its turnover by 12.31% to HK$21.421 billion, as compared with last year, of which HK$20.936 billion was contributed by the trading segment with a crude oil trading volume of 3.35 million tonnes, and approximately HK$485 million was generated by 16 chartered voyages completed in vessel charter segment.

Looking forward to 2013, the Company will shift its focus from storage projects exploitation to storage projects construction. While ensuring high construction quality, we will ensure project construction progresses as scheduled and pay special attention to the construction and development of Fujairah project in Middle East and Batam project in Indonesia. Moreover, we will further enhance our daily operation management, reduce various expenditures and improve economic efficiency, striving to reward our shareholders with better operating results.

By order of the Board
Dai Zhao Ming
Chairman

Hong Kong, 22 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

In 2012, by adhering to the development orientation set by the Board, the Company continued to make efforts to develop oil storage and logistics projects and entered into acquisition agreements in respect of the acquisition of 50% equity interest in Fujairah Oil Terminal FZC in the United Arab Emirates and 50% equity interest in Vesta located in Europe, respectively. Moreover, after long-term negotiation and preparation, the Company signed the shareholders agreement and related contract documents in respect of the construction of 2.60 million m^3 storage tanks and terminals ancillary facilities in Batam, Indonesia by joint venture in 2012, symbolizing the project officially entering into construction stage. Currently, oil storage network of the Company has begun to take shape within the PRC and overseas.

TURNOVER

As at 31 December 2012, the Group's turnover was approximately HK$22,041,792,000 (2011: HK$19,684,732,000), representing an increase of approximately 11.97% as compared with last year. The increase in turnover was mainly due to increase in trading volume in crude oil and average crude oil price in 2012 as compared with last year.

LIQUIDITY AND SOURCE OF FINANCE

As at 31 December 2012, cash on hand and bank balances of the Group totalled approximately HK$2,404,982,000 (31 December 2011: HK$771,753,000) and interest-bearing borrowings were HK$Nil (31 December 2011: HK$267,228,000). The significant increase in cash on hand and bank balances and the decrease in interest-bearing borrowings were both due to a considerable amount of capital raised by the rights issue of the Company in 2012.

GEARING RATIO

As at 31 December 2012, the Group's current ratio (current assets to current liabilities) was approximately 2.28 (31 December 2011: 1.37) and gearing ratio (total liabilities to total assets) was approximately 17.26% (31 December 2011: 32.96%).

TRADE AND OTHER RECEIVABLES

As at 31 December 2012, the Group's trade and other receivables totalled HK$628,929,000 (31 December 2011: HK$1,083,095,000). Most 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, a wholly-owned subsidiary of the Company.

INTEREST IN ASSOCIATES

As at 31 December 2012, the Group's interest in associates amounted to HK$526,765,000 (31 December 2011: HK$419,030,000), consisting of the Group's acquisition of 50% equity interest in Zhan Jiang Port Petrochemical Jetty Co. ("Zhan Jiang Port Petrochemical Terminal") and 30% equity interest in East China LNG Shipping Investment Co., Ltd..

INTEREST IN JOINTLY CONTROLLED ENTITIES

As at 31 December 2012, the Group's interest in jointly controlled entities amounted to HK$2,305,431,000 (31 December 2011: HK$ Nil), consisting of the Group's 50% equity interest in Qingdao Shihua Crude Oil Terminal Co. Ltd. ("Qingdao Shihua"), 50% equity interest in Ningbo Shihua Crude Oil Terminal Co. Ltd. ("Ningbo Shihua"), 50% equity interest in Tianjin Shihua Crude Oil Terminal Co. Ltd. ("Tianjin Shihua"), 50% equity interest in Rizhao Shihua Crude Oil Terminal Co. Ltd. ("Rizhao Shihua"), 90% equity interest in Tangshan Caofeidian Shihua Crude Oil Terminal Co. Ltd. ("Caofeidian Shihua") and 49% equity interest in China Energy Shipping Investment Company Limited respectively.

NET ASSETS

As at 31 December 2012, the Group's net assets amounted to HK$6,507,944,000 (31 December 2011: HK$2,825,582,000). The significant increase in net assets was due to addition in assets of approximately HK$3.5 billion raised by the rights issue of the Company in 2012.

PROFIT FOR THE YEAR

For the year ended 31 December 2012, the Group's profit amounted to approximately HK$291,738,000 (2011: HK$213,512,000), representing an increase of approximately 36.64% as compared to last year. The substantial increase in profit was due to the return generated by the Group's acquisition of partial equity interest in Zhan Jiang Port Petrochemical Terminal and the five crude oil terminals in China.

OPERATING LOSS OF VESSEL CHARTER BUSINESS SECTOR

In order to exploit business opportunities and accumulate experiences of shipping business, upon the approval at the special general meeting of the Company on 6 December 2010, from the beginning of 2011, the Group commenced the oil tankers charter business. Due to ongoing and deep deterioration of oil tankers shipping market, the oil tankers spot market rates were far below their charter rates. Although the Group took a series of proactive measures, the vessel charter business sector recorded segment loss of HK$89,496,000 in 2012.

FOREIGN CURRENCY RISK

In order to develop the storage and logistics businesses, and to realize the development strategy positioning established by the Board of the Company, the Group signed a number of agreements in respect of the expansion of storage and logistics businesses. On 3 December 2011, the Group and Sinopec Corp. signed the conditional equity acquisition agreements to acquire the equity interest in the five crude oil terminal companies held by Sinopec Corp. for a consideration of RMB1,809,807,000. On 9 January 2012, the Group entered into a conditional acquisition agreement with Concord Oil Terminal (Hong Kong) Limited for the acquisition of its 50% equity interest in Fujairah Oil Terminal FZC for a consideration of USD25,050,000, and signed the relevant agreements in respect of the investment and construction of storage facility of approximately 1.155 million m^3 storage capacity in Fujairah Port on 28 December 2012. Pursuant to the agreement, the Group will make capital contributions of USD50,859,000 to Fujairah Oil Terminal FZC. On 9 October 2012, the Group entered into a conditional share purchase agreement to acquire 95% equity interest in PT. West Point Terminal for a consideration of Indonesian rupiah 4,750,000,000, and planned to make capital contributions up to USD239,685,000 to construct storage tanks and terminal ancillary facilities of approximately 2.6 million m^3 storage capacity in Batam, Indonesia. In 15 October 2012, the Group entered into a conditional acquisition agreement to acquire 50% equity interest in Vesta for a consideration of Euro 128.6 million, subject to adjustment based on the actual third party indebtedness of the target companies on the effective date of the agreement. As at 31 December 2012, of the above agreements, only the acquisition agreements in relation to the acquisition of equity interests in the five crude oil terminal companies held by Sinopec Corp. had all conditions precedent fulfilled, with the relevant agreements becoming effective and partial acquisition payment for the equity interests being paid accordingly (as at 31 December 2012, RMB1,013,667,000 was paid pursuant to the agreements, and the remaining RMB796,140,000 has not been paid), and all conditions precedent of each of the other aforesaid agreements have not been fulfilled, and the relevant agreements have not become effective. When all conditions precedent of each of all aforesaid agreements have been fulfilled and the agreements have become effective, the Group will perform the payment obligations in the relevant currencies pursuant to the relevant agreements. As there is fluctuation in the exchange rate of such currencies, there may be difference between the amount in HK$ to be paid accordingly after the agreement becomes effective and the amount based on the corresponding exchange rate as at the date of the agreements.

Save for the above, each entity within the Group was not exposed to significant foreign exchange risk.

EXTERNAL GUARANTEE AND RELEVANT CONTRACTS

Guarantor	Guaranteed entity	Name of agreement	Content of guarantee clause	Date of agreement	Guarantee period	Guarantee amount
The Company	Sinomart Development	Depot Rent Agreement in respect of Fujairah Oil Terminal FZC	Sinomart Development undertook the obligation to rent 50% of the total capacity of the oil depot of Fujairah Oil Terminal FZC pursuant to the clauses of the agreement, when Sinomart Development is not able to perform the renting obligations, the Company guarantees to undertake all the obligations of Sinomart Development.	9 January 2012	Date of the completion of the project to within 10 years after completion	USD267.6 million
The Company	Sinomart Development	Equity Subscription Agreement in respect of Fujairah Oil Terminal FZC	As a shareholder of Fujairah Oil Terminal FZC, Sinomart Development will make equity contributions in respect of the project, and the Company will provide guarantee for the equity contributions by Sinomart Development.	28 December 2012	Effective date of the contract to completion of capital contribution	USD 50,859,474.59
Sinomart Development	PT. West Point Terminal	Land Lease Agreement of Batam, Indonesia	In the event that PT. West Point fails to pay to lessor any amount of the Land Lease Fee when due under the Land Lease Agreement, Sinomart Development shall pay, on demand, an amount obtained by multiplying such unpaid amount by the percentage representing its shareholding interest in PT. West Point.	9 October 2012	Effective date of the contract to within 30 years after the effective date	Singapore dollars 101,712,225

Guarantor	Guaranteed entity	Name of agreement	Content of guarantee clause	Date of agreement	Guarantee period	Guarantee amount
The Company	Sinomart Development	Sale and Purchase Agreement in respect of the acquisition of a 50% equity interest in Vesta	Sinomart Development will pay the corresponding equity acquisition payment in respect of the acquisition of 50% equity interest in the target company, and the Company shall provide guarantee for the payment of equity acquisition by Sinomart Development.	15 October 2012	Effective date of the agreement to the completion of the equity acquisition payment	Approximately Euro 128.6 million, subject to the adjustment based on the actual third party indebtedness of the target companies on the effective date of the contract.

Save for the above, the Group did not provide any financial assistance or guarantee and pledge of shares for other companies.

EMPLOYEES AND EMOLUMENT POLICIES

As at 31 December 2012, the Group had a total of 232 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 2012.

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 is 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	99%	
Five largest customers in aggregate	100%	
The largest supplier		90%
Five largest suppliers in aggregate		99%

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

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2012 and the financial positions of the Company and the Group as at that date are set out in the financial statements on pages 32 to 102.

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of HK$291,738,000 (2011: HK$213,512,000) have been transferred to reserves. Other movements in reserves are set out in consolidated statement of changes in equity of the financial statements.

FINAL DIVIDEND

The board declared a dividend of HK$0.035 per share payable in cash for 2012 (2011: HK$0.035), excluding the interim dividend of HK$0.015 per share in cash for 2012 paid on 18 October 2012 (2011: HK$0.015 per share), the final dividend of HK$0.02 per share in cash for 2012 (2011: 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 21 June 2013 (Friday).

The register of members of the Company will be closed from 17 June 2013 (Monday) to 21 June 2013 (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 14 June 2013 (Friday). The cheques for dividend payment will be sent to shareholders on or about 5 July 2013 (Friday).

2012 ANNUAL GENERAL MEETING

The Company will convene the 2012 Annual General Meeting on 10 June 2013 (Monday), and the register of members will be closed from 4 June 2013 (Tuesday) to 10 June 2013 (Monday) (both days inclusive). In order to qualify for attending the 2012 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 3 June 2013 (Monday).

FIXED ASSETS

During 2012, the Group spent approximately HK$221,337,000 (2011: HK$60,501,000) 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 movements in share capital of the Company during 2012 are set out in note 23(c) to the financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during 2012.

REPORT OF THE DIRECTORS

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 Jian Min, Mr. Tan Ke Fei and Mr. Fong Chung, Mark will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

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 2012, 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 2012, the Company has not established and implemented any share option scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during 2012, 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 2012, 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	1,500,000,000	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.

REPORT OF THE DIRECTORS

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 2012, the Company and the Group had no bank loans and interest-bearing loans.

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 pages 103 of the annual report.

RETIREMENT SCHEME

Other than operating a Hong Kong Mandatory Provident Fund Scheme and contributions made to the PRC state-managed retirement benefits schemes, the Group has not operated any other retirement schemes for the Group's employees. Particulars of the retirement schemes are set out in note 22 to the financial statements.

COMPLIANCE WITH THE CODE

Save for those disclosed in this annual report, the Company has complied with the applicable provisions of the former Code of Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and the new Corporate Governance Code during the period from 1 April 2012 to 31 December 2012 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 2012.

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

According to the relevant regulations issued by the Ministry of Finance of the People's Republic of China and the State-owned Assets Supervision and Administration Commission of the State Council (the "SASAC"), there are restrictions in respect of the number of years of audit services that an accounting firm can continuously provide to a state-owned enterprise and its subsidiaries. KPMG will retire as the international auditor of Sinopec Corp., the controlling shareholder of the Company and a subsidiary of China Petrochemical Corporation (a state-owned enterprise under the control of SASAC) with effect from the close of the forthcoming annual general meeting of Sinopec Corp. and will not offer themselves for re-appointment due to the relevant requirement. The Board of Directors of Sinopec Corp. resolved to appoint PricewaterhouseCoopers as its international auditor for the year 2013.

As the Company is the subsidiary of Sinopec Corp. and PricewaterhouseCoopers is proposed to be appointed as the international auditor for Sinopec Corp. for the year 2013, the Board considers that it would be more efficient and cost effective for PricewaterhouseCoopers to be appointed as the auditor of the Company. Accordingly, the Board, with the recommendation of the Audit Committee, has resolved to appoint PricewaterhouseCoopers as the auditor of the Company for the year 2013 (the "Proposal") in place of KPMG, which is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting to be held on 10 June 2013.

KPMG confirmed that there were no matters or circumstances connected with the Proposal that should be brought to the attention to the Board and the Audit Committee. The Board also confirmed that there were no relevant matter regarding the Proposal that should be brought to the attention to the shareholders of the Company. The Board and the Audit Committee further confirmed that there were no disagreements or unresolved matters between the Company and KPMG regarding the Proposal.

The Board would like to express its appreciation for the services of KPMG provided to the Company in the past years.

By order of the Board of Directors

Dai Zhao Ming
Chairman
Hong Kong, 22 March 2013

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 websites of HKEx (http://www.hkexnews.com.hk) and the Company (www.sinopec.com.hk).

II THE ACQUISITION OF EQUITY INTERESTS IN 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 Corp. (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, 50% equity interest in Qingdao Shihua, 50% equity interest in Tianjin Shihua, 50% equity interest in Rizhao Shihua and 90% equity interest in Caofeidian Shihua respectively held by Sinopec Corp.. Since Sinopec Corp. is a holding company of the Company, the above transactions were connected transactions and constituted very substantial acquisitions according to relevant requirements of the Rules Governing the Listing of Securities on of The Stock Exchange of Hong Kong Limited, 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 companies was approved in the special general meeting. However, the equity acquisition agreements became effective after all the conditions precedent as stated in the announcement of the Company dated 3 December 2011 regarding the acquisition of the five crude oil terminal companies were satisfied. All conditions precedent of the above acquisition agreements were fulfilled during the period from 24 October 2012 to 31 October 2012. Following completion of the acquisition, the five crude oil terminal companies became jointly controlled entities of the Company under HKFRS.

III INFORMATION ON THE CONNECTED TRANSACTIONS MADE DURING THE YEAR

In 2012, the connected transactions (including the continuing 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 connected transactions have been reviewed by the independent non-executive directors of the Company and reviewed by the auditors KPMG 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; and (5) the amount of all the continuing connected transactions that took place during the year was below the exempted cap amounts of for the continuing connected transactions approved at the special general meeting on 6 December 2010 of the Company.

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

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Dai Zhao Ming, aged 47, 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 57, 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 48, 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 45, 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 47, 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 46, 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 89, 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. and Allied Group 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 67, 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, 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. 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.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Fong Chung, Mark, aged 61, 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 43, 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 46, Deputy General Manager 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 was the CFO of Sinopec Kantons Holdings Limited from March 2008 to February 2012, and has been the Deputy General Manager of Sinopec Kantons Holdings Limited since March 2012.

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 42, Deputy General Manager of Sinopec Kantons Holdings Limited. 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 deputy officer and Party secretary of integrated planning department of Sinopec Qingdao Petrochemical Co. Ltd. From May 2007 to December 2012, 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 37, 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. Chen Hong, aged 40, CFO of Sinopec Kantons Holdings Limited. Mr. Chen graduated from Department of Accounting, Renmin University of China in July 1994 with a bachelor's degree in international accounting, and has professional qualification of senior accountant. He worked with the finance department of Sinopec International Co. Ltd, Sinopec International Products Trading Co, Sinopec (Singapore) Company, Unipec (Singapore) Company and other units successively. He was deputy chief of finance department of UNIPEC from December 2008 to March 2012. Mr. Chen has been the CFO of Sinopec Kantons Holdings Limited since March 2012.

Mr. Qiao Ming Qian, aged 47, 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.

CHANGES IN DIRECTORS' PARTICULARS SUBSEQUENT TO THE 2012 INTERIM REPORT

Pursuant to Rule 13.51B of the Listing Rules, the following changes are disclosed:

- Ms. Tam Wai Chu, Maria, an independent non-executive director of the Company, retired as an independent non-executive director of Titan Petrochemicals Group Limited, a listed company on The Stock Exchange of Hong Kong Limited, with effect from 29 June 2012.

- Mr. Wong Po Yan, an independent non-executive director of the Company, resigned as an independent non-executive director of China Electronics Corporation Holdings Company Limited and Mingfa Group (International) Co. Ltd., both listed company on The Stock Exchange of Hong Kong Limited, with effect from 1 November 2012 and 19 March 2013 respectively.

CORPORATE GOVERNANCE REPORT

ANNUAL GENERAL MEETING

On 28 May 2012, the Company convened the 2011 Annual General Meeting at Conference Room 3-4, M Floor, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong strictly in accordance with laws, regulations and the relevant notice, convening and holding requirements under the Bye-laws of the Company. Under the authorization and appointment of the Board, Mr. Ye Zhi Jun (Director and General Manager) presided over the Annual General Meeting, and Mr. Fong Chung, Mark, Chairman of Audit Committee, Ms. Tam Wai Chu, Maria, Chairlady of Remuneration Committee, Mr. Wong Po Yan, Chairman of Nomination Committee 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 28 May 2012.

Attendance of the 2011 Annual General Meeting is as follows:

Attendance	No. of meetings attended	Attendance %
Mr. Dai Zhao Ming	0	0.0
Mr. Zhu Zeng Qing	0	0.0
Mr. Zhu Jian Min	0	0.0
Mr. Tan Ke Fei	0	0.0
Mr. Zhou Feng	0	0.0
Mr. Ye Zhi Jun	1	100.0
Mr. Wong Po Yan	1	100.0
Ms. Tam Wai Chu, Maria	1	100.0
Mr. Fong Chung, Mark	1	100.0

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 former Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and the new Corporate Governance Code during the period from 1 April 2012 to 31 December 2012 as set out in Appendix 14 of the Listing Rules. The Company is in compliance with the Code Provisions therein, save for those disclosed in this Corporate Governance Report .

As at 31 December 2012, the Board comprises six executive Directors and three independent non-executive directors. The Board has appointed the Audit Committee and the Remuneration Committee, and the Nomination Committee. 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
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			

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 nine full Board meetings in 2012. Attendance of the full Board meetings are as follows:

Attendance	No. of meetings attended	Attendance %
Mr. Dai Zhao Ming	6	66.7
Mr. Zhu Zeng Qing	7	77.8
Mr. Zhu Jian Min	1	11.1
Mr. Tan Ke Fei	1	11.1
Mr. Zhou Feng	6	66.7
Mr. Ye Zhi Jun	9	100.0
Mr. Wong Po Yan	9	100.0
Ms. Tam Wai Chu, Maria	9	100.0
Mr. Fong Chung, Mark	9	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.

CORPORATE GOVERNANCE REPORT

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 2012, the Audit Committee held two meetings to review the annual results of the Group for the financial year ended 2011 and the interim results for the six months ended 30 June 2012, 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 meetings were as follows:

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

The Company's annual results for the financial year ended 31 December 2012 have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

The remuneration committee ("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 2012, the Remuneration Committee of the Company convened one meeting, 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 temporary measures for the evaluation of the performance of the company's storage and logistics projects were reviewed and amended, 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	1	100.0
Mr. Wong Po Yan	1	100.0
Mr. Fong Chung, Mark	1	100.0

NOMINATION COMMITTEE

Pursuant to the relevant requirements of the Listing Rules, 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 Ms. Tam Wai Chu, Maria, Mr. Fong Chung, Mark, Mr. Dai Zhao Ming and Mr. Ye Zhi Jun. Among the 5 members of the Nomination Committee, three members are independent non-executive directors.

The Nomination Committee is responsible for formulating and implementing policies relating to the nomination of Directors and various reference factors such as experience, qualification and academic background related to business of the Company, integrity of nominees, time being invested and independence. 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 former Code on Corporate Governance Practices and the new Corporate Governance Code 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.

As of 31 December 2012, all Directors of the Company, namely, Mr. Dai Zhao Ming, Mr. Zhu Zeng Qing, Mr. Zhu Jian Min, Mr. Tan Ke Fei, Mr. Zhou Feng, Mr. Ye Zhi Jun, Mr. Wong Po Yan. Ms. Tam Wai Chu, Maria and Mr. Fong Chung, Mark, received the training related to corporate governance through participating in the collective trainings organised by the Company or in the trainings organised by the relevant institutions.

CORPORATE GOVERNANCE REPORT

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 former Code on Corporate Governance Practices (the "Code") as contained in Appendix 14 to the Listing Rules of Hong Kong Stock Exchange during the period from 1 January 2012 to 31 March 2012 and the new Corporate Governance Code during the period from 1 April 2012 to 31 December 2012, except the following: Code provision E.1.2 of the Code stipulates that the chairman of the Board should attend the annual general meeting. When the Chairman was unable to attend the annual general meeting held on 28 May 2012 due to work engagement and Mr. Ye Zhi Jun, the managing director of the Company, took the chair of the meeting pursuant to the Bye-laws of the Company and upon the approval of the Board.

Furthermore, with the approval of the Board of the Company, 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 SHARE

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during 2012.

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.

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

Auditors' remuneration in relation to audit services amounted to HK$1,540,000 in 2012 (2011: HK$1,150,000). The following remuneration was paid/payable by the Group to its auditor, KPMG:

(in HK$ millions)	**2012**	2011
Audit services	**1.54**	1.15
Taxation services	**0.07**	0.07
Other advisory services	**2.14**	2.15
Total	**3.75**	3.37

INTERNAL CONTROL

The Board is responsible for the Group's system of internal control and its effectiveness. It has established an ongoing 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 2012. 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 2012, 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 2012. 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 the website of HKEx (http://www.hkexnews.hk) or the website of the Company (http://www.sinopec.com.hk). All significant information such as announcements, annual and interim reports can be downloaded from the above websites.

SHAREHOLDERS' RIGHTS

(a) Procedures for shareholders to convene a Special General Meeting ("SGM")

Pursuant to the Companies Act, the Board shall, on the requisition of members of the company holding not less than one-tenth of the paid-up capital of the Company as at the date of the deposit of the requisition , forthwith proceed to convene a SGM.

If within twenty-one days of such deposit the Board fails to proceed to convene the SGM, the requisitionists or any of them representing more than one half of the total voting rights of all of them, may themselves convene a SGM, but any meeting so convened shall not be held after three months from the date of the original deposit.

(b) Procedures for putting forward proposals at shareholders' meetings

Pursuant to the Companies Act of Bermuda, shareholders can submit a written requisition to move a resolution at a shareholders' meeting. The number of shareholders necessary for a requisition shall represent not less than one-twentieth of the total voting rights of all shareholders having at the date of the requisition a right to vote at the shareholders' meeting, or who are no less than one hundred shareholders.

The written requisition must state the resolution, accompanied by a statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at the shareholders' meeting. It must also be signed by all of the shareholders concerned and be deposited at the registered office of the Company in Bermuda at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda for the attention of the Joint Company Secretaries not less than six weeks before the shareholders' meeting in case of a requisition requiring notice of a resolution and not less than one week before the shareholders' meeting in case of any other requisition.

The shareholders concerned must deposit a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement submitted by the shareholders concerned under applicable laws and rules.

(c) Shareholders' enquiries

Shareholders should direct their questions about their shareholdings to the Company's Hong Kong Branch Share Registrar, and they may at any time make a request for the Company's information to the extent that such information is publicly available. Shareholders may also make enquiries to the Board by writing to the Joint Company Secretaries at the Company's office in Hong Kong at 20/F, Office Tower, Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong.

During the year under review, the Company has not made any changes to its Bye-Laws. An up to date version of the Bye-Laws is available on the Company's website and the SEHK's website. Shareholders may refer to the Bye-Laws for further details of their rights.

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 32 to 102, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

AUDITOR'S RESPONSIBILITY *(Continued)*

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 2012 and of the group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

22 March 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012 (Expressed in Hong Kong dollars)

	Note	**2012** **$'000**	2011 $'000
Turnover	3 & 11	**22,041,792**	19,684,732
Cost of sales		**(21,802,401)**	(19,365,538)
Gross profit		**239,391**	319,194
Other revenue	4	**56,443**	10,591
Other net (loss)/income	4	**(13,268)**	35,997
Distribution costs		**(7,924)**	(7,045)
Administrative expenses		**(67,418)**	(74,314)
Profit from operations		**207,224**	284,423
Finance costs	5(a)	**(1,555)**	(3,505)
Share of profit of an associate	14	**92,007**	–
Share of profits of jointly controlled entities	15	**59,759**	–
Profit before taxation	5	**357,435**	280,918
Income tax	6(a)	**(65,697)**	(67,406)
Profit for the year		**291,738**	213,512
Basic and diluted earnings per share (cents)	10	**15.49**	17.44

The notes on pages 40 to 102 form part of these financial statements. Details of dividends payable to equity shareholders of the company attributable to the profit for the year are set out in note 23(b).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012 (Expressed in Hong Kong dollars)

	2012 $'000	2011 $'000
Profit for the year	**291,738**	213,512
Other comprehensive income for the year (note):		
Exchange differences on translation of financial statements of the subsidiary in the People's Republic of China (the "PRC")	**(274)**	104,763
Exchange differences on translation of associate's share of net assets	**323**	–
Exchange differences on translation of jointly controlled entities' share of net assets	**210**	–
Total comprehensive income for the year	**291,997**	318,275

Note: The component of the other comprehensive income does not have any tax effect for the years ended 31 December 2012 and 2011.

The notes on pages 40 to 102 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012 (Expressed in Hong Kong dollars)

	Note	**2012** **$'000**	2011 $'000
Non-current assets			
Fixed assets	12		
Property, plant and equipment		**1,855,242**	1,783,062
Investment properties		**15,568**	32,356
Interests in leasehold land held for own use under operating leases		**74,906**	79,209
		1,945,716	1,894,627
Interest in associates	14	**526,765**	419,030
Interest in jointly controlled entities	15	**2,305,431**	–
		4,777,912	2,313,657
Current assets			
Inventories	16	**48,355**	41,588
Trade and other receivables	17	**628,929**	1,083,095
Tax recoverable	21(a)	**4,955**	4,955
Cash and cash equivalents	18	**2,404,982**	771,753
		3,087,221	1,901,391
Current liabilities			
Trade and other payables	19	**1,344,666**	1,112,785
Interest-bearing borrowings	20	**–**	267,228
Tax payable	21(a)	**10,223**	9,453
		1,354,889	1,389,466
Net current assets		**1,732,332**	511,925
Total assets less current liabilities		**6,510,244**	2,825,582
Non-current liabilities			
Deferred tax liabilities	21(b)	**2,300**	–
NET ASSETS		**6,507,944**	2,825,582

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2012 (Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000
CAPITAL AND RESERVES			
Share capital	23(c)	207,366	103,683
Reserves		6,300,578	2,721,899
TOTAL EQUITY		6,507,944	2,825,582

Approved and authorised for issue by the board of directors on 22 March 2013.

Dai Zhao Ming
Chairman

Ye Zhi Jun
Managing Director

The notes on pages 40 to 102 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2012 (Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000
Non-current asset			
Investments in subsidiaries	13	**4,106,199**	971,730
Current asset			
Cash and cash equivalents	18	**19**	22
Current liability			
Other payables	19	**31,908**	296,625
Net current liabilities		**(31,889)**	(296,603)
NET ASSETS		**4,074,310**	675,127
CAPITAL AND RESERVES	23(a)		
Share capital		**207,366**	103,683
Reserves		**3,866,944**	571,444
TOTAL EQUITY		**4,074,310**	675,127

Approved and authorised for issue by the board of directors on 22 March 2013.

Dai Zhao Ming
Chairman

Ye Zhi Jun
Managing Director

The notes on pages 40 to 102 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012 (Expressed in Hong Kong dollars)

	Note	Attributable to equity shareholders of the company						
		Share capital (Note 23(c)) *$'000*	Share premium (Note 23(e)(i)) *$'000*	Merger reserve (Note 23(e)(ii)) *$'000*	General reserves (Note 23(e)(iii)) *$'000*	Exchange reserve (Note 23(e)(iv)) *$'000*	Retained profits *$'000*	Total equity *$'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 subsidiary in the PRC		–	–	–	–	104,763	–	104,763
Total comprehensive income		–	–	–	–	104,763	213,512	318,275
Final dividends approved in respect of the previous year	23(b)(ii)	–	–	–	–	–	(20,737)	(20,737)
Appropriation of reserves		–	–	–	21,729	–	(21,729)	–
Interim dividends declared in respect of the current year	23(b)(i)	–	–	–	–	–	(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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2012 (Expressed in Hong Kong dollars)

	Note	Attributable to equity shareholders of the company						
		Share capital (Note 23(c)) $'000	Share premium (Note 23(e)(i)) $'000	Merger reserve (Note 23(e)(ii)) $'000	General reserves (Note 23(e)(iii)) $'000	Exchange reserve (Note 23(e)(iv)) $'000	Retained profits $'000	Total equity $'000
Balance at 1 January 2012		103,683	333,857	23,444	189,908	525,307	1,649,383	2,825,582
Changes in equity for 2012:								
Profit for the year		-	-	-	-	-	291,738	291,738
Other comprehensive income								
– Exchange differences on translation of financial statements of the subsidiary in the PRC		-	-	-	-	(274)	-	(274)
– Exchange differences on translation of associate's share of net assets		-	-	-	-	323	-	323
– Exchange differences on translation of jointly controlled entities' share of net assets		-	-	-	-	210	-	210
Total comprehensive income		-	-	-	-	259	291,738	291,997
Shares issued under rights issue	23(d)	103,683	3,359,260	-	-	-	-	3,462,943
Final dividends approved in respect of the previous year	23(b)(ii)	-	-	-	-	-	(41,473)	(41,473)
Appropriation of reserves		-	-	-	23,013	-	(23,013)	-
Interim dividends declared in respect of the current year	23(b)(i)	-	-	-	-	-	(31,105)	(31,105)
Balance at 31 December 2012		207,366	3,693,117	23,444	212,921	525,566	1,845,530	6,507,944

The notes on pages 40 to 102 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2012 (Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000
Operating activities			
Cash generated from operations	18(b)	365,024	74,558
Hong Kong Profits Tax paid		–	(981)
PRC tax paid		(62,627)	(69,193)
Net cash generated from operating activities		302,397	4,384
Investing activities			
Payment for the purchase of property, plant and equipment		(176,667)	(60,501)
Payment for the acquisition of an associate		(407,330)	(11,700)
Payment for the acquisition of jointly controlled entities		(1,266,082)	–
Interest received		54,262	7,074
Proceeds from disposal of property, plant and equipment		23	325
Net cash used in investing activities		(1,795,794)	(64,802)
Financing activities			
Net proceeds from the rights issue	23(d)	3,462,943	–
Proceeds from new interest-bearing borrowings		585,772	774,801
Repayment of interest-bearing borrowings		(853,000)	(663,607)
Dividends paid		(72,578)	(36,289)
Finance costs paid		(1,555)	(3,505)
Net cash generated from financing activities		3,121,582	71,400
Net increase in cash and cash equivalents		1,628,185	10,982
Cash and cash equivalents at 1 January	18(a)	771,753	724,711
Effect of foreign exchange rate changes		5,044	36,060
Cash and cash equivalents at 31 December	18(a)	2,404,982	771,753

The notes on pages 40 to 102 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012 (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 2012 comprise the company and its subsidiaries (together referred to as the "group") and the group's interest in associates and jointly controlled entities.

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.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

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.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

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 40 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012 (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;

– 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;

– 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.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

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).

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

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;

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

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.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

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 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.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

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.

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

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Income tax *(continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities and deferred tax assets against deferred tax liabilities, if the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(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.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

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 or value added tax.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Revenue recognition *(continued)*

(iii) Vessel charter service income

Vessel charter service income is recognised on a percentage of completion basis, which is determined on the time proportion method of each individual vessel voyage.

(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.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

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).

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

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 HKICPA has issued several amendments to HKFRSs 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:

– Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*

– Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*

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

Amendments to HKFRS 7, *Financial instruments: Disclosures*

The amendments to HKFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

Amendments to HKAS 12, *Income taxes*

Under HKAS 12 deferred tax is required to be measured with reference to the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of the asset(s) in question. In this regard, the amendments to HKAS 12 introduced a rebuttable presumption that the carrying amount of investment property carried at fair value under HKAS 40, *Investment property*, will be recovered through sale. The group accounts for its investment properties under cost method (see note 1(f)), this amendment has no effect on the group's financial statements for prior years and current year.

3 TURNOVER

The principal activities of the group are (i) trading of crude oil; (ii) rendering crude oil jetty services; and (iii) rendering vessel charter services.

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 or value added taxes. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2012	2011
	$'000	*$'000*
Trading of crude oil	**20,936,047**	18,791,627
Crude oil jetty services	**620,832**	612,137
Vessel charter services	**484,913**	280,968
	22,041,792	19,684,732

During the year ended 31 December 2012, the group derived revenue from its intermediate holding company and fellow subsidiaries, net of related sales taxes or value added taxes from the segments of trading of crude oil, crude oil jetty services and vessel charter services, amounting to $20,936,047,000 (2011: $18,791,627,000), $596,961,000 (2011: $583,959,000) and $418,743,000 (2011: $280,968,000), respectively.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

4 OTHER REVENUE AND NET (LOSS)/INCOME

	2012 $'000	2011 $'000
Other revenue		
Rental income	586	1,235
Interest income	54,262	7,074
Others	1,595	2,282
	56,443	10,591
Other net (loss)/income		
Net foreign exchange (loss)/gain	(13,893)	36,308
Net loss on disposal of property, plant and equipment	(423)	(265)
Others	1,048	(46)
	(13,268)	35,997

5 PROFIT BEFORE TAXATION

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

	2012 $'000	2011 $'000
(a) Finance costs		
Interest expenses on bank and other borrowings wholly repayable within five years	1,555	3,505
(b) Staff costs		
Salaries, wages and other benefits	44,150	39,331
Contributions to defined contribution retirement plans (note 22)	5,073	3,584
	49,223	42,915

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

5 PROFIT BEFORE TAXATION *(continued)*

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

	2012 $'000	2011 $'000
(c) Other items		
Cost of inventories	**20,918,541**	18,924,126
Depreciation	**165,369**	166,841
Amortisation of interests in leasehold land held for own use under operating leases	**4,271**	4,198
Auditors' remuneration		
– audit services	**1,540**	1,150
– taxation services	**70**	70
– other advisory services	**2,135**	2,152
Rental receivable from investment properties less direct outgoings of $208,000 (2011: $330,000)	**(378)**	(905)
Operating lease charges: minimum lease payments		
– hire of other assets (including property rentals)	**3,843**	3,623
– hire of vessels	**243,119**	105,113

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2012 $'000	2011 $'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**–**	–
Over-provision in respect of prior years	**–**	(1,902)
	–	(1,902)
Current tax – PRC Corporate Income Tax		
Provision for the year	**62,981**	68,782
Under-provision in respect of prior years	**416**	526
	63,397	69,308
Deferred tax		
Origination and reversal of temporary differences (note 21(b))	**2,300**	–
	65,697	67,406

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

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

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

No Hong Kong Profits Tax provision has been made as the group's subsidiaries in Hong Kong sustained adjusted losses during the years ended 31 December 2012 and 2011. 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.

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

	2012	2011
	$'000	*$'000*
Profit before taxation	**357,435**	280,918
Less: Share of profit of an associate	**(92,007)**	–
Share of profit of jointly controlled entities	**(59,759)**	–
	205,669	280,918
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**56,113**	64,869
Tax effect of non-deductible expenses	**2,489**	3,634
Tax effect of non-taxable income	**(1,615)**	(16)
Under/(over)-provision in prior years	**416**	(1,376)
Tax effect of unused tax loss not recognised	**8,294**	295
Actual tax expense	**65,697**	67,406

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

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:

	Directors' fees *$'000*	Salaries, allowances and benefits-in-kind *$'000*	2012 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)*	–	1,628	1,628
Independent non-executive directors			
Wong Po Yan	260	–	260
Tam Wai Chu	260	–	260
Fong Chung	260	–	260
	780	1,628	2,408

	Directors' 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2011: one) is a director whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other four (2011: four) individuals are as follows:

	2012 $'000	2011 $'000
Salaries and other emoluments	4,703	3,783
Discretionary bonuses	831	722
	5,534	4,505

The emoluments of the four (2011: four) individuals with the highest emoluments are within the following bands:

$	2012 Number of individuals	2011 Number of individuals
Nil – 1,000,000	–	1
1,000,001 – 1,500,000	3	3
1,500,001 – 2,000,000	1	–

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the company includes a profit of $8,818,000 (2011: loss of $24,593,000) which has been dealt with in the financial statements of the company.

Reconciliation of the above amount of the company's profit/(loss) for the year:

	2012 $'000	2011 $'000
Amount of consolidated profit/(loss) attributable to equity shareholders dealt with in the company's financial statements	8,818	(24,593)
Income recognised in respect of financial guarantees issued by the company to its subsidiaries	–	2,183
Company's profit/(loss) for the year (note 23(a))	8,818	(22,410)

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

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 $291,738,000 (2011: $213,512,000) and the weighted average of 1,883,421,000 ordinary shares (2011: restated weighted average of 1,224,543,000 shares, which has been adjusted retrospectively for the effect of rights issue on 22 March 2012) in issue throughout the year, calculated as follows:

	2012 *'000*	2011 *'000*
Issued ordinary shares at 1 January	**1,036,830**	1,036,830
Effect of rights issue (note 23(d))	**846,591**	187,713
Weighted average number of ordinary shares at 31 December	**1,883,421**	1,224,543

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

The group manages its businesses by divisions, which are organised by business lines (products and services). In a manner consistent with the way in which information is reported internally to the group's most senior executive management for the purposes of resource allocation and performance assessment, the group has identified three reportable segments, namely trading of crude oil, rendering of crude oil jetty services and rendering of vessel charter services. No operating segments have been aggregated to form the reportable segments.

— Trading of crude oil: this segment trades crude oil. Currently, the majority of the trading activities are carried out in Hong Kong and the PRC.

— 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.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

11 SEGMENT REPORTING *(continued)*

(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 basis:

Segment assets include all tangible assets and current assets with the exception of investment properties, interests in associates and jointly controlled entities, deferred tax assets, tax recoverable and other corporate assets. Interest in associates, which was included in the reportable segment assets of crude oil jetty services as at 31 December 2011 has been presented separately in note 11(b) to conform with the current year's presentation. The directors of the Company consider that the revised presentation reflects more appropriately the nature of these balances. Segment liabilities include trade and other payables attributable to the activities of the individual segments and interest-bearing borrowings managed directly by the segments.

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

The measure used for reporting segment profit is "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 expenses 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.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

11 SEGMENT REPORTING *(continued)*

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

Information regarding the group's reportable segments as provided to the group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2012 and 2011 is set out below.

	Trading of crude oil		Crude oil jetty services		Vessel charter services		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Revenue								
Revenue from external customers	**20,936,047**	18,791,627	**620,832**	612,137	**484,913**	280,968	**22,041,792**	19,684,732
Inter-segment revenue	**-**	–	**2,953**	1,359	**-**	–	**2,953**	1,359
Reportable segment revenue	**20,936,047**	18,791,627	**623,785**	613,496	**484,913**	280,968	**22,044,745**	19,686,091
Reportable segment (loss)/profit	**(23,728)**	(314)	**259,307**	272,428	**(89,496)**	(1,853)	**146,083**	270,261
Interest income	**2**	–	**561**	307	**2**	2	**565**	309
Finance costs	**(429)**	(119)	**-**	–	**(428)**	(799)	**(857)**	(918)
Depreciation and amortisation for the year	**(696)**	(158)	**(168,054)**	(169,666)	**(696)**	(1,058)	**(169,446)**	(170,882)
Reportable segment assets	**20,368**	517,464	**2,492,837**	2,379,003	**94,228**	92,094	**2,607,433**	2,988,561
Additions to non-current segment assets during the year	**47**	6	**219,723**	60,456	**47**	39	**219,817**	60,501
Reportable segment liabilities	**110,703**	542,467	**109,181**	43,355	**145,402**	121,245	**365,286**	707,067

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

11 SEGMENT REPORTING *(continued)*

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

	2012 $'000	2011 $'000
Revenue		
Reportable segment revenue	22,044,745	19,686,091
Elimination of inter-segment revenue	(2,953)	(1,359)
Consolidated turnover	22,041,792	19,684,732
Profit		
Reportable segment profit	146,083	270,261
Elimination of inter-segment profits	(1,349)	(652)
Reportable segment profit derived from group's external customers	144,734	269,609
Unallocated other revenue and net income	54,100	44,944
Unallocated depreciation and amortisation	(194)	(157)
Unallocated finance costs	(698)	(2,587)
Unallocated other corporate income/(costs)	7,727	(30,891)
Share of profit from an associate	92,007	–
Share of profits from jointly controlled entities	59,759	–
Consolidated profit before taxation	357,435	280,918
Assets		
Reportable segment assets	2,607,433	2,988,561
Unallocated corporate assets	2,425,504	807,457
Interest in associates	526,765	419,030
Interest in jointly controlled entities	2,305,431	–
Consolidated total assets	7,865,133	4,215,048
Liabilities		
Reportable segment liabilities	365,286	707,067
Unallocated corporate liabilities	991,903	682,399
Consolidated total liabilities	1,357,189	1,389,466

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

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 2012, one (2011: one) customer from trading of crude oil and vessel charter services has transactions that exceeded 10% of the group's revenue, amounting to $21,950,687,000 (2011: $19,292,930,000). This customer operates in the PRC.

Further details of concentration of credit risk are set out in note 24(a).

12 FIXED ASSETS

(a) The group

	Property, plant and equipment										Interests in leasehold land held for own use under operating leases	
	Buildings held for own use	Leasehold improve-ments	Jetty structures	Jetty facilities	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles and vessels	Con-struction in progress	Sub-total	Investment properties		Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost:												
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
At 1 January 2012	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
Exchange adjustments	(11)	–	(303)	(180)	(49)	(16)	(20)	719	140	–	(30)	110
Additions	–	–	–	–	–	94	1,520	219,723	221,337	–	–	221,337
Transfer from construction in progress	–	–	2,328	5,051	2,147	3,604	937	(14,067)	–	–	–	–
Transfer from investment properties to owner-occupied properties	25,743	–	–	–	–	–	–	–	25,743	(25,743)	–	–
Disposals	–	–	–	–	(3,809)	(225)	–	–	(4,034)	–	–	(4,034)
At 31 December 2012	96,152	477	1,697,634	1,083,566	245,641	155,298	130,622	227,198	3,636,588	26,312	163,849	3,826,749

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

12 FIXED ASSETS *(continued)*

(a) The group *(continued)*

	Property, plant and equipment										Interests in leasehold land held for own use under operating leases	
	Buildings held for own use	Leasehold improve-ments	Jetty structures	Jetty facilities	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles and vessels	Con-struction in progress	Sub-total	Investment properties		Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Accumulated depreciation, amortisation and impairment losses:												
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
At 1 January 2012	29,271	477	673,059	614,322	150,755	82,414	60,042	–	1,610,340	19,699	84,670	1,714,709
Exchange adjustments	2	–	118	72	21	26	31	–	270	–	2	272
Depreciation and amortisation for the year	2,867	–	68,808	52,475	16,627	11,867	12,066	–	164,710	659	4,271	169,640
Transfer from investment properties to owner-occupied properties	9,614	–	–	–	–	–	–	–	9,614	(9,614)	–	–
Written back on disposals	–	–	–	–	(3,406)	(182)	–	–	(3,588)	–	–	(3,588)
At 31 December 2012	41,754	477	741,985	666,869	163,997	94,125	72,139	–	1,781,346	10,744	88,943	1,881,033
Net book value:												
At 31 December 2012	54,398	–	955,649	416,697	81,644	61,173	58,483	227,198	1,855,242	15,568	74,906	1,945,716
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

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

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 2012. 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 2012 is estimated to be $47,100,000 (2011: $68,170,000). 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:

	2012 *$'000*	2011 *$'000*
Long leases in Hong Kong	**15,568**	32,356
Medium-term leases in the PRC and Macau	**129,304**	120,358
	144,872	152,714
Representing:		
Investment properties	**15,568**	32,356
Buildings held for own use	**54,398**	41,149
Interests in leasehold land held for own use under operating leases	**74,906**	79,209
	144,872	152,714

(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. According to the lease agreement, the group charged this leasee based on actual tonnage passing through the dredging channel. The lessee is required to pay an additional fixed jetty service fee of RMB3,000,000 to the group annually if the lessee's cumulative transportation volume passing through the dredging channel exceeding 120,000 tonnes in a calendar year. The lease arrangement runs for a period of 22 years.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

12 FIXED ASSETS *(continued)*

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

(i) Jetty structures *(continued)*

In 2012, the group entered into a similar operating lease arrangement with another customer, granted the right to use part of its jetty facilities and charged 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 2012, the total jetty service fee charged to these customers under the above arrangements amounting to $23,375,000 (2011: $21,900,000).

(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.

During the year ended 31 December 2012, the group has transferred investment properties at net book value of $16,129,000 to property, plant and equipment when the group commenced to occupy the property for own use.

The group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2012	2011
	$'000	*$'000*
Within 1 year	**534**	–

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES

	The company	
	2012	2011
	$'000	*$'000*
Unlisted shares or investments, at cost (Note)	**427,317**	242,067
Amounts due from subsidiaries	**3,678,882**	729,663
	4,106,199	971,730

Note: On 20 December 2012, Sinomart KTS Development Limited, a subsidiary of the company, allotted 185,250,000 ordinary shares at par value to the company. The consideration of $185,250,000 has been paid in full in cash upon allotment.

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.

The following list contains only the particulars of subsidiaries which principally affect 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	Proportion of ownership interest: held by the company	Proportion of ownership interest: held by a subsidiary	Principal activities
Huade Petrochemical Company Limited ("Huade") (Note (i))	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") (Note (ii))	Hong Kong	185,250,050 ordinary shares of $1 each (Note (ii))	100%	100%	–	Trading of crude oil 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

Notes: (i) Huade holds jetty operating rights with a term of 35 years which expire in 2029.

(ii) KTS also has in issue fully paid 10,000 non-voting deferred shares of $1 each, holders of which practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of KTS or to participate in any distribution on winding up.

14 INTEREST IN ASSOCIATES

	The group 2012 $'000	2011 $'000
Share of net assets		
– At 1 January	419,030	–
– Exchange adjustment	323	–
– Additions through incorporation	–	11,700
– Additions through acquisition	–	407,330
– Share of profit for the year	92,007	–
– At 31 December	511,360	419,030
Amount due from an associate	15,405	–
	526,765	419,030

The amount due from an associate is unsecured, interest-free and have no fixed repayment terms. The amount is not expected to be recoverable within one year from the end of the reporting period, the balance is classified as non-current assets.

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	Proportion of ownership interest: held by the company	Proportion of ownership interest: held by subsidiaries	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 for logistic service

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

14 INTEREST IN ASSOCIATES *(continued)*

Notes:

(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 was completed in October 2011, upon the approval obtained from the relevant government authorities in the PRC. The consideration was 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 shared by its investors, in accordance with their respective equity interest in Zhan Jiang Port. During the year ended 31 December 2012, the share of profit of Zhan Jiang Port by the group amounted to $92,007,000.

Summary financial information on associates

	Assets *$'000*	**Liabilities** *$'000*	**Equity** *$'000*	**Revenues** *$'000*	**Profit for the year** *$'000*
2012					
100 per cent (note)	**2,020,220**	**(981,901)**	**1,038,319**	**476,136**	**184,014**
Group's effective interest	**1,002,311**	**(490,951)**	**511,360**	**238,068**	**92,007**
2011					
100 per cent (note)	1,985,462	(1,131,802)	853,660		
Group's effective interest	984,931	(565,901)	419,030		

Note:

The balances include the fair value adjustments together with their respective tax effect on acquisition by the group.

15 INTERESTS IN JOINTLY CONTROLLED ENTITIES

	The group	
	2012 *$'000*	2011 *$'000*
Share of net assets	**2,305,431**	–

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

15 INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

Details of the group's interest in the jointly controlled entities are as follows:

Name of joint venture	Note	Form of business structure	Place of establishment and operation	Particulars of issued and paid up capital/ registered capital	Proportion of ownership interest: group's effective interest	Proportion of ownership interest: held by the company	Proportion of ownership interest: held by subsidiaries	Principal activities
Ningbo Shihua Crude Oil Terminal Company Limited ("NBSH")	(i)	Establishment	The PRC	Registered capital RMB80,000,000	50%	–	50%	Operation of crude oil jetty and its ancillary facilities
Qingdao Shihua Crude Oil Terminal Company Limited ("QDSH")	(i)	Establishment	The PRC	Registered capital RMB200,000,000	50%	–	50%	Operation of crude oil jetty and its ancillary facilities
Tianjin Port Shihua Crude Oil Terminal Company Limited ("TJSH")	(i)	Establishment	The PRC	Registered capital RMB482,660,000	50%	–	50%	Operation of crude oil jetty and its ancillary facilities
Rizhao Shihua Crude Oil Terminal Company Limited ("RZSH")	(i)	Establishment	The PRC	Registered capital RMB800,000,000	50%	–	50%	Operation of crude oil jetty and its ancillary facilities
Tangshan Caofeidian Shihua Crude Oil Terminal Company Limited ("TSCFD")	(i)	Establishment	The PRC	Registered capital RMB289,610,000	90%	–	90%	Operation of crude oil jetty and its ancillary facilities
China Energy Shipping Investment Company Limited ("CESI")	(ii)	Incorporated	Hong Kong	5,000,000 ordinary shares of US$1 each	49%	–	49%	Vessel charter service

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

15 INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

Notes:

(i) In December 2011, the group entered into acquisition agreements to acquire 50% each of the equity interest of NBSH, QDSH, TJSH, RZSH and 90% of the equity interest of TSCFD from the intermediate holding company. The aggregated cash consideration of acquisition is RMB1,809,807,000 (equivalent to approximately $2,226,352,000). The acquisition was completed in October 2012. The consideration to acquire RZSH and QDSH amounting to RMB427,869,000 (equivalent to approximately $526,347,000) and RMB585,798,000 (equivalent to approximately $720,625,000), respectively, was settled before 31 December 2012. In January 2013, the consideration amounted to RMB273,309,000 (equivalent to approximately $336,214,000) to acquire TSCFD was settled.

Currently, the group are in the process of performing fair value assessments on the net identifiable assets of these jointly controlled entities as at acquisition date in accordance with HKFRS 3, *Business combination*. At 31 December 2012, the group has not finalised the fair value assessments for these net identifiable assets as the completion of the acquisition is close to the end of the reporting period. The fair value of net identifiable assets determined on provisional basis at acquisition date is not materially different from the consideration.

(ii) In April 2012, the group has set up a jointly controlled entity, CESI, together with a PRC state-owned entity, and have invested capital of US$2,450,000 (equivalent to $19,110,000), represents 49% of its equity interests. Management intends to expand the vessel charter services through setting up CESI.

Summary financial information on jointly controlled entities – group's effective interest

The financial information is derived from the unaudited management accounts of the jointly controlled entities:

	2012 ***$'000***
Non-current assets	**2,459,898**
Current assets	**631,406**
Non-current liabilities	**(261,238)**
Current liabilities	**(1,062,863)**
Net assets	**1,767,203**
Income	**166,819**
Expenses	**(107,060)**
Profit for the year	**59,759**
Share of jointly controlled entities' capital commitments	
– Contracted for	**38,528**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

16 INVENTORIES

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

	The group 2012 $'000	2011 $'000
Fuel oil for vessels	**44,538**	37,322
Spare parts	**3,817**	4,266
Total	**48,355**	41,588

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

	The group 2012 $'000	2011 $'000
Carrying amounts of inventories sold	**20,918,541**	18,924,126

17 TRADE AND OTHER RECEIVABLES

	The group 2012 $'000	2011 $'000
Trade receivables		
– Amounts due from intermediate holding company and fellow subsidiaries	**597,368**	561,107
– Third parties	**6,005**	1,864
	603,373	562,971
Other receivables and prepayments		
– Amounts due from intermediate holding company and fellow subsidiaries	**298**	314
– Third parties	**25,258**	519,810
	25,556	520,124
	628,929	1,083,095

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

17 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.

(a) Ageing analysis

Included in trade and other receivables are trade debtors and amounts due from intermediate holding company and fellow subsidiaries arising from trade-related transactions with the following ageing analysis as of the end of the reporting period, based on the invoice date:

	The group	
	2012	2011
	$'000	*$'000*
Within 1 month	**88,433**	106,465
1 to 2 months	**53,303**	102,628
2 to 3 months	**43,095**	51,428
Over 3 months	**418,542**	302,450
	603,373	562,971

According to the group's credit policy set out in note 24(a), the general credit period is 30 to 90 days from the date of billing.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

17 TRADE AND OTHER RECEIVABLES *(continued)*

(b) Trade debtors that are not impaired

The ageing analysis of the trade debtors that are neither individually nor collectively considered to be impaired are as follows:

	The group	
	2012	2011
	$'000	*$'000*
Current	**88,433**	106,465
Less than 1 month past due	**53,303**	51,588
1 to 3 months past due	**96,244**	51,040
More than 3 months but less than 12 months past due	**365,393**	353,878
Amounts past due	**514,940**	456,506
	603,373	562,971

Receivables that are current relate to a number 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 group'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.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

18 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The group		The company	
	2012	2011	**2012**	2011
	$'000	*$'000*	***$'000***	*$'000*
Time deposits with banks with original maturity less than 3 months	**2,238,166**	761,323	**–**	–
Cash at bank and in hand	**166,816**	10,430	**19**	22
	2,404,982	771,753	**19**	22

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

	Note	**2012**	2011
		$'000	*$'000*
Profit before taxation		**357,435**	280,918
Adjustments for:			
Depreciation and amortisation	12(a)	**169,640**	171,039
Finance costs	5(a)	**1,555**	3,505
Interest income	4	**(54,262)**	(7,074)
Net loss on disposal of property, plant and equipment	4	**423**	265
Foreign exchange gain		**(5,156)**	(22,291)
Share of profit of an associate	14	**(92,007)**	–
Share of profits of jointly controlled entities	15	**(59,759)**	–
Changes in working capital:			
Increase in inventories		**(6,767)**	(37,218)
Decrease/(increase) in trade and other receivables		**438,761**	(894,919)
(Decrease)/increase in trade and other payables		**(384,839)**	580,333
Cash generated from operations		**365,024**	74,558

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

19 TRADE AND OTHER PAYABLES

	The group		The company	
	2012	2011	**2012**	2011
	$'000	*$'000*	***$'000***	*$'000*
Trade payables				
– Amount due to a fellow subsidiary	**66**	66	**–**	–
– Third parties	**34,765**	20,005	**–**	–
	34,831	20,071	**–**	–
Amounts due to subsidiaries	**–**	–	**–**	271,524
Amounts due to immediate, intermediate holding companies and fellow subsidiaries	**182,806**	613,884	**–**	–
Creditors and accrued charges	**147,649**	71,500	**31,908**	25,101
Consideration payable to acquire equity interest in an associate	**–**	407,330	**–**	–
Consideration payable to acquire equity interest in jointly controlled entities (note 15)	**979,380**	–	**–**	–
	1,344,666	1,112,785	**31,908**	296,625

As at 31 December 2012 and 2011, 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, intermediate holding companies and fellow subsidiaries are unsecured and interest free. The amounts due to immediate, intermediate holding companies 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.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

19 TRADE AND OTHER PAYABLES *(continued)*

Included in trade and other payables are trade creditors and amount due to a fellow subsidiary arising from trade-related transactions with the following ageing analysis as of the end of the reporting period, based on the invoice date:

	The group	
	2012	2011
	$'000	*$'000*
Within 1 month	**34,765**	20,071
Over 1 year	**66**	–
	34,831	20,071

20 INTEREST-BEARING BORROWINGS

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

	The group	
	2012	2011
	$'000	*$'000*
Loans from a fellow subsidiary	**–**	267,228

The group obtained a loan in July 2008 from Sinopec Century Bright Capital Investment Limited ("Century Bright"), a fellow subsidiary of the company, amounting to US$87,000,000 (equivalent to $677,854,000), to repay the consideration for the acquisition of the 30% equity interest in Huade in 2006. Pursuant to the loan agreement, the loan has a maturity of six months from the date of the loan agreement and it had been renewed semi-annually since July 2008. The loan is unsecured and bears interest at 1.62% (2011: 1.78%) per annum, which is the London International Offered Rate ("LIBOR") at the time of renewal of the loan agreement plus an interest rate spread of 1.1% (2011: 1.35%). As at 31 December 2012, the group has fully repaid the outstanding loan.

In addition, the group also obtained short-term loans amounting to US$14,878,000 for its short-term liquidity requirements from Century Bright during the year ended 31 December 2011. The loan is unsecured and bears interest at 1.86% (2011: 1.55%) per annum, which is the LIBOR at the time of entering into the loan agreement plus an interest rate spread of 1.55% (2011: 1.25%). These short-term loans are renewed on a monthly basis. As at 31 December 2012, the group has fully repaid the outstanding loan.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

21 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

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

	The group	
	2012	2011
	$'000	*$'000*
Provision for Hong Kong Profits Tax for the year	**–**	–
Provisional Profits Tax paid	**–**	(2,883)
	–	(2,883)
Balance of Hong Kong Profits Tax provision relating to prior years	**(4,955)**	(2,072)
	(4,955)	(4,955)
PRC income tax payable	**10,223**	9,453
	5,268	4,498
Representing:		
Tax recoverable	**(4,955)**	(4,955)
Tax payable	**10,223**	9,453
	5,268	4,498

(b) Deferred tax liabilities recognised:

The component of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Undistributed profits of an associate in the PRC $'000
Deferred tax arising from:	
At 1 January 2011, 31 December 2011 and 1 January 2012	–
Charged to profit or loss (note 6(a))	2,300
At 31 December 2012	2,300

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

21 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION *(continued)*

(c) Deferred tax assets/liabilities not recognised:

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.

As at 31 December 2012, temporary differences relating to the undistributed earnings of the PRC subsidiary amounted to $890,423,000 (2011: $692,160,000). Deferred tax liabilities of $89,042,000 (2011: $69,216,000) have not been recognised in respect of the PRC dividend withholding tax at 10% (or 5% should treaty benefit be applicable) that would be payable on the distribution of these retained earnings as the company controls the dividend policy of the subsidiary and the directors have determined that its post-2007 profits are not likely to be distributed in the foreseeable future.

In accordance with the accounting policy set out in note 1(p), the group did not recognise deferred tax assets in respect of tax losses attributable to certain subsidiaries of $72,421,000 (2011: $22,204,000), as the directors consider it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

22 EMPLOYEE RETIREMENT BENEFITS

The group operates a Mandatory Provident Fund Scheme (the “MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees’ relevant income, subject to a cap of a monthly relevant income of $25,000. 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 2012 were $5,073,000 (2011: $3,584,000). As at 31 December 2012, there was no material outstanding contribution to employee retirement benefits. The group does not have any other obligations other than the contributions described above.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

23 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

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

	Share capital *$'000* (Note 23(c))	Share premium *$'000* (Note 23(e)(i))	Contributed surplus *$'000* (Note 23(e)(v))	Retained profits/ (accumulated losses) *$'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 23(b)(ii))	–	–	–	(20,737)	(20,737)
Total comprehensive income for the year (note 9)	–	–	–	(22,410)	(22,410)
Interim dividends declared in respect of the current year (note 23(b)(i))	–	–	–	(15,552)	(15,552)
Balance at 31 December 2011	103,683	333,857	242,397	(4,810)	675,127

	Share capital *$'000* (Note 23(c))	Share premium *$'000* (Note 23(e)(i))	Contributed surplus *$'000* (Note 23(e)(v))	(Accumulated losses)/ retained profits *$'000*	Total *$'000*
Balance at 1 January 2012	103,683	333,857	242,397	(4,810)	675,127
Changes in equity for 2012:					
Shares issued under rights issue	103,683	3,359,260	–	–	3,462,943
Final dividends approved in respect of the previous year (note 23(b)(ii))	–	–	–	(41,473)	(41,473)
Total comprehensive income for the year (note 9)	–	–	–	8,818	8,818
Interim dividends declared in respect of the current year (note 23(b)(i))	–	–	–	(31,105)	(31,105)
Balance at 31 December 2012	207,366	3,693,117	242,397	(68,570)	4,074,310

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

23 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends

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

	2012 *$'000*	2011 *$'000*
Interim dividend declared and paid of 1.5 cents (2011: 1.5 cents) per ordinary share	**31,105**	15,552
Final dividend proposed after the end of the reporting period of 2.0 cents (2011: 2.0 cents) per ordinary share	**41,473**	41,473
	72,578	57,025

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

	2012 *$'000*	2011 *$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of 2.0 cents (2011: 2.0 cents) per share	**41,473**	20,737

23 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Share capital

	2012		2011	
	Number of shares '000	Amount $'000	Number of shares '000	Amount $'000
Authorised:				
Ordinary shares of $0.1 each	3,000,000	300,000	3,000,000	300,000
Issued and fully paid:				
At 1 January	1,036,830	103,683	1,036,830	103,683
Shares issued under rights issue	1,036,830	103,683	–	–
At 31 December	2,073,660	207,366	1,036,830	103,683

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

(d) On 22 March 2012, 1,036,830,000 ordinary shares were issued upon the rights issue on the basis of one rights share for every one existing share at $3.37 each. Total consideration amounted to $3,494,117,000 of which $103,683,000 was credited to share capital and the remaining proceeds of $3,390,434,000, after offsetting the share issuance costs of $31,174,000, were credited to the share premium account.

(e) 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.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

23 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

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

(iii) General reserves

The general reserves of the group represent appropriations made by the company's PRC subsidiary, associate and jointly controlled entities, 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, the PRC entities are 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. 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. 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).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

23 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(e) 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.

(f) Distributability of reserves

At 31 December 2012, the aggregate amount of reserves available for distribution to equity shareholders of the company, including the contributed surplus and accumulated losses, was $173,827,000 (2011: $237,587,000). After the end of the reporting period the directors proposed a final dividend of 2.0 cents (2011: 2.0 cents) per ordinary share, amounting to $41,473,000 (2011: $41,473,000). The dividend has not been recognised as a liability at the end of the reporting period.

(g) 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.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

23 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(g) Capital management *(continued)*

During 2012, the group's strategy, which was unchanged from 2011, 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.

On 22 March 2012, 1,036,830,000 ordinary shares were issued upon the rights issue on the basis of one rights share for every one existing share at $3.37 each. As a result of rights issue, the proceeds of $3,494,117,000 increases the amount of cash held in order to meet the capital needs for the group's investment projects. As a result, the group was at a negative net debt position as at 31 December 2012.

The adjusted net debt-to-capital ratio at 31 December 2012 and 2011 was as follows:

		The group		The company	
	Note	**2012**	2011	**2012**	2011
		$'000	*$'000*	***$'000***	*$'000*
Current liabilities					
Trade and other payables	19	**1,344,666**	1,112,785	**31,908**	296,625
Interest-bearing borrowings	20	**–**	267,228	**–**	–
Proposed dividends	23(b)(i)	**41,473**	41,473	**41,473**	41,473
Less: Cash and cash equivalents	18	**(2,404,982)**	(771,753)	**(19)**	(22)
Adjusted net debt		**(1,018,843)**	649,733	**73,362**	338,076
Total equity		**6,507,944**	2,825,582	**4,074,310**	675,127
Less: Proposed dividends	23(b)(i)	**(41,473)**	(41,473)	**(41,473)**	(41,473)
Adjusted capital		**6,466,471**	2,784,109	**4,032,837**	633,654
Adjusted net debt-to-capital ratio		**(16)%**	23%	**2%**	53%

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

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate, currency 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. Debtors with balances that are more than three months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the group does not obtain collateral from customers.

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the group has significant exposure to individual customers. At the end of the reporting period, 95% (2011: 99%) and 96% (2011: 100%) 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, the group does not provide any guarantees which would expose the group or the company to credit risk. At 31 December 2012, there was no exposure to credit risk arising from such guarantees as all outstanding loans have been settled.

Further quantitative disclosures in respect of the group's exposure to credit risk arising from trade and other receivables are set out in note 17.

(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 2012, the group has unutilised credit facilities of approximately $3,900,000,000 (2011: $4,314,726,000) from a financial institution, 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.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

24 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

	2012		
	Within 1 year or on demand *$'000*	**Total contractual undiscounted cash outflow** *$'000*	**Carrying amount at 31 December** *$'000*
Trade payables – third parties	**34,765**	**34,765**	**34,765**
Creditors, accrued charges and consideration payable to acquire equity interest in jointly controlled entities	**1,127,029**	**1,127,029**	**1,127,029**
Amounts due to immediate, intermediate holding companies and fellow subsidiaries	**182,872**	**182,872**	**182,872**
	1,344,666	**1,344,666**	**1,344,666**

	2011		
	Within 1 year or on demand *$'000*	Total contractual undiscounted cash outflow *$'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, intermediate holding companies and fellow subsidiaries	613,950	613,950	613,950
	1,381,158	1,381,158	1,380,013

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

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

(b) Liquidity risk *(continued)*

The company

	2012		
	Within 1 year or on demand *$'000*	**Total contractual undiscounted cash outflow** *$'000*	**Carrying amount at 31 December** *$'000*
Creditors and accrued charges	**31,908**	**31,908**	**31,908**

	2011		
	Within 1 year or on demand *$'000*	Total contractual undiscounted cash outflow *$'000*	Carrying amount at 31 December *$'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

(c) Interest rate risk

The group's interest rate risk arises primarily from the borrowings from a fellow subsidiary. Borrowings issued at variable rates expose the group to cash flow interest rate risk. At 31 December 2012, the group has no outstanding interest bearing borrowings (2011: $267,228,000) and thus the group is not exposed to interest rate risk.

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.

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.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

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

(d) Foreign currency risk

(i) Exposure to currency risk

Sales and purchases arising from the group's trading business are mainly denominated in United States dollars. At 31 December 2012, KTS, whose functional currency is Hong Kong dollars, also held cash at bank denominated in United States dollars amounted to US$14,069,000 (equivalent to $109,736,000) (2011: US$122,000 (equivalent to $950,000)). Management considers the risk of movements in the exchange rate between the Hong Kong dollars and United States dollars to be insignificant. At 31 December 2012, the group held a Renminbi denominated bank deposits amounted to RMB1,820,897,000 (equivalent to $2,245,664,000) (2011: RMB619,532,000 (equivalent to $764,193,000)). The group is therefore exposed to foreign currency risk arising from holding such bank deposits.

(ii) Sensitivity analysis

At 31 December 2012, 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 $56,254,000 (2011: $19,143,000).

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.

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2012 and 2011 because of the immediate or short term maturity of these financial instruments.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

25 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2012 not provided for in the financial statements were as follows:

	The group	
	2012	2011
	$'000	*$'000*
Contracted for	**1,913,270**	2,658,558
Authorised but not contracted for	**696,422**	999,153
	2,609,692	3,657,711

These capital commitments mainly included capital commitments for the acquisition of jointly controlled entities and associates and construction of oil depots.

(b) At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The group	
	2012	2011
	$'000	*$'000*
Within 1 year	**197,933**	180,298
After 1 year but within 5 years	**263,130**	162,281
After 5 years	**7,792**	8,118
	468,855	350,697

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.

The total of future minimum sublease payments expected to be received under non-cancellable subleases at the end of the reporting period amounted to $1,334,000 and were expected to be received in one year.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

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.

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

The group is part of a large group of the companies under Sinopec Group Company, which is owned by the PRC government, and has significant transactions and relationship 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:

	2012	2011
	$'000	*$'000*
Crude oil sold to an intermediate holding company and a fellow subsidiary (note (i))	**20,936,047**	18,791,627
Crude oil purchased from a fellow subsidiary and the related charges (note (i))	**830,658**	337,628
Fuel oil purchased from fellow subsidiaries (note (i))	**276,841**	95,057
Insurance premium charged by a fellow subsidiary (note (ii))	**4,894**	1,276
Jetty service fees charged to a fellow subsidiary (note (iii))	**596,961**	583,959
Vessel charter service fee charged to a fellow subsidiary (note (iv))	**418,743**	280,968
Interest income received from fellow subsidiaries	**202**	–
Interest expense charged by a fellow subsidiary (note (v))	**1,754**	3,505
Rental expenses charged by fellow subsidiaries (note (vi))	**2,666**	2,678
Rental income received from a director (note (vii))	**57**	57
Cash and cash equivalents placed in fellow subsidiaries (note (viii))	**47,588**	7,811
Construction costs charged by fellow subsidiaries (note (ix))	**4,603**	–

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

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 notes 17, 19 and 20 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 and fuel oil 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 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.

(iv) 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.

(v) Interest expenses were charged by a fellow subsidiary for short term loans obtained for crude oil trading activities. The interest was charged at LIBOR plus a spread ranging from 0.95% to 1.25% (2011: 0.75% to 1.55%) per annum.

(vi) Rental expenses were charged by fellow subsidiaries for leasing of office premises. 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 arrangements were entered into.

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

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

(ix) The construction costs included the commission fees charged to the group for the purchase of construction materials and the design fee charged to the group for the construction of oil depots in the PRC.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

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;

– construction work;

– rendering and receiving services; and

– use of public utilities.

(i) Transactions with other state-controlled entities

	2012	2011
	$'000	*$'000*
Crude oil purchased by the group	**19,597,815**	18,449,588
Jetty service fees charged by the group	**23,375**	21,900
Construction costs paid by the group	**–**	4,308
Prepayment to/amounts due from other state-controlled entities	**4,702**	518,676
Amounts due to other state-controlled entities	**8,889**	3,590

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

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 group's interest income received from these state-controlled banks in the PRC is as follows:

	2012	2011
	$'000	*$'000*
Interest income	**54,060**	7,046

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

	2012	2011
	$'000	*$'000*
Cash and cash equivalents	**2,356,857**	763,346

(d) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of the crude oil sold to an intermediate holding company and a fellow subsidiary, crude oil purchased from a fellow subsidiary and related charges, vessel charter service fee charged to a fellow subsidiary, jetty service fees charged to a fellow subsidiary, interest income received from and interest expense charged by fellow subsidiaries, and cash and cash equivalents placed in fellow subsidiaries above constitute connected transactions or continuing connected transactions as definited in Chapter 14A of the Listing Rules, however they are exempted from the disclosure requirements in Chapter 14A of the Listing Rules.

27 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2012, 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 immediate holding company of SKI, produces financial statements available for public use.

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

28 ACCOUNTING JUDGEMENT AND ESTIMATES

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.

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.

28 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

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 23(b).

(b) Acquisition of Fujairah Oil Terminal FZC

During the year ended 31 December 2012, the group entered into an equity acquisition agreement with a third party to acquire 50% equity interest in Fujairah Oil Terminal FZC in United Arab Emirates ("FOT").

On 3 January 2013, the acquisition has been completed and FOT became an associate of the group.

FOT principally engages in operating oil storage facilities in the Fujairah Free Zone, the United Arab Emirates and is developing an oil storage project with a capacity of 1,155,000 cubic metres in the United Arab Emirates. Also FOT provides services in respect of oil products at, outside or through its oil depot, including but not limited to, making storage space available, procuring delivery of, and storing petroleum products including white and black petroleum products.

The total consideration in respect of the acquisition was US$25,050,000 (equivalent to approximately HK$195,390,000).

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

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 2012 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 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
HKAS 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
Annual Improvements to HKFRSs 2009-2011 Cycle	1 January 2013
Amendments to HKFRS 7, *Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial liabilities*	1 January 2013
Amendments to HKAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	1 January 2014
HKFRS 9, *Financial instruments*	1 January 2015

For the year ended 31 December 2012 (Expressed in Hong Kong dollars unless otherwise indicated)

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012 *(continued)*

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 consolidated financial statements except for the following:

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

The group has not completed its assessment of the full impact of adopting HKFRS 10 and therefore its possible impact on the group's results and financial position has not been quantified.

FIVE YEAR SUMMARY

(Expressed in Hong Kong dollars)

	2008 $'000	2009 $'000	2010 $'000	2011 $'000	**2012 $'000**
Results					
Turnover	29,349,906	21,281,232	16,592,880	19,684,732	**22,041,792**
Profit from operations	293,366	278,389	267,946	284,423	**207,224**
Finance costs	(100,440)	(29,975)	(15,898)	(3,505)	**(1,555)**
Share of profit of an associate	–	–	–	–	**92,007**
Share of profits of jointly controlled entities	–	–	–	–	**59,759**
Profit before taxation	192,926	248,414	252,048	280,918	**357,435**
Income tax	(47,639)	(51,587)	(56,361)	(67,406)	**(65,697)**
Profit for the year	145,287	196,827	195,687	213,512	**291,738**
Assets and liabilities					
Fixed assets	2,083,141	1,950,801	1,914,761	1,894,627	**1,945,716**
Interest in associates	–	–	–	419,030	**526,765**
Interest in jointly controlled entities	–	–	–	–	**2,305,431**
Net current assets	62,977	359,734	628,835	511,925	**1,732,332**
Deferred tax liabilities	–	–	–	–	**(2,300)**
Net assets	2,146,118	2,310,535	2,543,596	2,825,582	**6,507,944**
Capital and reserves					
Share capital	103,683	103,683	103,683	103,683	**207,366**
Reserves	2,042,435	2,206,852	2,439,913	2,721,899	**6,300,578**
TOTAL EQUITY	2,146,118	2,310,535	2,543,596	2,825,582	**6,507,944**
Earnings per share Basic (Note)	11.86 cents	16.07 cents	15.98 cents	17.44 cents	**15.49 cents**

Note: Basic earnings per share for 2008 to 2011 have been restated to take into account the effect of rights issue completed on 22 March 2012.

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE MEMBERS

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

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 MEMBERS

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

COMPANY SECRETARIES

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

AUDITORS

KPMG
Certified Public Accountants
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LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Stock Code: 0934