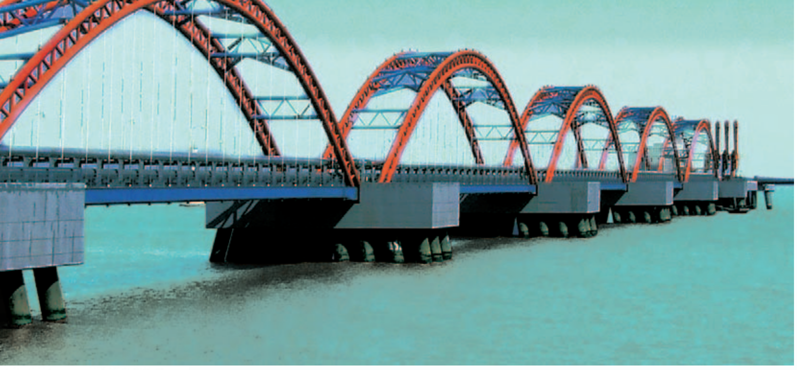
ANNUAL REPORT 2013



SINOPEC KANTONS HOLDINGS LIMITED

(Incorporated in Bermuda with Limited Liability)

(Stock Code: 934)

GROWTH, SUSTAINABILITY & BREAKTHOUGH

CONTENTS

CHAIRMAN'S STATEMENT

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.

Overviewing 2013, while the world economy remained on the challenging and ever-changing path of recovery, the China economy was moving forward to improve stably. Driven by seasonal increase in demand for crude oil shipping, the global crude oil shipping market had its first revival in a long time in the forth quarter of 2013, bringing positive impact on the Group's crude oil vessel charter business. Under complex and changable market conditions, the Company's Board of Directors continues to execute the established development strategy in proactive expansion of storage and logistics services; to enhance corporate governance and to strengthen the building of workforce to meet business growth; to reinforce production safety for ensuring stable production and operation. For 2013, the Company and its subsidiaries (together, the "**Group**") realized a turnover of approximately HK$23.356 billion, representing an increase of 5.96% as compared with last year, and a profit of approximately HK$ 491 million, representing an increase of 68.44% as compared with last year.

In 2013, the Company has achieved staged progress in expanding storage and logistics business. During the year, the acquisitions of equity interest in Fujairah Oil Terminal FZC in the Middle East, PT. West Point Terminal in Indonesia and Vesta Terminals B.V. in Europe were completed successfully. In 2013, the investment and construction of oil storage project of 1.155 million m^3 in Fujairah has made substantial progress, where the project construction is advancing towards completion, with the engineering purchase orders executed as planned, civil works at site and installation of the main body of oil tank completed on schedule. The project is expected to be fully completed for operation at the end of 2014. In 2013, the project for investment and construction of oil storage and terminal facilities of 2.60 million m^3 in Batam, Indonesia through PT. West Point Terminal was also progressing well. Various preparation works for construction commencement of the project were in steady progress, among which preliminary geological survey and related works were completed, and the PMT team has been established, laying the foundation for the subsequent comprehensive project. In addition, following the completion of transfer of equity interest of Vesta Terminals B.V. in Europe on 2 April 2013, the Company has delegated its senior management for comprehensive participation in the operation and management of the joint venture. While maintaining stable operation of Vesta Terminals B.V., we are arranging upgrade and renovation for the financial and management information systems as well as logistics facilities, so as to further enhance the management level and execution of the joint venture. In 2013, the Company has also made significant progress on its logistics project. The two LNG vessels under the Papua New Guinea LNG Project also obtained fruitful achievements: the first LNG vessel has been launched and is undergoing vessel outfitting works; and the construction of the second LNG vessel has officially started. The construction contract, charter contract, finance contract and related contracts for the six LNG vessels in the first phase of Australia Pacific LNG Project were duly signed, with all preparatory works before vessel construction well ready.

In 2013, China Petroleum & Chemical Corporation ("**Sinopec Corp.**"), the major shareholder, considered to inject the assets of its Yulin-Jinan Natural Gas Transmission Pipeline ("**Yu-Ji Line**") into the Group for further development of the Group's storage and logistics operation. The Yu-Ji Line completed and put into use in 2012, the Yu-Ji Line to be injected starts from Yulin, Shaanxi Province, the PRC, and has its way through the four provinces of Shaanxi, Shanxi, Henan and Shandong, with a total length of about 940 km and a designed annual gas transport capacity of 3 billion m^3. After the injection of Yu-Ji Line, it is expected that the asset size and market value of the Group will be further enhanced.

In 2013, Huade Petrochemical Company Ltd ("**Huade Petrochemical**"), a wholly-owned subsidiary of the Company, proactively optimized its operation, in an effort to overcome the adverse effect brought by the planned maintenance carried out by its downstream client, China Petroleum & Chemical Corporation Guangzhou Branch ("**Sinopec Guangzhou Branch**"), on its oil refinery facilities. For the whole year, there were 83 oil tankers berthed with 11.66 million tonnes of crude oil unloaded, representing a drop of 6.12% compared with last year; 11.70 million tonnes of crude oil transported, a decrease of 5.80% as compared with last year; a segment profit of HK$220 million generated, decreased by 15.06% as compared with last year. In 2013, Sinomart KTS Development Limited ("**Sinomart Development**"), another wholly-owned subsidiary of the Company increased its turnover by 6.33% to HK$22.776 billion, as compared with last year, of which HK$22.436 billion was contributed by the trading segment with a crude oil trading volume of 3.65 million tonnes, and HK$340 million was generated by 12 chartered voyages completed in vessel charter segment. In addition, Zhan Jiang Port Petrochemical Jetty Co. Limited ("**Zhan Jiang Port Petrochemical Terminal**"), Qingdao Shihua Crude Oil Terminal Co. Ltd. ("**Qingdao Shihua**"), Ningbo Shihua Crude Oil Terminal Co. Ltd. ("**Ningbo Shihua**"), Rizhao Shihua Crude Oil Terminal Co. Ltd. ("**Rizhao Shihua**"), Tianjin Port Shihua Crude Oil Terminal Co. Ltd. ("**Tianjin Shihua**") and Tangshan Caofeidian Shihua Crude Oil Terminal Co. Ltd. ("**Caofeidian Shihua**") (together, the "**Six Domestic Terminal Companies**"), acquired by the Company, have also provided significant momentum for profit growth. For the entire 2013, the Six Domestic Terminal Companies generated a better return on investment with an aggregate throughput of 144 million tonnes (including the unloading amount of Huangdao liquid chemical terminal which Qingdao Shihua acquired).

In May 2013, the Company successfully executed a share placing of 412.5 million shares in total, which raised funds for the Company's expansion in storage and logistics business. In addition, the exemption applications for the connected transactions for the three years from 2014 to 2016 have all been approved by the independent shareholders. Indeed, each results obtained by the Company is inseparable from the full support of our shareholders and investors. Looking forward to 2014, we will actively work with great enthusiasm and higher development goals, striving to return our shareholders, staff and the society with a better level of production and operation results.

In addition, Mr. Wong Po Yan, the Company's independent non-executive director will resign due to his retirement, I would like to hereby extend my appreciation to the contributions made by Mr. Wong Po Yan during his tenure and welcome Dr. Wong Yau Kar, David to join the Company.

By order of the Board of
Sinopec Kantons Holdings Limited
Dai Zhao Ming
Chairman

Hong Kong, 31 March 2014


MANAGEMENT DISCUSSION AND ANALYSIS

In 2013, the Company adhered to the positioning in accordance with the development strategy established by the Board to actively develop storage and logistic projects. The acquisitions of 50% equity interest of Fujairah Oil Terminal FZC in the Middle East, 95% equity interest of PT. West Point Terminal in Indonesia and 50% equity interest of Vesta Terminals B.V. in Europe were completed successfully. Also, the construction of oil storage project of 1.155 million m^3 through Fujairah Oil Terminal FZC has been launched in full, while various preparation works for the construction of 2.60 million m^3 storage tanks and terminal ancillary facilities were also proceeding well. Moreover, the vessel construction under the LNG Transport Project has begun. Along with the expansion of the storage and logistics projects, the Company is expecting to have larger operation scale and stronger competitiveness.

LIQUIDITY AND SOURCE OF FINANCE

As at 31 December 2013, cash and cash equivalents of the Group approximately HK$1,622,454,000 (as at 31 December 2012: HK$2,404,982,000), representing a decrease of 32.54% as compared with last year. The reason for the decrease is, despite the raise of funds of approximately HK$2.681 billion by the Company through share placing in May 2013, the aggregate capital expenditures of the Company in 2013 were approximately HK$3.474 billion, including those utilized for the acquisition of 50% equity interest in Vesta Terminals B.V. in Europe and 50% equity interest in Fujairah Oil Terminal FZC in the Middle East, the remaining amount for the acquisition of equity interest in five domestic crude oil terminal companies in the PRC, and expenditures utilized for increasing the registered capital in Qingdao Shihua and Rizhao Shihua, shareholders' loans utilized for Fujairah Oil Terminal FZC in the Middle East and the construction of LNG vessels.

GEARING RATIO

As at 31 December 2013, the Group's current ratio (current assets to current liabilities) was 1.94 (as at 31 December 2012: 2.28) and gearing ratio (total liabilities to total assets) 11.92% (as at 31 December 2012: 17.26%).

PREPAID LAND LEASE PAYMENT

As at 31 December 2013, the Group's prepaid land lease payment amounted to HK$724,018,000 (as at 31 December 2012: HK$74,906,000). Most of the prepaid land lease payment were for the 50-year land use rights in relations to the construction of storage and terminal facilities in Batam, Indonesia invested by PT. West Point Terminal, a subsidiary of the Company. According to Land Lease Agreement, as at 31 December 2013, the actual land rent paid was HK$134,890,000, representing 20% of all the land rents of Batam project, Indonesia.

INTEREST IN JOINT VENTURES

As at 31 December 2013, the Group's interest in joint ventures amounted to HK$5,475,680,000 (as at 31 December 2012: HK$2,305,431,000), representing an increase of 137.51% as compared with last year, mainly attributable to the joining of Vesta Terminals B.V. in Europe and Fujairah Oil Terminal FZC in the Middle East as the joint ventures of the Company in 2013 and the improved operating results of Qingdao Shihua, Ningbo Shihua, Rizhao Shihua, Tianjin Shihua and Caofeidian Shihua, the joint ventures of the Company in the same year.

TRADE AND OTHER RECEIVABLES

As at 31 December 2013, the Group's trade and other receivables totalled HK$730,367,000 (as at 31 December 2012: HK$628,929,000), representing an increase of 16.13% as compared with last year. Most of trade receivables were fees receivable from Sinopec Guangzhou Branch for the oil unloading and storage and logistics services provided by Huade Petrochemical, a wholly-owned subsidiary of the Company.

NET ASSETS

As at 31 December 2013, the Group's net assets amounted to HK$9,856,221,000 (as at 31 December 2012: HK$6,507,944,000), representing an increase of 51.45% as compared with last year, mainly attributable to the capital raising of approximately HK$2.681 billion by the Company through share placing in May 2013.

TURNOVER

For the year ended 31 December 2013, the Group's turnover was HK$23,355,579,000 (2012: HK$22,041,792,000), representing an increase of 5.96% as compared with last year. The increase in turnover was mainly due to increase in trading volume in crude oil in 2013 as compared with last year.

GROSS PROFIT

For the year ended 31 December 2013, the Group's gross profit amounted to HK$154,782,000 (2012: HK$239,391,000), representing a decrease of 35.34% as compared with last year. The decrease in gross profit was due to, on one hand, the planned maintenance in oil refinery facilities carried out by a client, resulting in the decline in business volume and operating income as compared with last year, while on the other hand, the increase of operating loss in vessel charter business of Sinomart Development in 2013 as compared with last year.

DISTRIBUTION COSTS

For the year ended 31 December 2013, the Group's distribution costs amounted to HK$20,414,000 (2012: HK$7,924,000), representing an increase of 157.62% as compared with last year, which was mainly due to the Group's expansion in storage and logistics businesses, driving the need to hire additional staff and the significant increase in staff salary costs.

ADMINISTRATIVE EXPENSES

For the year ended 31 December 2013, the Group's administrative expenses amounted to HK$111,661,000 (2012: HK$67,418,000), representing an increase of 65.62% compared with last year, mainly due to the increase in lease charges for renting of the new office as the previous office failed to catch up with the needs of business development, as well as the increase in repair costs and production safety costs by Huade Petrochemical, a subsidiary of the Company in 2013.

INCOME TAX

For the year ended 31 December 2013, the income tax of the Group was HK$170,637,000 (2012: HK $65,697,000), representing an increase of 159.73% as compared with last year, the main reason was apart from the profit tax payable by Huade Petrochemical in the year of 2013, the income tax also included the dividend tax paid by Huade Petrochemical on its overseas dividend distribution for 2008 and the withholding dividend tax of Huade Petrochemical on the proposed overseas dividend distribution for 2009 to 2013.

PROFIT FOR THE YEAR

For the year ended 31 December 2013, the Group's profit amounted to approximately HK$491,407,000 (2012: HK$291,738,000), representing an increase of approximately 68.44% as compared to last year. The increase in profit was due to the significant increase of investment return in 2013 generated by the Group's acquisition of the Six Domestic Terminal Companies.

FOREIGN CURRENCY RISK

In order to develop the storage and logistics businesses, and to execute the development strategy set by the Board of the Company in the near future, the Group signed a number of agreements in respect of the expansion of storage and logistics businesses. On 9 January 2012, the Group conditionally entered into the Sale and Purchase Agreement for the acquisition of 50% equity interest in Fujairah Oil Terminal FZC, and signed the Shareholders' Agreement in respect of the investment and construction of storage facility of approximately 1.155 million m^3 storage capacity through Fujairah Oil Terminal FZC. Pursuant to the Sale and Purchase Agreement and the Shareholders' Agreement, as at 31 December 2013, there were an unfulfilled balance of USD16,508,927 for the equity acquisition and a shareholder's loan obligation not exceeding the balance of USD34,229,825. On 9 October 2012, the Group acquired 95% equity interest in PT. West Point Terminal and entered into the Shareholders' Agreement for the construction of storage tanks and terminal ancillary facilities of 2.60 million m^3 storage capacity in Batam, Indonesia. In accordance with the Shareholders' Agreement, as at 31 December 2013, the Group shall bear a contribution obligation not exceeding the balance of USD215,935,000. In addition, in order to meet the needs of LNG vessel construction, on 31 March 2012, the Group entered into a related agreement for the construction of two LNG vessels under the Papua New Guinea LNG Project. Pursuant to such agreement, on 31 December 2013, the Group had a shareholder's loan obligation in the balance of USD6,776,690. On 28 April 2013, the Group entered into the Vessel Sponsors' Undertakings in relation for the construction of six LNG vessels under the Australia Pacific LNG Project. Pursuant to the Vessel Sponsors' Undertakings, as at 31 December 2013, the Group undertook a contribution obligation not exceeding the balance of USD157,155,763 in relations to the necessary shareholder's loan and cost overruns for vessel construction. Along with the progress of project and schedule, the Group will fulfill the corresponding contribution obligation in accordance with the above agreements. As there is fluctuation in the exchange rate of such currencies, there may be difference between the amount in Hong Kong Dollar to be paid accordingly 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 balance as at 31 December 2013
The Company	Sinomart Development	Sale and Purchase Agreement in respect of Fujairah Oil Terminal FZC	Sinomart Development undertook the obligation to pay the vendor the acquisition cost of USD25.05 million pursuant to the clauses of the agreement	9 January 2012	Effective date of the contract to completion of the acquisition payment	USD16.51 million
The Company	Sinomart Development	Commercial Storage 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	Signed on 9 January 2012 and amended on 28 December 2012	Date of the completion of the project to within 10 years after completion	USD305 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	USD34.23 million
Sinomart Development	Fujairah Oil Terminal FZC	Equity Pledge Agreement in respect of Fujairah Oil Terminal FZC	Sinomart Development pledged its 50% equity interest in Fujairah Oil Terminal FZC as collateral to the bank which offered loan in respect of the project of Fujairah Oil Terminal FZC	22 January 2013	Until the full loan repayment in respect of the project	USD252 million

Guarantor	Guaranteed entity	Name of agreement	Content of guarantee clause	Date of agreement	Guarantee period	Guarantee balance as at 31 December 2013
Sinomart Development	PT. WEST POINT TERMINAL in Indonesia	Land Lease Agreement of Batam, Indonesia	In the event that PT. West Point Terminal 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 Pointu Terminal.	9 October 2012	Effective date of the contract to within 30 years after the effective date	Singapore dollars 81.37 million
The Company	Six companies with LNG vessel assets	Vessel Sponsors' Undertakings in relation to the investment and construction of six LNG vessels under the Australia Pacific LNG Project	The Company provided shareholder's loan in accordance with equity ratio to Kantons International Investment Limited ("KII") and guarantee for the potential cost overruns in respect of the LNG vessel construction	28 April 2013	Effective date of the contract to 18 June 2032	USD157 million

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 2013, the Group had a total of 241 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 2013.

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 34/F, Citicorp Centre, 18 Whitfield Road, Causeway Bay, 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 1 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 5 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 60.33% 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 2013 and the financial positions of the Company and the Group as at that date are set out in the financial statements on pages 38 to 116.

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of HK$491,397,000 (2012: HK$291,738,000) 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 2013 (2012: HK$0.035), excluding the interim dividend of HK$0.015 per share in cash for 2013 paid on 18 October 2013 (2012: HK$0.015 per share), the final dividend of HK$0.02 per share in cash for 2013 (2012: 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 30 June 2014 (Monday).

The register of members of the Company will be closed from 24 June 2014 (Tuesday) to 30 June 2014 (Monday) (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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:00 p.m. on 23 June 2014 (Monday). The cheques for dividend payment will be sent to shareholders on or about 4 July 2014 (Friday).

2013 ANNUAL GENERAL MEETING

The Company will convene the 2013 Annual General Meeting on 6 June 2014 (Friday), and the register of members of the Company will be closed from 3 June 2014 (Tuesday) to 6 June 2014 (Friday) (both days inclusive). In order to qualify for attending the 2013 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:00 p.m. on 30 May 2014 (Friday).

FIXED ASSETS

During 2013, the Group spent approximately HK$284,721,000 (2012: HK$221,337,000) on fixed assets. Details of movements in fixed assets are set out in note 18 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during 2013 are set out in note 23 to the financial statements.

PLACING OF SHARES

Pursuant to the general mandate granted at the 2012 annual general meeting, the Company placed a total of 412,500,000 shares on 3 May 2013, representing approximately 19.89% of its total issued share capital before placing. Upon completion of the share placing, the total number of issued shares of the Company increased from 2,073,660,000 shares to 2,486,160,000 shares while the shareholding ratio of Sinopec Kantons International Limited decreased from 72.34% to 60.33%.

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

As disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during 2013.

THE BOARD OF DIRECTORS AND MEMBERS OF EACH PROFESSIONAL COMMITTEE

During the year and up to the date of this report, members of the Board of the Company and the professional committees under which they sit are as follows:

Board of Directors Committee	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors			
Mr. Dai Zhao Ming *(Chairman)* Mr. Zhu Zeng Qing *(Deputy Chairman)* Mr. Zhu Jian Min Mr. Tan Ke Fei Mr. Zhou Feng Mr. Ye Zhi Jun *(Managing Director)*	Mr. Fong Chung, Mark *(Chairman)* Mr. Wong Po Yan (Resigned on 31 March 2014) Ms. Tam Wai Chu, Maria Dr. Wong Yau Kar, David (Appointed on 31 March 2014)	Ms. Tam Wai Chu, Maria *(Chairlady)* Mr. Dai Zhao Ming Mr. Wong Po Yan (Resigned on 31 March 2014) Mr. Fong Chung, Mark Mr. Ye Zhi Jun Dr. Wong Yau Kar, David (Appointed on 31 March 2014)	Dr. Wong Yau Kar, David *(Chairman)* (Appointed on 31 March 2014) Mr. Wong Po Yan (Resigned on 31 March 2014) Mr. Dai Zhao Ming Ms. Tam Wai Chu, Maria Mr. Fong Chung, Mark Mr. Ye Zhi Jun
Independent Non-executive Directors			
Mr. Wong Po Yan (Resigned on 31 March 2014) Ms. Tam Wai Chu, Maria Mr. Fong Chung, Mark Dr. Wong Yau Kar, David (Appointed on 31 March 2014)			

In accordance with Bye-law 111 of the Company's Bye-laws, Mr. Dai Zhao Ming, Mr. Ye Zhi Jun and Ms. Tam Wai Chu, Maria will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

In accordance with Bye-law 115 of the Company's Bye-laws, Dr. Wong Yau Kar, David was appointed by the Board to fill a casual vacancy of the Board and shall hold office only until the forthcoming annual general meeting and, being eligible, will offer himself 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 2013, 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 (the "**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 2013, the Company has not established and implemented any share option scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during 2013, 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 2013, 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	60.33%

Note: The entire issued share capital of Sinopec Kantons International Limited is held by China International United Petroleum & Chemical Co., Ltd. ("**UNIPEC**"). The controlling interest in the registered capital of UNIPEC is ultimately held by Sinopec Group Company.

Save as disclosed above, the Company has not been notified by any person (other than the Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would have to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions), or which were entered in the register of interests required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

BANK LOANS AND OTHER BORROWINGS

As at 31 December 2013, 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 page 117 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 9 to the financial statements.

COMPLIANCE WITH THE CODE

Save as disclosed in this annual report, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange for the year ended 31 December 2013, except the following: the Chairman of the Board and the Chairman of the Audit Committee were unable to attend the annual general meeting held on 10 June 2013 (which was required under the code provision E.1.2) due to work engagement. As such, 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.

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 2013.

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

PricewaterhouseCoopers will retire, and, being eligible, will offer themselves for re-appointment. A resolution in relations to the re-appointment of PricewaterhouseCooper as the auditor of the Company will be submitted at the forthcoming annual general meeting.

By order of the Board of Directors of
Sinopec Kantons Holdings Limited
Dai Zhao Ming
Chairman

Hong Kong, 31 March 2014

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, and 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 China Petroleum & Chemical Corporation Guangzhou Branch for the provision of crude oil jetty services;

2. The Company entered into the "UNIPEC Framework Master Agreement" with UNIPEC for the crude oil sourcing, provision of crude oil jetty services 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 "Sinopec Finance Financial Services Framework Master Agreement" with Sinopec Finance Company Limited for the provision of financial services within the PRC.

In view of the fact that the above continuing connected transactions and the related framework agreements would expire on 31 December 2013, on 29 October 2013, the Group renewed and signed the new continuing connected transaction framework agreements for the above continuing connected transactions during the three financial years from 1 January 2014 to 31 December 2016. The above agreements and continuing connected transactions have respectively obtained approval at the special general meetings held on 6 December 2010 and 13 December 2013. The Company has obtained approval for the above agreements and the Continuing Connected Transactions respectively at the special general meetings held on 6 December 2010 and 13 December 2013.

In addition, in order to meet the needs of the Group's business development, on 29 October 2013, the Group entered into the Sinopec Fuel Oil Sales Company Limited Framework Master Agreement in relation to the provision of fuel oil jetty and storage services by Huade Petrochemical to Sinopec Fuel Oil Sales Company Limited ("**Sinopec Fuel Oil**"), for a term of two years commencing from 1 January 2015 and ending on 31 December 2016. On 29 October 2013, the Company entered into the Unipec Bunkering Framework Master Agreement in relation to the provision of marine bunkering services by Unipec Singapore Pte Limited to the Group with a term of three years commencing from 1 January 2014 and ending on 31 December 2016.

As the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the value of each of the caps of the above two continuing connected transactions are more than 0.1% but less than 5%, the connected transactions contemplated under these agreements are exempt from the Independent Shareholders' approval requirement under Rule 14A.48 of the Listing Rules.

For details of the above continuing connected transactions, please refer to the announcement released on 16 November 2010 and 29 October 2013 on the websites of HKEx (http://www.hkexnews.hk) and the Company (www.sinopec.com.hk).

II AGREEMENTS NEWLY ENTERED INTO BY THE COMPANY FOR CONNECTED TRANSACTIONS

On 9 October 2012, Sinomart Development, a wholly-owned subsidiary of the Company acquired 95% equity interest of PT. West Point Terminal and planned to invest and construct crude oil and petroleum products storage tanks of 2.60 million m^3 and other ancillary facilities. In view of the rich experience of Sinopec Engineering (Group) Company Limited ("**Sinopec Engineering**") in petrochemical construction, Sinomart Development intended to invite Sinopec Engineering to participate in a bidding for the construction project of Batam Oil Storage Tanks and Oil Terminal. On 20 October 2013, the Company entered into the Batam Construction Project Framework Master Agreement in relations to the construction of Batam storage and ancillary facilities. The agreement and the connected transactions have obtained approval at the special general meeting of the Company on 13 December 2013.

Furthermore, in order to enhance the operation size of Huade Petrochemical and its profitability, Huade Petrochemical intended to invest and construct fuel oil storage tanks, and entered into Huade Construction Project Framework Agreements with the respective connected construction companies under China Petroleum & Chemical Corporation in relations to the provision of feasibility study and design services, engineering services, sourcing of equipment and raw materials services for the construction of the fuel oil storage tanks and ancillary facilities. As the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the aggregated amounts of the transactions under the Huade Construction Project Framework Agreements are more than 0.1% but less than 5%, the above agreement and the connected transactions are exempt from the Independent Shareholders' approval requirement under Rule 14A.48 of the Listing Rules.

For details of the above connected transaction agreements and connected transactions, please refer to the announcement released on 29 October 2013 on the websites of HKEx (http://www.hkexnews.hk) and the Company (www.sinopec.com.hk).

III INFORMATION ON THE CONNECTED TRANSACTIONS MADE BY THE GROUP DURING THE YEAR

In 2013, the connected transactions (including the continuing connected transactions) of the Group that took place during the year have been fully disclosed in note 31 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 these continuing connected transactions have been reviewed by the auditors PwC 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)(1) 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 48, Chairman of Sinopec Kantons Holdings Limited. Mr. Dai is a senior economist at professor level 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. From December 2005 to August 2013, Mr. Dai served as General Manager and Executive Director of China International United Petroleum & Chemicals Co. Ltd. Since September 2013, Mr. Dai has served as the Director of Development Planning Department of Sinopec Group Company and China Petroleum and Chemical Corporation. Mr. Dai has been the Chairman of the Company since October 2008.

Mr. Zhu Zeng Qing, aged 58, 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 49, 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 and general manager of China Petroleum & Chemical Corporation Baling Branch from September 2008 to June 2013; and general manager of China Petroleum & Chemical Corporation Tianjin Branch since July 2013. Mr. Zhu has been an Executive Director of the Company since March 2004.

Mr. Tan Ke Fei, aged 46, 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 in China 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 48, senior accountant, Executive Director of Sinopec Kantons Holdings Limited. Mr. Zhou has a bachelor degree in Chemical Engineering at Eastern China Polytechnic University and a masters degree in MBA at Zhejiang University. He is well experienced at financial management and corporate 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 48, Managing Director of Sinopec Kantons Holdings Limited. Mr. Ye has a bachelor degree in Engineering and masters degree in MBA and is a senior economist. 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

Ms. Tam Wai Chu, Maria, GBM, JP, aged 68, 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., Wing On Company International Limited and Macau Legend Development Limited, all listed companies on The Stock Exchange of Hong Kong Limited. She is also a Director of Green Fun Limited and Love, Family Foundation 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.

Mr. Fong Chung, Mark, aged 62, 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. and Macau Legend Development Limited, both are companies listed on The Stock Exchange of Hong Kong Limited, and is also a non-executive director of Worldsec Limited, a company listed on London Stock Exchange.

Dr. Wong Yau Kar, David, BBS, JP, age 56, holds a Ph.D degree in Economics from the University of Chicago. Dr. Wong has extensive experience in manufacturing, direct investment, international trade and corporate finance and is currently the managing director of United Overseas Investments Ltd. Dr. Wong has recently been elected as a Hong Kong Deputy of the 12th National People's Congress. Dr. Wong has been actively participating in public services and to name a few, he is currently Chairman of the Land and Development Advisory Committee, the Protection of Wages on Insolvency Fund Board, and the Societal Engagement Task Force of the Commission on Poverty. In the business sector, Dr. Wong is the Permanent Honorary President of the Chinese Manufacturers' Association of Hong Kong; and Vice President of the Hong Kong Institute of Directors. In 2010, Dr. Wong was appointed as a Justice of Peace (JP), and in 2012, Dr. Wong was awarded a Bronze Bauhinia Star (BBS). Dr. Wong is currently a non-executive director of CIAM Group Limited, and an independent non-executive director of China Jiuhao Health Industry Corporation Limited, China WindPower Group Limited ("CWP"), Redco Properties Group Limited, Reorient Group Limited and Shenzhen Holdings Limited, all of which are listed on The Stock Exchange of Hong Kong Limited. Dr. Wong is the son of Mr. Wong Po Yan.

OTHER SENIOR MANAGEMENT

Mr. Pang Ai Bin, aged 44, 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 47, 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 50, Secretary to the Board of Sinopec Kantons Holdings Limited. Mr. Li holds a bachelor degree in Engineering and an 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. Zhu Jian, aged 38, 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 41, 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.

CHANGES IN DIRECTORS' PARTICULARS SUBSEQUENT TO THE 2012 ANNUAL REPORT

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

- Mr. Wong Po Yan, an independent non-executive director of the Company, resigned as an independent non-executive director of FinTronics Holdings Co. Ltd, Allied Group Ltd. and Shenzhen Investment Ltd., all of which are listed companies on The Stock Exchange of Hong Kong Limited, respectively on 26 March 2013, 7 June 2013 and 13 June 2013. Due to retirement, Mr. Wong retired as an independent non-executive director, Chairman of the Nomination Committee, a member of the Audit Committee and the Remuneration Committee of the Company on 31 March 2014. The Company would like to express its appreciation to the outstanding contribution made by Mr. Wong during his tenure.

- Dr. Wong Yau Kar, David, has been appointed as an independent non-executive director, Chairman of the Nomination committee, a member of the Audit Committee and the Remuneration Committee of the Company on 31 March 2014. The Company would like to welcome the joining of Dr. Wong.

- Ms. Tam Wai Chu, Maria, an independent non-executive director of the Company, has been an independent non-executive director of Macau Legend Development Limited, a listed company on The Stock Exchange of Hong Kong Limited, since 5 June 2013; and a director of Love, Family Foundation Limited, a non-profitmaking organization, since 25 July 2013.

- Mr. Fong Chung, Mark, an independent non-executive director of the Company, has been an independent non-executive director of Macau Legend Development Limited, a listed company on The Stock Exchange of Hong Kong Limited, since 5 June 2013; and retired from Grant Thornton International Ltd. by resigning as the executive director for China development on 1 January 2014.

CORPORATE GOVERNANCE REPORT

ANNUAL GENERAL MEETING

On 10 June 2013, the Company convened the 2012 Annual General Meeting at Salon Rooms VI-VII, 5/F., Harbour Grand Hong Kong, 23 Oil Street, North Point, 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 Ms. Tam Wai Chu, Maria (Chairlady of Remuneration Committee), Mr. Wong Po Yan (former Chairman of Nomination Committee) and PricewaterhouseCoopers, the auditor, also attended the meeting upon invitation.

On 13 December 2013, the Company convened the 2013 Special General Meeting at Salon Rooms II-III, 5/F., Harbour Grand Hong Kong, 23 Oil Street, North Point, Hong Kong. Under the authorization and appointment of the Board, Mr. Ye Zhi Jun (Director and General Manager) presided over the Special General Meeting, and Mr. Fong Chung, Mark (Chairman of the Independent Board Committee), Ms. Tam Wai Chu, Maria (member of the Independent Board Committee), Mr. Wong Po Yan (former member of the Independent Board Committee) and the relevant personnel of Quam Capital Limited, the independent financial advisor, as well as PricewaterhouseCoopers, the auditor, also attended the meeting upon invitation.

For details of the above meetings, 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 10 June 2013 and 13 December 2013.

Attendance of the general meeting in 2013 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	2	100.0
Mr. Wong Po Yan (Resigned on 31 March 2014)	2	100.0
Ms. Tam Wai Chu, Maria	2	100.0
Mr. Fong Chung, Mark	1	50.0
Dr. Wong Yau Kar, David (Appointed on 31 March 2014)*	0	0.0

Note: As at 31 December 2013, Dr. Wong Yau Kar, David had nil attendance since he had not been appointed as an independent non-executive director of the Company yet.

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 has adopted the Corporate Governance Code as set out in Appendix 14 of the Listing Rules in 2013 and is in compliance with the Code Provisions in the Corporate Governance Code, save for those disclosed in this Annual Report.

As at 31 December 2013, the Board comprises six executive Directors and three independent non-executive directors. The Board has appointed the Audit Committee, 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)*	Dr. Wong Yau Kar, David *(Chairman)* (Appointed on 31 March 2014)
Mr. Zhu Zeng Qing *(Deputy Chairman)*	Mr. Wong Po Yan (Resigned on 31 March 2014)	Mr. Dai Zhao Ming	Mr. Wong Po Yan (Resigned on 31 March 2014)
Mr. Zhu Jian Min	Ms. Tam Wai Chu, Maria	Mr. Wong Po Yan (Resigned on 31 March 2014)	Mr. Dai Zhao Ming
Mr. Tan Ke Fei	Dr. Wong Yau Kar, David (Appointed on 31 March 2014)	Mr. Fong Chung, Mark	Ms. Tam Wai Chu, Maria
Mr. Zhou Feng		Mr. Ye Zhi Jun	Mr. Fong Chung, Mark
Mr. Ye Zhi Jun *(Managing Director)*		Dr. Wong Yau Kar, David (Appointed on 31 March 2014)	Mr. Ye Zhi Jun
Independent Non-executive Directors			
Mr. Wong Po Yan (Resigned on 31 March 2014)			
Ms. Tam Wai Chu, Maria			
Mr. Fong Chung, Mark			
Dr. Wong Yau Kar, David (Appointed on 31 March 2014)			

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 eight full Board meetings in 2013. Attendance of the full Board meetings are as follows:

Attendance	No. of meetings attended	Attendance %
Mr. Dai Zhao Ming	8	100.0
Mr. Zhu Zeng Qing	8	100.0
Mr. Zhu Jian Min	1	12.5
Mr. Tan Ke Fei	0	0.0
Mr. Zhou Feng	8	100.0
Mr. Ye Zhi Jun	8	100.0
Mr. Wong Po Yan (Resigned on 31 March 2014)	8	100.0
Ms. Tam Wai Chu, Maria	8	100.0
Mr. Fong Chung, Mark	8	100.0
Dr. Wong Yau Kar, David (Appointed on 31 March 2014)*	0	0.0

Note: As at 31 December 2013, Dr. Wong Yau Kar, David had nil attendance since he had not been appointed as an independent non-executive director of the Company yet.

All independent non-executive directors are financially independent from the Company and any of its subsidiaries.

The Company confirmed with all independent non-executive directors as to their independence with reference to the factors as set out in Rule 3.13 of the Listing Rules.

The full Board participates in the selection and approval of new Directors. Independent non-executive directors are appointed for a specific term. Under the Bye-laws of the company, all the Directors are currently required to offer themselves for re-election by rotation at least once every three years. The Board takes into consideration criteria such as expertise, experience, integrity and commitment when appointing new directors.

AUDIT COMMITTEE

The audit committee of the Company (the "**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 2013, the Audit Committee held two meetings to review the annual results of the Group for the financial year ended 31 December 2012 and the interim results for the six months ended 30 June 2013, 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 *(Chairman)*	2	100.0
Mr. Wong Po Yan (Resigned on 31 March 2014)	2	100.0
Ms. Tam Wai Chu, Maria	2	100.0
Dr. Wong Yau Kar, David (Appointed on 31 March 2014)*	0	0.0

Note: As at 31 December 2013, Dr. Wong Yau Kar, David had nil attendance since he had not been appointed as an independent non-executive director of the Company yet.

The Company's annual results for the financial year ended 31 December 2013 have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

The remuneration committee of the Company (the "**Remuneration Committee**") comprises three independent non-executive directors and two executive Directors, of which an independent non-executive director, Ms. Tam Wai Chu, Maria, is the chairperson. The remuneration committee is responsible for studying and determining the remuneration of the Company's Directors and senior management as well as the incentive policies, and such Directors' remuneration and incentive policies will be proposed to the Board of the Company. To avoid conflicts of interest, any member who is interested in any given proposed motion is required to abstain from voting on such motion.

The main elements of the Company's remuneration policy are that no individual should determine his or her own remuneration, and remuneration should reflect the performance of the individual, and the complexity, duties and responsibility of the position.

In 2013, the Remuneration Committee of the Company convened one meeting, during which the performance of the Company's staff on the storage and logistics expansion projects were evaluated, and rewards were offered in accordance with the relevant assessment and incentive mechanisms. 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 *(Chairman)*	1	100.0
Mr. Dai Zhao Ming	1	100.0
Mr. Wong Po Yan (Resigned on 31 March 2014)	1	100.0
Mr. Fong Chung, Mark	1	100.0
Mr. Ye Zhi Jun	1	100.0
Dr. Wong Yau Kar, David (Appointed on 31 March 2014)*	0	0.0

Note: As at 31 December 2013, Dr. Wong Yau Kar, David had nil attendance since he had not been appointed as an independent non-executive director of the Company yet.

NOMINATION COMMITTEE

The nomination committee of the Company (the "**Nomination Committee**") comprises three independent non-executive directors and two executive Directors, of which an independent non-executive director is the chairperson.

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 as well as diversity of perspectives. 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.

In 2013, the Nomination Committee of the Company convened one meeting, during which the structure and composition of the Board were reviewed. The attendances of members of the Nomination Committee in the Nomination Committee meeting were as follows:

Attendance	No. of meetings attended	Attendance %
Dr. Wong Yau Kar, David *(Chairman)* (Appointed on 31 March 2014)*	0	0.0
Mr. Wong Po Yan (Resigned on 31 March 2014)	1	100.0
Mr. Dai Zhao Ming	1	100.0
Ms. Tam Wai Chu, Maria	1	100.0
Mr. Fong Chung, Mark	1	100.0
Mr. Ye Zhi Jun	1	100.0

Note: As at 31 December 2013, Dr. Wong Yau Kar, David had nil attendance since he had not been appointed as an independent non-executive director of the Company yet.

BOARD DIVERSITY POLICY

The Company has adopted the Board Diversity Policy (the "**Policy**"), which sets out the approaches taken by the Board so as to achieve board diversity in order to enhance the effectiveness of the Board.

According to the Policy, the Company would consider a number of factors in order to achieve a diversity of perspectives among members of the Board, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

The Board would consider establishing measurable objectives and progress set for implementing the Policy, and will from time to time review the Policy to ensure its progress made towards achieving those objectives.

The Nomination Committee will review the Policy, as appropriate, to ensure the effectiveness of the Policy.

FUNCTION OF CORPORATE GOVERNANCE

The Company sets its corporate governance policies pursuant to the 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 2013, 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.

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 CORPORATE GOVERNANCE CODE

Save as disclosed in this annual report, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange for the year ended 31 December 2013, except the following: the Chairman of the Board and the Chairman of the Audit Committee were unable to attend the annual general meeting held on 10 June 2013 (which was required under the code provision E.1.2) due to work engagement. As such, 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.

PLACING OF SHARES

Pursuant to the general mandate granted at the 2012 annual general meeting, the Company placed a total of 412,500,000 shares on 3 May 2013, representing approximately 19.89% of its total issued share capital before placing. Upon completion of the share placing, the total number of issued shares of the Company increased from 2,073,660,000 shares to 2,486,160,000 shares while the shareholding ratio of Sinopec Kantons International Limited decreased from 72.34% to 60.33%.

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

As disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during 2013.

LIABILITY INSURANCE FOR DIRECTORS

China Petroleum & Chemical Corporation (the intermediate controlling shareholder which indirectly holds 60.33% 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.

AUDITORS' REMUNERATION

Auditors' remuneration in relation to audit services amounted to HK$2,110,000 in 2013 (2012: HK$1,540,000). The following remuneration was paid/payable by the Group to its auditor, PricewaterhouseCoopers:

(in HK$ millions)	**(PwC)** **2013**	**(KPMG)** 2012
Audit services	**2.11**	1.54
Taxation services	**–**	0.07
Other services	**0.52**	2.14
Total	**2.63**	3.75

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 2013. 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 2013, 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 2013. 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 disclosed 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 34/F, Citicorp Centre 18 Whitfield Road, Causeway Bay, Hong Kong.

During 2013, 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

羅兵咸永道

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 38 to 116, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated income statements, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 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 and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda 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.

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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 judgment, 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 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 2013, 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 Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2014

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

	Note	2013 *HK$'000*	2012 *HK$'000*
Revenue	5 & 6	**23,355,579**	22,041,792
Cost of sales	8	**(23,200,797)**	(21,802,401)
Gross profit		**154,782**	239,391
Other income and other gains-net	7	**74,696**	43,175
Distribution costs	8	**(20,414)**	(7,924)
Administrative expenses	8	**(111,661)**	(67,418)
Operating profit		**97,403**	207,224
Finance income	10	**2,702**	–
Finance costs	10	**(3,807)**	(1,555)
Finance costs-net		**(1,105)**	(1,555)
Share of results of:			
– Associated companies	12	**108,780**	92,007
– Joint ventures	13	**456,966**	59,759
Profit before income tax		**662,044**	357,435
Income tax expenses	14	**(170,637)**	(65,697)
Profit for the year		**491,407**	291,738
Profit attributable to:			
Equity holders of the Company		**491,397**	291,738
Non-controlling interest		**10**	–
		491,407	291,738
Basic and diluted earnings per share for profit attributable to equity holders of the Company (expressed in HK cents per share)	15	**21.00**	15.49

The notes on pages 46 to 116 are an integral part of these consolidated financial statements.

Dividends	26	**87,016**	72,578

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	2013 *HK$'000*	2012 *HK$'000*
Profit for the year	**491,407**	291,738
Other comprehensive income for the year:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on currency translation:		
– Subsidiaries	**78,090**	(274)
– Associated companies	**18,963**	323
– Joint ventures	**188,396**	210
Other comprehensive income for the year, net of tax	**285,449**	259
Total comprehensive income for the year	**776,856**	291,997
Total comprehensive income attributable to:		
Equity holders of the Company	**776,846**	291,997
Non-controlling interest	**10**	–
Total comprehensive income for the year	**776,856**	291,997

The notes on pages 46 to 116 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Note	2013 *HK$'000*	2012 *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment	18	**1,958,211**	1,855,242
Investment properties	19	**14,910**	15,568
Prepaid land lease payment	17	**724,018**	74,906
Interests in associated companies	12	**617,864**	526,765
Interests in joint ventures	13	**5,475,680**	2,305,431
Total non-current assets		**8,790,683**	4,777,912
Current assets			
Inventories	21	**47,108**	48,355
Trade and other receivables	20	**730,367**	628,929
Tax recoverable		**–**	4,955
Cash and cash equivalents	22	**1,622,454**	2,404,982
Total current assets		**2,399,929**	3,087,221
Total assets		**11,190,612**	7,865,133
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	23	**248,616**	207,366
Reserves		**9,597,975**	6,300,578
Equity attributable to equity holders of the Company		**9,846,591**	6,507,944
Non-controlling interest		**9,630**	–
Total equity		**9,856,221**	6,507,944

	Note	2013 HK$'000	2012 HK$'000
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	29	**97,582**	2,300
Current liabilities			
Trade and other payables	28	**1,223,410**	1,344,666
Income tax payable		**13,399**	10,223
Total current liabilities		**1,236,809**	1,354,889
Total liabilities		**1,334,391**	1,357,189
Total equity and liabilities		**11,190,612**	7,865,133
Net current assets		**1,163,120**	1,732,332
Total assets less current liabilities		**9,953,803**	6,510,244

The financial statements on pages 38 to 116 were approved by the Board of Directors on 31 March 2014 and were signed on its behalf

Dai Zhao Ming
Chairman

Ye Zhi Jun
Managing Director

The notes on pages 46 to 116 are an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current asset			
Interests in subsidiaries	11	**6,635,675**	4,106,199
Current asset			
Cash and cash equivalents	22	**23**	19
Current liability			
Other payables	28	**3,810**	31,908
Net current liabilities		**(3,787)**	(31,889)
NET ASSETS		**6,631,888**	4,074,310
CAPITAL AND RESERVES			
Share capital	23	**248,616**	207,366
Reserves	24	**6,383,272**	3,866,944
TOTAL EQUITY		**6,631,888**	4,074,310

The financial statements on pages 38 to 116 were approved by the Board of Directors on 31 March 2014 and were signed on its behalf

Dai Zhao Ming
Chairman

Ye Zhi Jun
Managing Director

The notes on pages 46 to 116 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Note	Share capital *HK$'000*	Share premium *HK$'000*	Merger reserve *HK$'000*	General reserves *HK$'000*	Exchange reserve *HK$'000*	Retained earnings *HK$'000*	Subtotal *HK$'000*	Non-controlling interest *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2012		103,683	333,857	23,444	189,908	525,307	1,649,383	2,825,582	–	2,825,582
Comprehensive income:										
Profit for the year		–	–	–	–	–	291,738	291,738	–	291,738
Other comprehensive income										
Exchange differences on currency translation:										
– Subsidiaries		–	–	–	–	(274)	–	(274)	–	(274)
– Associated companies		–	–	–	–	323	–	323	–	323
– Joint ventures		–	–	–	–	210	–	210	–	210
Other comprehensive income for the year, net of tax		–	–	–	–	259	–	259	–	259
Total comprehensive income for the year		–	–	–	–	259	291,738	291,997	–	291,997
Transaction with owners										
Shares issued under rights issue	23	103,683	3,359,260	–	–	–	–	3,462,943	–	3,462,943
Appropriation of reserves	24	–	–	–	23,013	–	(23,013)	–	–	–
Dividends	26	–	–	–	–	–	(72,578)	(72,578)	–	(72,578)
Balance at 31 December 2012		207,366	3,693,117	23,444	212,921	525,566	1,845,530	6,507,944	–	6,507,944

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Note	Share capital *HK$'000*	Share premium *HK$'000*	Specific reserve *HK$'000*	Merger reserve *HK$'000*	General reserves *HK$'000*	Exchange reserve *HK$'000*	Retained earnings *HK$'000*	Subtotal *HK$'000*	Non-controlling interest *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2013		207,366	3,693,117	-	23,444	212,921	525,566	1,845,530	6,507,944	-	6,507,944
Comprehensive income:											
Profit for the year		-	-	-	-	-	-	491,397	491,397	10	491,407
Other comprehensive income											
Exchange differences on currency translation:											
– Subsidiaries		-	-	-	-	-	78,090	-	78,090	-	78,090
– Associated companies		-	-	-	-	-	18,963	-	18,963	-	18,963
– Joint ventures		-	-	-	-	-	188,396	-	188,396	-	188,396
Other comprehensive income for the year, net of tax		-	-	-	-	-	285,449	-	285,449	-	285,449
Total comprehensive income for the year		-	-	-	-	-	285,449	491,397	776,846	10	776,856
Transaction with owners											
Issue of shares	23	41,250	2,607,567	-	-	-	-	-	2,648,817	-	2,648,817
Appropriation of reserves	24	-	-	-	-	15,628	-	(15,628)	-	-	-
Acquisition of a subsidiary		-	-	-	-	-	-	-	-	200	200
Capital contributions from non-controlling interests		-	-	-	-	-	-	-	-	9,420	9,420
Net increase in specific reserve for the year	25	-	-	113	-	-	-	(113)	-	-	-
Dividends	26	-	-	-	-	-	-	(87,016)	(87,016)	-	(87,016)
Total transaction with owners		41,250	2,607,567	113	-	15,628	-	(102,757)	2,561,801	9,620	2,571,421
Balance at 31 December 2013		248,616	6,300,684	113	23,444	228,549	811,015	2,234,170	9,846,591	9,630	9,856,221

The notes on pages 46 to 116 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Cash flows from operating activities			
Cash generated from operations	27	475,905	365,024
PRC enterprise income tax paid		(67,476)	(62,627)
Net cash generated from operating activities		408,429	302,397
Cash flows from investing activities			
Purchase of property, plant and equipment		(395,021)	(176,667)
Acquisition of asset through acquisition of a subsidiary		429	–
Loans granted to associated companies		(7,567)	–
Loans granted to joint ventures		(367,511)	–
Dividend received from an associated company	12	45,181	–
Acquisition of an associated company		–	(407,330)
Acquisition of joint ventures		(2,113,746)	(1,266,082)
Consideration paid to acquire equity interests in joint ventures		(986,182)	–
Bank interest income received	7	36,826	54,262
Proceeds from disposal of property, plant and equipment		422	23
Net cash used in investing activities		(3,787,169)	(1,795,794)
Cash flows from financing activities			
Net proceeds from rights issued	23	–	3,462,943
Net proceeds from shares issued	23	2,648,817	–
Capital contribution from non-controlling interest		9,420	–
Drawdown of borrowings		1,880,314	585,772
Repayment of borrowings		(1,880,314)	(853,000)
Dividends paid	26	(87,016)	(72,578)
Finance costs paid	10	(3,807)	(1,555)
Net cash generated from financing activities		2,567,414	3,121,582
Net (decrease)/increase in cash and cash equivalents		(811,326)	1,628,185
Cash and cash equivalents at 1 January	22	2,404,982	771,753
Effect of foreign exchange rate changes		28,798	5,044
Cash and cash equivalents at 31 December	22	1,622,454	2,404,982

The notes on pages 46 to 116 are an integral part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Sinopec Kantons Holdings Limited (the "Company") is a company incorporated in Bermuda with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. The addresses of its registered office and principal place of business are Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and 34/F, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong respectively.

The Company and its subsidiaries (collectively the "Group") are principally engaged in the trading of crude oil and oil products, the operation of crude oil and oil products terminals and their ancillary facilities, provision of logistics services including storage, logistics, transportation and terminal services and the distribution of oil and oil products and international logistics agency services on global basis.

These financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 31 March 2014.

In the opinion of the directors, the immediate holding company of the Company is Sinopec Kantons International Limited and the ultimate holding company is China Petrochemical Corporation ("Sinopec Group Company").

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures

(a) *New and amended standards adopted by the Group*

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2013:

- HKFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. However, adoption of this standard has no material impact to the Group's financial statements.

- HKFRS 11, 'Joint arrangements' is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. However, adoption of this standard has no material impact to the Group.

- HKFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associated companies, structured entities and other off balance sheet vehicles. The Group adopted HKFRS 12 on 1 January 2013 which included the disclosure requirements for all forms of interests in other entities.

- HKFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements, which are largely aligned between HKFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. However, adoption of this standard has no material impact to the Group's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures (continued)

(a) New and amended standards adopted by the Group (continued)

- Amendments to HKAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from the amendment is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). However, adoption of this standard has no material impact to the Group's financial statements.

- HKAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of HKAS 27 have been included in the new HKFRS 10. However, adoption of this standard has no material impact to the Group's financial statements.

- HKAS 28 (revised 2011) includes the requirements for joint ventures, as well as associated companies, to be equity accounted following the issue of HKFRS 11. However, adoption of this standard has no material impact to the Group's financial statements.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been early applied in preparing these consolidated financial statements.

- Amendments to HKAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of cash generating units ("CGUs") which had been included in HKAS 36 by the issue of HKFRS 13. The Group will adopt the amendments from 1 January 2014.

- HK(IFRIC) 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The changes will be effective for annual periods beginning on or after 1 January 2014. The Group is not currently subject to significant levies so the impact on the Group is not material.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 Subsidiaries

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statements.

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 Subsidiaries *(continued)*

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associated companies

Associated companies are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associated companies includes goodwill identified on acquisition.

If the ownership interest in an associated companies is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statements, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associated companies equals or exceeds its interest in the associated companies, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associated companies.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associated companies is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associated companies and its carrying value and recognises the amount adjacent to 'share of results of associated companies in the income statements.

Profits and losses resulting from upstream and downstream transactions between the Group and its associated companies are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associated companies. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interests in associated companies are recognised in the income statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.4 Joint arrangements

The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statements.

Foreign exchange gains and losses are presented in the income statement within 'Other income and other gains – net'.

(c) Group Companies

The accounts of foreign operations (i.e. subsidiaries, associated companies, and joint ventures whose activities are based or conducted in a country or currency other than those of the Company) are translated into Hong Kong dollars using the year end rates of exchange for the statement of financial position items and the average rates of exchange for the year for the income statement items. Exchange differences are recognised in other comprehensive income and accumulated under the heading of exchange reserve.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and any impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

–	Building	20 years
–	Leasehold improvement	10 years
–	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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income and other gains – net' in the income statements.

All direct and indirect costs relating to the construction of property, plant and equipment are classified as construction in progress. No depreciation is provided on construction in progress until such times as the relevant assets are completed and available for intended use.

2.8 Investment properties

Investment properties, comprising buildings are held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. The Group accounts for its investment properties under the cost method and investment properties are stated at cost less accumulated depreciation and impairment losses. 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.9 Goodwill

Goodwill arises on the acquisition of joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or Groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or Group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Financial assets

The Group classifies its financial assets in loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.11 Financial assets (continued)

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.12 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statements. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average cost method. It comprises all cost of purchases, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

2.14 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2.15 Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits held at banks.

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners.

2.17 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statements, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associated companies operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.19 Current and deferred income tax *(continued)*

(b) Deferred income tax (continued)

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associated companies and joint ventures, except for deferred income tax it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associated companies. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets in respect of tax losses attributable to certain joint ventures and associated companies, 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.20 Employee benefits

Retirement benefit schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statements as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central retirement benefit scheme operated by the local municipal or provincial government. These PRC subsidiaries are required to contribute a percentage of their payroll costs to the central retirement benefit scheme. The Group has no further payment obligations once the contribution have been paid.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.21 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) 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 ("VAT") and is after deduction of any trade discounts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.22 Revenue recognition *(continued)*

(b) Crude oil jetty service income

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

(c) 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. Revenue excludes VAT.

(d) 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.

2.23 Interest Income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2.24 Dividend Income

Dividend income is recognised when the right to receive payment is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.25 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statements on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the asset is included in the statement of financial position based on the nature of the asset.

Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.27 Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation. For the year ended 31 December 2012 and 2013, the Group did not enter into any additional financial guarantees.

Where guarantees in relation to loans or other payables of subsidiaries are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment in the financial statements of the Company.

2.28 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

The Group obtained and recognised as income on government grant – VAT refund.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

Sales and purchases arising from the Group's trading business are mainly denominated in United States dollars ("USD"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group currently does not have any foreign currency hedging activities.

At 31 December 2013, cash at bank denominated in United States dollars amounted to US$23,434,000, equivalent to HK$182,783,000 (2012: US$14,076,000, equivalent to HK$109,790,000). 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 2013, cash at bank and bank deposits denominated in Renminbi amounted to RMB309,230,000, equivalent to HK$393,307,000 (2012: RMB1,824,424,000, equivalent to HK$2,250,014,000). The Group is therefore exposed to foreign currency risk arising from holding such cash at bank and bank deposits denominated in Renminbi.

At 31 December 2013, trade and other receivables denominated in United States dollars amounted to US$5,816,000, equivalent to HK$45,363,000 (2012: US$4,444,000, equivalent to HK$34,664,000). 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 2013, trade and other receivables denominated in Renminbi amounted to RMB538,029,000, equivalent to HK$684,315,000 (2012: RMB465,468,000, (equivalent to HK$574,050,000). The Group is therefore exposed to foreign currency risk arising from holding such trade and other receivables.

At 31 December 2013, trade and other payables denominated in United States dollars amounted to US$28,309,000, equivalent to HK$220,813,000 (2012: US$11,132,000, equivalent to HK$86,831,000). 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 2013, trade and other payables denominated in Renminbi amounted to RMB220,986,000, equivalent to HK$281,071,000 (2012: RMB884,670,000, equivalent to HK$1,091,040,000). At 31 December 2013, trade and other payables denominated in Singapore Dollar ("SGD") amounted to SGD86,550,000, equivalent to HK$527,952,000 (2012: nil). The Group is therefore exposed to foreign currency risk arising from holding such trade and other payables.

3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(a) Foreign exchange risk *(continued)*

At 31 December 2013, if Hong Kong dollar had weakened/strengthened by 3% against the Renminbi and SGD with all other variable held constant, profit after income tax for the year would have been HK$6,912,000 (2012: HK$44,856,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of Renminbi denominated cash at bank and bank deposits, trade and other receivables and trade and other payables.

(b) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and bank deposits. 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, 86% (2012: 95%) and 98% (2012: 96%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

In respect of bank deposits, the credit risk is limited because the counter parties are banks with high credit ratings assigned by international credit-rating agencies or state-owned banks in the PRC.

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 2013, there was no exposure to credit risk arising from such guarantees as all outstanding loans have been settled.

3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group's Treasury Department. Treasury Department invests surplus cash in time deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room. At the reporting date, the Group held cash and cash equivalents of HK$1,622,454,000 (2012: HK$2,404,982,000) (Note 22) and trade and other receivables of HK$730,367,000 (2012: HK$628,929,000) (Note 20) that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyses the Group's and the Company's non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

The Group

	Within 1 year or on demand HK$'000
At 31 December 2013	
Trade payables-third parties	**43,840**
Creditors and consideration payable to acquire equity interest in joint ventures	**375,557**
Land lease payable	**531,792**
Amounts due to immediate, intermediate holding companies and fellow subsidiaries	**272,221**
At 31 December 2012	
Trade payables-third parties	34,765
Creditors and consideration payable to acquire equity interest in joint ventures	1,127,029
Amounts due to immediate, intermediate holding companies and fellow subsidiaries	182,872

3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk *(continued)*

The Company

	Within 1 year or on demand HK$'000
At 31 December 2013	
Creditors	**3,810**
At 31 December 2012	
Creditors	31,908

3.2 Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders 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 consolidated current ratio, consolidated gearing ratio and an adjusted net debt-to-capital ratio. The current ratio is calculated as current assets divided by current liabilities. The gearing ratio is calculated as total liabilities divided by total assets. 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.

As at 31 December 2013, the Group's current ratio is 1.94 (2012: 2.28) gearing ratio is 11.92% (as at 2012: 17.26%)

During 2013, the Group's strategy, which was unchanged from 2012, 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.

3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.2 Capital management *(continued)*

On 9 May 2013, 412,500,000 ordinary shares were issued upon the rights issue on the basis of one rights share for every one existing share at HK$6.50 each. As a result of rights issue, the net proceeds of HK$2,648,817,000 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 2013 (Note 23).

The adjusted net debt-to-capital ratio at 31 December 2013 and 2012 was as follows:

	Note	The Group 2013 HK$'000	The Group 2012 HK$'000	The Company 2013 HK$'000	The Company 2012 HK$'000
Current liabilities					
Trade and other payables	28	1,223,410	1,344,666	3,810	31,908
Proposed dividends	26	49,724	41,473	49,724	41,473
Less: Cash and cash equivalents	22	(1,622,454)	(2,404,982)	(23)	(19)
Adjusted net debt		(349,320)	(1,018,843)	53,511	73,362
Total equity		9,856,221	6,507,944	6,631,888	4,074,310
Less: Proposed dividends	26	(49,724)	(41,473)	(49,427)	(41,473)
Adjusted capital		9,806,497	6,466,471	6,582,461	4,032,837
Adjusted net debt-to-capital ratio		(4%)	(16%)	1%	2%

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

4.1 Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment of long lived assets

If circumstances indicate that the carrying amounts 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

4.1 Critical accounting estimates and assumptions *(continued)*

(b) 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.

(c) Withholding tax

The Group is subject to withholding taxes in the respective countries. Significant judgement is required in determining the provision for deferred taxes. There are many transactions and calculations for which the ultimate tax determined is uncertain during the ordinary course of business. The Group recognises liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the withholding tax and deferred tax provision in the period in which such determination is made.

5 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by its 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 People's Republic of China (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 are carried out in the PRC and overseas.

– 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 are mainly carried out in the Middle East and the PRC.

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 consist primarily of property, plant and equipment, certain prepaid land lease payment, inventories and trade and other receivables. Segment liabilities consist primarily of trade and other payables.

(a) Segment results, assets and liabilities

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 are included as unallocated income/costs.

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 income, unallocated other finance income, unallocated depreciation and amortisation, unallocated finance costs, share of results of associated companies and joint ventures and other corporate costs or income are excluded from segment operating profit.

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

5 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 is set out as follow:

(i) As at and for the year ended 31 December 2013:

The segment results for the year ended 31 December 2013 are as follows:

	Trade of crude oil *HK$'000*	Crude oil jetty services *HK$'000*	Vessel charter services *HK$'000*	Inter-segment elimination *HK$'000*	Total *HK$'000*
Segment revenue and results					
Segment revenue	22,435,933	582,302	339,973	(2,629)	23,355,579
Inter-segment revenue	–	(2,629)	–	2,629	–
Revenue	22,435,933	579,673	339,973	–	23,355,579
Segment results	(36,814)	220,208	(158,013)	–	25,381
Share of results of associated companies					108,780
Share of results of joint ventures					456,966
Unallocated other corporate income					70,917
Profit before income tax					662,044
Income tax expenses					(170,637)
Profit for the year					491,407
Other segment items					
Bank interest income	1	258	1	–	260
Finance costs	(1,904)	–	(1,903)	–	(3,807)
Depreciation and amortisation	(415)	(181,819)	(415)	–	(182,649)

5 SEGMENT REPORTING *(CONTINUED)*

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

(i) As at and for the year ended 31 December 2013 (continued):

The segment assets and liabilities as at 31 December 2013 and capital expenditures for the year then ended are as follows:

	Trade of crude oil *HK$'000*	Crude oil jetty services *HK$'000*	Vessel charter services *HK$'000*	Inter-segment elimination *HK$'000*	Total *HK$'000*
Assets					
Segment assets	98,976	2,561,295	139,409	–	2,799,680
Unallocated assets					
– Cash and cash equivalents					1,622,454
– Investment properties					14,910
– Interests in associated companies					617,864
– Interests in joint ventures					5,475,680
– Prepaid land lease payment					660,024
Total assets					11,190,612
Liabilities					
Segment liabilities	351,891	251,037	351,890	–	954,818
Unallocated liabilities					
– Trade and other payables					281,991
– Deferred tax liabilities					97,582
Total liabilities					1,334,391
Capital expenditures	66	242,518	67	–	242,651

5 SEGMENT REPORTING *(CONTINUED)*

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

(ii) As at and for the year ended 31 December 2012

The segment results for the year ended 31 December 2012 are as follows:

	Trade of crude oil *HK$'000*	Crude oil jetty services *HK$'000*	Vessel charter services *HK$'000*	Inter-segment elimination *HK$'000*	Total *HK$'000*
Segment revenue and results					
Segment revenue	20,936,047	623,785	484,913	(2,953)	22,041,792
Inter-segment revenue	–	(2,953)	–	2,953	–
Revenue	20,936,047	620,832	484,913	–	22,041,792
Segment results	(23,728)	259,307	(89,496)	–	146,083
Share of results of associated companies					92,007
Share of results of jointly ventures					59,759
Unallocated other corporate income					59,586
Profit before income tax					357,435
Income tax expenses					(65,697)
Profit for the year					291,738
Other segment items					
Bank interest income	2	561	2	–	565
Finance costs	(778)	–	(777)	–	(1,555)
Depreciation and amortisation	(696)	(168,054)	(696)	–	(169,446)

5 SEGMENT REPORTING *(CONTINUED)*

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

(ii) As at and for the year ended 31 December 2012 (continued)

The segment assets and liabilities as at 31 December 2012 and capital expenditures for the year then ended are as follows:

	Trade of crude oil *HK$'000*	Crude oil jetty services *HK$'000*	Vessel charter services *HK$'000*	Inter-segment elimination *HK$'000*	Total *HK$'000*
Assets					
Segment assets	20,368	2,492,836	94,228	–	2,607,432
Unallocated assets					
– Cash and cash equivalents					2,404,982
– Investment properties					15,568
– Interests in associated companies					526,765
– Interests in joint ventures					2,305,431
– Tax recoverable					4,955
Total assets					7,865,133
Liabilities					
Segment liabilities	110,703	109,181	145,402	–	365,286
Unallocated liabilities					
– Trade and other payables					989,603
– Deferred tax liabilities					2,300
Total liabilities					1,357,189
Capital expenditures	47	219,723	47	–	219,817

5 SEGMENT REPORTING *(CONTINUED)*

(b) Analysis of information by geographical regions

Revenue

The Group's revenue for reportable segments was solely from customers located in the PRC and is attributable to the PRC markets.

Non-current assets

	2013 *HK$'000*	2012 *HK$'000*
Hong Kong	243,063	77,905
The PRC	5,942,116	4,700,007
Other countries	2,605,504	–
	8,790,683	4,777,912

Total assets

	2013 *HK$'000*	2012 *HK$'000*
Hong Kong	1,843,937	2,582,627
The PRC	6,711,757	5,282,506
Other countries	2,634,918	–
	11,190,612	7,865,133

5 SEGMENT REPORTING *(CONTINUED)*

(c) Major customers

For the year ended 31 December 2013, one (2012: one) customer from trading of crude oil, crude oil jetty services and vessel charter services has transactions that exceeded 10% of the Group's revenue, amounting to HK$23,327,382,000 (2012: HK$21,950,687,000). This customer operates in the PRC.

(d) Capital expenditures

	2013	2012
	HK$'000	*HK$'000*
Hong Kong	**133**	94
The PRC	**242,518**	219,723
	242,651	219,817

6 REVENUE

	2013	2012
	HK$'000	*HK$'000*
Trading of crude oil	**22,435,933**	20,936,047
Crude oil jetty services	**579,673**	620,832
Vessel charter services	**339,973**	484,913
	23,355,579	22,041,792

The principal activities of the Group are trading of crude oil and provision of crude oil jetty and vessel charter services.

Revenue represents the sales value of goods supplied to customers and income from providing crude oil jetty services and vessel charter services, net of VAT.

7 OTHER INCOME AND OTHER GAINS – NET

	2013 *HK$'000*	2012 *HK$'000*
Rental income from investment properties	**787**	586
Bank interest income	**36,826**	54,262
Net foreign exchange gain/(loss)	**24,772**	(13,893)
Net loss on disposal of property, plant and equipment	**(2,517)**	(423)
Government grant – VAT refund	**10,334**	–
Others	**4,494**	2,643
	74,696	43,175

8 EXPENSES BY NATURE

	2013 *HK$'000*	2012 *HK$'000*
Cost of inventories	**22,601,139**	21,190,359
Depreciation of properties, plant and equipment (Note 18)	**171,735**	164,710
Amortisation of investment properties (Note 19)	**658**	659
Amortisation of interests in leasehold land	**10,914**	4,271
Employee benefit expenses		
(including directors' remuneration) (Note 9)	**74,847**	49,223
Auditor's remuneration		
– audit services	**2,110**	1,540
– taxation services	**–**	70
– other services	**520**	2,135
Rental expenses from investment properties	**390**	208
Operating lease charges: minimum lease payments		
– hire of other assets (including property rentals)	**12,724**	3,843
– hire of vessels	**248,163**	243,119

9 EMPLOYEE BENEFIT EXPENSES

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Employee benefit expenses (including directors' remuneration)		
Wages, salaries and other benefits	**68,884**	44,150
Retirement benefit scheme contributions	**5,963**	5,073
	74,847	49,223

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 HK$25,000. Contributions to the plan vest immediately.

The Company's PRC subsidiary, Huade Petrochemical Company Limited ("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 Company's Indonesia's subsidiary, PT West Point Terminal ("PT West"), participates in a defined contribution retirement scheme organised by the local government. PT West is required to make severance pay at a certain amount of the employees' relevant basic salaries. Contributions to the scheme vest immediately.

As at 31 December 2013, there was no material outstanding contribution to employee retirement benefits. The Group does not have any other obligations other than the contributions described above.

9 EMPLOYEE BENEFIT EXPENSES *(CONTINUED)*

(a) Directors' and chief executives emoluments

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

2013	Directors' fees *HK$'000*	Salaries, allowances and benefits-in-kind *HK$'000*	Bonus *HK$'000*	2013 Total *HK$'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)*	–	1,407	951	2,358
Independent non-executive directors				
Wong Po Yan	260	–	–	260
Tam Wai Chu	260	–	–	260
Fong Chung	260	–	–	260
	780	1,407	951	3,138

2012	Directors' fees *HK$'000*	Salaries, allowances and benefits-in-kind *HK$'000*	Bonus *HK$'000*	2012 Total *HK$'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)*	–	1,156	472	1,628
Independent non-executive directors				
Wong Po Yan	260	–	–	260
Tam Wai Chu	260	–	–	260
Fong Chung	260	–	–	260
	780	1,156	472	2,408

9 EMPLOYEE BENEFIT EXPENSES *(CONTINUED)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2012: one) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2012: four) individuals during the year are as follows:

	2013 *HK$'000*	2012 *HK$'000*
Salaries and other benefits in kind	5,478	4,703
Bonuses	2,230	831
	7,708	5,534

The emoluments fell within the following bands:

	Number of individuals	
	2013	2012
Emolument bands (in HK dollar)		
HK$ 1,000,001 – HK$ 1,500,000	–	3
HK$ 1,500,001 – HK$ 2,000,000	3	1
HK$ 2,000,001 – HK$ 3,000,000	1	–

10 FINANCE INCOME AND COSTS

	2013 *HK$'000*	2012 *HK$'000*
Interest income:		
– Loan to an associated company	970	–
– Loans to joint ventures	1,732	–
	2,702	–
Interest expenses:		
– Interest expenses on bank and other borrowings wholly repayable within five years	3,807	1,555

11 INTERESTS IN SUBSIDIARIES

	The Company	
	2013	2012
	HK$'000	*HK$'000*
Unlisted shares, at cost	**427,317**	427,317
Amounts due from subsidiaries	**6,208,358**	3,678,882
	6,635,675	4,106,199

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.

In March 2013, the Group completed an acquisition of 95% equity interest in PT West at a total consideration of approximately IDR 4,750,000,000 (equivalent to approximately HK$3,840,000). The directors consider this acquisition is an asset acquisition in substance rather than a business combination, and therefore consolidated the related assets and liabilities at their respective purchased value directly into the Group's consolidated financial statements at the date of completion of the transaction.

The assets and liabilities acquired on 19 March 2013 are as below:

	HK$'000
Total consideration:	
– Cash	3,840
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	4,269
Other receivables	351
Other payables	(3,199)
Total identifiable net assets	1,421

11 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

The following is a list of the principal subsidiaries as at 31 December 2012 and 2013:

	Place of incorporation/ establishment and kind of legal entity	Principal activities	Particulars of issued and paid up capital/ registered capital	Proportion of ordinary shares and voting powers at 31 December: % held by the Group in 2013	% held by the Group in 2012	% held by non-controlling interests in 2013
Directly held						
Sinomart KTS Development Limited ("KTS") (經貿冠德發展有限公司)	Hong Kong Limited liability company	Trading of crude oil and rendering vessel charter services	185,250,050 ordinary shares of HK$1 each and 10,000 non-voting deferred shares of HK$1 each (Note (iii))	100%	100%	–
Kantons International Investment Limited ("KII") (冠德國際投資有限公司)	British Virgin Islands Limited liability company	Investment holding	3,000,000 ordinary shares of US$1 each	100%	100%	–
Indirectly held						
Huade (Note (i)) (華德石化有限公司)	The PRC, wholly foreign owned enterprise Limited liability company	Operating crude oil jetty and ancillary facilities	Registered capital US$93,758,200	100%	100%	–
PT West (Note (ii))	Jakarta, Indonesia Limited liability company	Provision of oil supporting services	20,000 ordinary shares, issued and fully paid 5,000 with par value. IDR 1,000,000 per share	95%	–	5%

Notes:

(i) Huade holds jetty operating rights with a term of 35 years expiring in 2029.

(ii) The interest in PT West was acquired by the Group in March 2013.

(iii) Holders of non-voting defined shares has 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.

There is no material non-controlling interest during the year.

The English name of certain companies referred in this financial statements represent management's best effort at translating the Chinese names of these companies as no English names have been registered.

12 INTERESTS IN ASSOCIATED COMPANIES

	2013 HK$'000	2012 HK$'000
Cost of unlisted investments in associated companies	**419,030**	419,030
Share of post-acquisition results and other comprehensive income	**200,787**	92,007
Dividend received	**(45,181)**	–
Exchange realignment	**19,286**	323
Share of net assets	**593,922**	511,360
Amounts due from an associated company	**23,942**	15,405
	617,864	526,765

The amounts due from an associated company are unsecured and interest bearing. As at 31 December 2013, the amounts due from an associated company bears interest approximately 3.1% over 3 months LIBOR per annum and are wholly repayable within 20 years after the vessels construction project in the associated company is completed.

The following list contains only the particulars of associated companies, all of which are unlisted corporate entities:

	Note	Principal activities	Place of incorporation/ establishment	Particulars of issued and paid up capital/ registered capital	Proportion of ordinary shares and voting powers at 31 December: % held by the Group in 2013	% held by the Group in 2012
Indirectly held						
East China LNG Shipping Investment Co., Limited ("East China LNG") (中國東方液化天然氣運輸投資有限公司)	(a)	Transportation of liquefied natural gas	Hong Kong	5,000,000 ordinary shares of US$1 each	30%	30%
Zhan Jiang Port Petrochemical Jetty Co. ("Zhan Jiang Port") (湛江港石化碼頭有限公司)	(b)	Provision of logistic service	The PRC	Registered capital RMB180,000,000	50%	50%

12 INTERESTS IN ASSOCIATED COMPANIES *(CONTINUED)*

(a) The Directors are of the opinion that East China LNG is beneficial for the Group to further expand its logistics business, and will generate steady rental income and is expected to bring in better investment return.

(b) The Directors consider that the acquisition presents a valuable investment opportunity to the Group to acquire a stake in Zhan Jiang Port Petrochemical Jetty Co. and believe that such opportunity will further enhance shareholders' return.

The directors have also determined that they do not control Zhan Jiang Port, even though KTS owns 50% of the issued capital of this entity. As KTS is not responsible to make decisions on operation and financial policies, it exercises mainly significant influence to the investee instead of jointly control.

Set out below are the summarised financial information for Zhan Jiang Port which is considered material to the Group's financial statements.

Summarised balance sheet

	Zhan Jiang Port	
	2013	2012
	HK$'000	*HK$'000*
Current		
Cash and cash equivalents	**75,192**	43,017
Other current assets (excluding cash)	**30,279**	54,800
Total current assets	**105,471**	97,817
Financial liabilities (excluding trade payables)	**(543,209)**	(520,047)
Other current liabilities (including trade payables)	**(97,057)**	(67,078)
Total current liabilities	**(640,266)**	(587,125)
Non-current		
Assets	**1,738,238**	1,682,126
Financial liabilities	**(38,999)**	(193,498)
Total non-current assets	**1,699,239**	1,488,628
Net assets	**1,164,444**	999,320

12 INTERESTS IN ASSOCIATED COMPANIES *(CONTINUED)*

Summarised statement of comprehensive income

	Zhan Jiang Port	
	2013	2012
	HK$'000	HK$'000
Revenue	**606,857**	497,348
Depreciation and amortisation	**(56,251)**	(54,781)
Interest income	**531**	607
Interest expense	**(35,918)**	(16,356)
Other expenses	**(225,024)**	(183,712)
Profit or loss from continuing operations	**290,195**	243,106
Income tax expense	**(72,635)**	(59,092)
Post-tax profit	**217,560**	184,014
Total comprehensive income	**217,560**	184,014
Dividends received from an associated company	**45,181**	–

The information above reflects the amounts presented in the financial statements of the associated company (and not the Group attributable share) adjusted for differences in accounting policies between the Group and the associated company.

12 INTERESTS IN ASSOCIATED COMPANIES *(CONTINUED)*

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in an associated company.

	Zhan Jiang Port	
	2013	2012
	HK$'000	HK$'000
Net assets	**1,164,444**	999,320
Interest in an associated company (%)	**50**	50
Group's share of net assets in an associated company	**582,222**	499,660
Carrying value	**582,222**	499,660

The Group has interests in an immaterial associated company. The following table analyses the share of profit and other comprehensive income and carrying amount of this associated company.

	2013	2012
	HK$'000	HK$'000
Share of profit	**–**	–
Share of other comprehensive income	**–**	–
Share of total comprehensive income	**–**	–
Carrying amount of interest in the associated company	**11,700**	11,700

13 INTERESTS IN JOINT VENTURES

	2013 HK$'000	2012 HK$'000
Cost of unlisted investments in joint ventures	4,487,233	2,245,462
Share of post-acquisition results and other comprehensive income	516,725	59,759
Dividend received	(86,127)	–
Exchange realignment	188,606	210
Share of net assets	5,106,437	2,305,431
Amounts due from joint ventures	369,243	–
	5,475,680	2,305,431

The amounts due from joint ventures are unsecured and interest bearing. As at 31 December 2013, the amounts due from joint ventures bear interest at 2.2% over 3 months LIBOR per annum and are wholly repayable within 20 years after the vessels construction project in the joint ventures are completed.

Details of the Group's interests in the joint ventures are as follows:

Indirectly held	Note	Principal activities	Place of establishment	Particulars of issued and paid up capital/ registered capital	Measurement method	Proportion of ordinary shares and voting powers at 31 December: % held by the Group in 2013	Proportion of ordinary shares and voting powers at 31 December: % held by the Group in 2012
Ningbo Shihua Crude Oil Terminal Company Limited (寧波實華原油碼頭有限公司)	(a)	Operation of crude oil jetty and its ancillary facilities	The PRC	Registered capital RMB80,000,000	Equity	50%	50%
Qingdao Shihua Crude Oil Terminal Company Limited ("QDSH") (青島實華原油碼頭有限公司)	(a)	Operation of crude oil jetty and its ancillary facilities	The PRC	Registered capital RMB200,000,000	Equity	50%	50%

13 INTERESTS IN JOINT VENTURES *(CONTINUED)*

Indirectly held	Note	Principal activities	Place of establishment	Particulars of issued and paid up capital/ registered capital	Measurement method	Proportion of ordinary shares and voting powers at 31 December: % held by the Group in 2013	Proportion of ordinary shares and voting powers at 31 December: % held by the Group in 2012
Tianjin Port Shihua Crude Oil Terminal Company Limited (天津港實華原油碼頭有限公司)	(a)	Operation of crude oil jetty and its ancillary facilities	The PRC	Registered capital RMB482,660,000	Equity	50%	50%
Rizhao Shihua Crude Oil Terminal Company Limited ("RZSH") (日照實華原油碼頭有限公司)	(a)	Operation of crude oil jetty and its ancillary facilities	The PRC	Registered capital RMB800,000,000	Equity	50%	50%
Tangshan Caofeidian Shihua Crude Oil Terminal Company and its Limited ("TSCFD") (唐山曹妃甸實華原油碼頭有限公司)	(a)	Operation of crude oil jetty and its ancillary facilities	The PRC	Registered capital RMB289,610,000	Equity	90%	90%
China Energy Shipping Investment Company Limited (中國能源運輸投資有限公司)	(b)	Vessel charter services	Hong Kong	5,000,000 ordinary shares of USD1 each	Equity	49%	49%
Fujairah Oil Terminal FZC ("FOT")	(c)	Constructing of an oil storage facility	Fujairah	100,000 shares of USD1 each	Equity	50%	–
Vesta Terminals B.V. ("Vesta")	(d)	Transit, transhipment and storage of petrochemical products, oil shale derived products, and other cargo and provision of associated services	Netherlands	18,002 shares have been issued and fully paid	Equity	50%	–

13 INTERESTS IN JOINT VENTURES *(CONTINUED)*

Notes:

(a) The acquisition of the five joint ventures is completed in October 2012. The Directors believe the acquisition of the five joint ventures is consistent with the development strategy of the Group, and will bring long-term strategic benefits to the Group, including: Creation of one of Asia's largest oil terminal businesses and attractive growth profile driven from China's long-term projected energy consumption growth, increasing scale and strengthens competitive advantage of Group's core business, increasing profitability and stability of earnings and creation of a platform for future development of the Group.

The directors have also determined that they do not control TSCFD, even though KTS owns 90% of the issued capital of this entity. It is not a controlled entity of KTS, because decisions for financial and operating activities can only be passed with a unanimous consent of all members in the Board of Directors. Therefore, KTS is not exposed, and has no right, to variable returns from the entity and is not able to use its power over the entity to affect those returns.

(b) The Directors are of the opinion that the formation of the joint ventures for participating in the LNG transportation under APLNG is beneficial for the Group to further expand its logistics business, and enhance the Group's profitability through sharing profit from the transportation link in the LNG business chain.

(c) In January 2012, the Group entered into an acquisition agreement to acquire 50% of the equity interest of FOT from Concord Energy Oil Terminal (Hong Kong) Limited at a consideration of US$25,050,000 (equivalent to approximately HK$195,390,000). The acquisition was completed in January 2013. The directors of the Company has completed fair value assessment of identifiable assets of the investment and goodwill totalling HK$55,844,000 was recognised in the interests in joint ventures.

The Directors consider that the acquisition of FOT is in line with the Group's business development strategy of providing oil storage facilities and related logistics services and expanding into new markets. In addition, upon commencement of operation of FOT, it will increase the overall profitability and stability of earnings of the Group.

(d) In October 2012, the Group entered into an acquisition agreement to acquire 50% of the equity interest of Vesta under Mercuria Energy Group at consideration of Euro128,600,000 (equivalent to approximately HK$1,377,682,000). The acquisition was completed in April 2013. The directors of the Company has completed fair value assessment of identifiable assets of the investment and goodwill totalling HK$493,400,000 was recognised in the interests in joint ventures.

The Directors consider that the acquisition of Vesta provides the Group with a good opportunity to develop its experience in operating and managing overseas storage facilities and achieve rapid expansion in the European bulk liquid storage terminals business.

13 INTERESTS IN JOINT VENTURES *(CONTINUED)*

Set out below are the summarised financial information for Vesta, QDSH, RZSH and TSCFD which are accounted for using the equity method.

Summarised balance sheet

	Vesta		QDSH		RZSH		TSCFD	
	2013 HK$'000	2012 HK$'000 (Note a)	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Current								
Cash and cash equivalents	97,909	–	11,856	196,020	392,080	134,379	163,858	201,963
Other current assets (excluding cash)	16,582	–	16,463	286,142	10,547	30,857	208,177	136,658
Total current assets	114,491	–	28,319	482,162	402,627	165,236	372,035	338,621
Financial liabilities (excluding trade payables)	(149,414)	–	(18,166)	(17,054)	(242,406)	(3,400)	-	–
Other current liabilities (including trade payables)	(1,677)	–	(161,294)	(47,758)	(116,890)	(205,766)	(15,850)	(15,312)
Total current liabilities	(151,091)	–	(179,460)	(64,812)	(359,296)	(209,166)	(15,850)	(15,312)
Non-current								
Assets	3,675,945	–	3,005,446	1,086,132	1,760,942	1,339,578	256,412	241,046
Financial liabilities	(1,127,109)	–	-	–	(157,660)	(223,720)	(65,300)	(183,492)
Other liabilities	(505,888)	–	-	–	-	–	-	–
Total non-current net assets	2,042,948	–	3,005,446	1,086,132	1,603,282	1,115,858	191,112	57,554
Net assets	2,006,348	–	2,854,305	1,503,482	1,646,613	1,071,928	547,297	380,863

13 INTERESTS IN JOINT VENTURES *(CONTINUED)*

Summarised statement of comprehensive income

	Vesta		QDSH		RZSH		TSCFD	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000* *(Note a)*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	**515,596**	–	**786,958**	120,686	**312,470**	(58,356)	**239,301**	36,252
Depreciation and amortisation	**(114,456)**	–	**(116,960)**	(8,284)	**(30,482)**	(2,216)	**(38,644)**	(9,428)
Interest income	**191**	–	**3,867**	5,520	**1,114**	18	**468**	28
Interest expense	**(37,495)**	–	**–**	–	**(13,189)**	(2,381)	**(8,756)**	(661)
Other expense	**(284,762)**	–	**(275,336)**	(34,529)	**(82,777)**	(33,593)	**(43,377)**	(16,766)
Profit or loss from continuing operations	**79,074**	–	**398,529**	83,393	**187,136**	20,183	**148,992**	9,425
Income tax expense	**(7,933)**	–	**(105,174)**	(21,585)	**(198)**	(165)	**–**	–
Post-tax profit	**71,141**	–	**293,355**	61,808	**186,938**	20,018	**148,992**	9,425
Other comprehensive income	**10,441**	–	**(10,160)**	–	**(2,143)**	–	**624**	–
Total comprehensive income	**81,582**	–	**283,195**	61,808	**184,795**	20,018	**149,616**	9,425

13 INTERESTS IN JOINT VENTURES *(CONTINUED)*

The information above reflects the amounts presented in the financial statements of the joint ventures, adjusted for differences in accounting policies between the Group and the joint ventures (and not the Group attributable share).

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interests in the material joint ventures for the year ended 31 December.

	Vesta		QDSH		RZSH		TSCFD	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
	HK$'000	HK$'000 (Note a)	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Opening net assets	**–**	–	**1,503,482**	–	**1,071,928**	–	**380,863**	–
Profit for the year	**71,141**	–	**293,355**	61,808	**186,938**	20,018	**148,992**	9,425
Other comprehensive income	**10,441**	–	**(10,160)**	–	**(2,143)**	–	**624**	–
Capital injection	**1,769,473**	–	**973,286**	1,441,250	**340,997**	1,052,696	**–**	373,570
Exchange realignment	**155,293**	–	**94,342**	424	**48,892**	(786)	**16,818**	(2,132)
Closing net assets	**2,006,348**	–	**2,854,305**	1,503,482	**1,646,612**	1,071,928	**547,297**	380,863
Interests in Joint Ventures (%)	**50%**	–	**50%**	50%	**50%**	50%	**90%**	90%
Group's share of net assets in joint ventures	**1,003,174**	–	**1,427,153**	751,741	**823,306**	535,963	**492,567**	342,777
Goodwill	**493,400**	–	**7,609**	–	**4,237**	–	**–**	–
Carrying value	**1,496,574**	–	**1,434,762**	751,741	**827,543**	535,963	**492,567**	342,777

Note a: As the acquisition of Vesta was completed in April 2013, thus only year 2013 financial information has been disclosed.

The Group has interests in a number of individually immaterial joint ventures. The following table analyses, in aggregate, the share of profit and other comprehensive income and carrying amount of these joint ventures.

	2013	2012
	HK$'000	*HK$'000*
Share of profit	**47,156**	10,363
Share of other comprehensive income	**312**	–
Share of total comprehensive income	**47,467**	10,363
Carrying amount of interests in these joint ventures	**854,991**	674,950

13 INTERESTS IN JOINT VENTURES *(CONTINUED)*

Commitments and contingent liabilities in respect of joint ventures

The Group has the following commitments relating to its joint ventures as at 31 December 2013 and 2012:

	2013 HK$'000	2012 HK$'000
Share of joint ventures' capital commitments		
– Contracted for	4,444,111	38,528

There were no contingent liabilities relating to the Group's interests in the joint ventures at 31 December 2013 and 2012.

14 INCOME TAX EXPENSES

	Note	2013 HK$'000	2012 HK$'000
Current income tax:			
– PRC enterprise income tax	(b)	53,698	63,397
– Withholding tax	(c)	21,657	–
		75,355	63,397
Deferred income tax (Note 29)		95,282	2,300
		170,637	65,697

14 INCOME TAX EXPENSES *(CONTINUED)*

(a) 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 2013 and 2012. PRC and overseas subsidiaries are calculated as the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates. Hong Kong profits tax was provided at a rate of 16.5% (2012: 16.5%) on the estimated assessable profit for the year.

(b) During the year, PRC enterprises income tax (25%) was provided on the profits of the Group's subsidiaries, associated companies and joint ventures in the PRC in accordance with the Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises.

(c) Dividend distribution out of profit of foreign-invested enterprises earned after 1 January 2008 in the PRC is subject to withholding income tax at a tax rate of 5% or 10%. During the year, withholding income tax was provided for undistributed profits of the Group's subsidiaries, joint ventures and associated companies in the PRC at tax rates of 5% or 10% (2012: 5% or 10%).

(d) The tax on the Group's profit before income tax less share of results of joint ventures and associated companies differs from the theoretical amount that would arise using the principal applicable tax rate as follows:

	2013 ***HK$'000***	2012 *HK$'000*
Profit before income tax	**662,044**	357,435
Less: Share of results of associated companies	**(108,780)**	(92,007)
Share of results of joint ventures	**(456,966)**	(59,759)
	96,298	205,669
Tax calculated at domestic tax rates applicable to profits in the respective countries	**35,346**	56,113
Income not subject to tax	**(53,903)**	(1,615)
Expenses not deductible for tax purposes	**84,196**	2,489
Withholding tax	**95,282**	–
(Over)/under provision in prior years	**(123)**	416
Utilisation of previously unrecognised tax loss	**(4)**	–
Tax losses for which no deferred income tax asset was recognised	**9,843**	8,294
Income tax expenses	**170,637**	65,697

15 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$491,397,000 (2012: HK$291,738,000) and the weighted average of 2,340,372,000 ordinary shares (2012: 1,883,421,000 shares) in issue throughout the year, calculated as follows:

	2013	2012
	'000	*'000*
Weighted average number of ordinary shares at 31 December	**2,340,372**	1,883,421
Basic earnings per share *(HK cents per share)*	**21.00**	15.49

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

16 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The profit attributable to equity shareholders of the Company is dealt with in the financial statements of the Company to the extent a loss of HK$4,223,000 (2012: loss of HK$8,818,000).

17 PREPAID LAND LEASE PAYMENT

The Group's interests in prepaid land lease payment represent prepaid operating lease payments and their net book value are analysed as follows:

	2013	2012
	HK$'000	*HK$'000*
Outside Hong Kong, held on:		
Leases of 10 to 50 years	**724,018**	74,906

18 PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings held for own use	Leasehold improvements	Jetty structures	Jetty facilities	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles and vessels	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:									
At 1 January 2012	70,420	477	1,695,609	1,078,695	247,352	151,841	128,185	20,823	3,393,402
Exchange adjustments	(11)	–	(303)	(180)	(49)	(16)	(20)	719	140
Additions	–	–	–	–	–	94	1,520	219,723	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
Disposals	–	–	–	–	(3,809)	(225)	–	–	(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
Exchange adjustments	42	–	(474)	(8,187)	334	(239)	–	–	(8,524)
Additions	–	–	6,953	52,052	1,871	14,571	–	209,274	284,721
Transfer from construction in progress	–	–	46,102	252,882	–	14,320	1,471	(314,775)	–
Disposals	(4,360)	–	(4,373)	(585)	(36,148)	(3,989)	(2)	–	(49,457)
At 31 December 2013	91,834	477	1,745,842	1,379,728	211,698	179,961	132,091	121,697	3,863,328

18 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

The Group

	Buildings held for own use HK$'000	Leasehold improvements HK$'000	Jetty structures HK$'000	Jetty facilities HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles and vessels HK$'000	Construction in progress HK$'000	Total HK$'000
Accumulated depreciation, amortisation and impairment losses:									
At 1 January 2012	29,271	477	673,059	614,322	150,755	82,414	60,042	–	1,610,340
Exchange adjustments	2	–	118	72	21	26	31	–	270
Depreciation for the year	2,867	–	68,808	52,475	16,627	11,867	12,066	–	164,710
Transfer from investment properties to owner-occupied properties	9,614	–	–	–	–	–	–	–	9,614
Written back on disposals	–	–	–	–	(3,406)	(182)	–	–	(3,588)
At 31 December 2012	41,754	477	741,985	666,869	163,997	94,125	72,139	–	1,781,346
Exchange adjustments	(20)	–	(891)	(285)	(103)	(74)	(73)	–	(1,446)
Depreciation for the year	2,486	–	94,770	47,274	10,573	8,817	7,815	–	171,735
Written back on disposals	(3,299)	–	(3,293)	(585)	(37,194)	(2,146)	(1)	–	(46,518)
At 31 December 2013	40,921	477	832,571	713,273	137,273	100,722	79,880	–	1,905,117
Net book value:									
At 31 December 2013	50,913	–	913,271	666,455	74,425	79,239	52,211	121,697	1,958,211
At 31 December 2012	54,398	–	955,649	416,697	81,644	61,173	58,483	227,198	1,855,242

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.

18 PROPERTY, PLANT AND EQUIPMENT *(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. The jetty facilities which leased by the Group to third parties under operating leases with the following carrying amounts:

	2013	2012
	HK$'000	*HK$'000*
Cost	**1,379,728**	1,083,566
Accumulated depreciation	**(713,273)**	(666,869)
Net book amount	**666,455**	416,697

For the year ended 31 December 2013 the total jetty service fee charged to these customers under the above arrangements amounting to HK$22,614,000 (2012: HK$23,375,000).

19 INVESTMENT PROPERTIES

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Opening balance at 1 January	**15,568**	32,356
Depreciation charge for the year	**(658)**	(659)
Transfer from investment properties to owner-occupied properties	**–**	(16,129)
Closing balance at 31 December	**14,910**	15,568

As at 31 December 2013, the Group had no unprovided contractual obligations for future repairs and maintenance (2012: Nil).

19 INVESTMENT PROPERTIES *(CONTINUED)*

All investment properties of the Group are carried at their costs less accumulated depreciation and any accumulated impairment losses as at 31 December 2013. For disclosure purposes, the fair values of investment properties have been estimated at the market value by reference to recent market transactions in comparable properties. The fair value of the investment properties as at 31 December 2013 is estimated to be HK$63,120,000 (2012: HK$47,100,000). An independent valuation of the Group's investment properties was performed by the valuer, Asset Appraisal Limited, to determine the fair value of the investment properties as at 31 December 2013 and 2012. The following table analyses the investment properties measured at fair value, by valuation method.

Fair value hierarchy

	Fair value measurements As at 31 December 2013 using		
Description	**Quoted prices in active markets for identical assets (Level 1)** *HK$'000*	**Significant other observable inputs (Level 2)** *HK$'000*	**Significant unobservable inputs (Level 3)** *HK$'000*
Fair value measurements			
Investment properties:			
– Residential (HK and Macau)	**–**	**63,120**	**–**
	–	**63,120**	**–**

	Fair value measurements As at 31 December 2012 using		
Description	Quoted prices in active markets for identical assets (Level 1) *HK$'000*	Significant other observable inputs (Level 2) *HK$'000*	Significant unobservable inputs (Level 3) *HK$'000*
Fair value measurements			
Investment properties:			
– Residential (HK and Macau)	–	47,100	–
	–	47,100	–

19 INVESTMENT PROPERTIES *(CONTINUED)*

For office units, the valuation was determined using the sale comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot.

There were no changes in valuation techniques during the year.

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.

(a) Amounts recognised in Income Statement for investment properties

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Rental income	**787**	586
Direct operating expenses from property that generated rental income	**(390)**	(208)
	397	378

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

	2013	2012
	HK$'000	*HK$'000*
Within 1 year	**787**	534

20 TRADE AND OTHER RECEIVABLES

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Trade receivables		
– Amounts due from intermediate holding company and fellow subsidiaries	**609,317**	597,368
– Third parties	**1,912**	6,005
	611,229	603,373
Other receivables		
– Amounts due from intermediate holding company and fellow subsidiaries	**15,748**	298
– Dividend receivables from a joint venture	**86,127**	–
– Third parties	**17,263**	25,258
	119,138	25,556
	730,367	628,929

All of the trade and other receivables are expected to be recovered within one year.

Trade receivables including amounts due from intermediate holding company, fellow subsidiaries and third parties, are due within 30 to 90 days from the date of billing.

The amounts due from intermediate holding company and fellow subsidiaries and dividend receivables are unsecured and interest free and there are no history of default.

At 31 December 2013 and 2012, the ageing analysis of the trade receivables based on invoice date was as follows:

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Within 1 month	**108,356**	88,433
1 to 2 months	**112,256**	53,303
2 to 3 months	**115,247**	43,095
Over 3 months	**275,370**	418,542
	611,229	603,373

20 TRADE AND OTHER RECEIVABLES *(CONTINUED)*

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2013	2012
	HK$'000	*HK$'000*
HK$	**689**	20,215
RMB	**684,315**	574,050
USD	**45,363**	34,664
	730,367	628,929

Ageing analysis of trade receivables are set out below:

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Current	**108,356**	88,433
Less than 1 month past due	**112,256**	53,303
1 to 3 months past due	**37,168**	96,244
More than 3 months but less than 12 months past due	**353,449**	365,393
Amounts past due	**502,873**	514,940
	611,229	603,373

As of 31 December 2013, trade receivables of HK$502,873,000 (2012: HK$514,940,000) were past due but not impaired. These 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 past experience and the intermediate holding company's sound financial position, the overdue amounts can be recovered.

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

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

21 INVENTORIES

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Fuel oil for vessels	45,323	44,538
Spare parts	1,785	3,817
Total	47,108	48,355

The cost of inventories recognised as expense and included in 'cost of sales' amounted to HK$ 22,601,139,000 (2012: HK$21,190,359,000).

22 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2013	2012	2013	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at bank and in hand	423,156	166,816	23	19
Short-term bank deposits	1,199,298	2,238,166	–	–
Cash and cash equivalents	1,622,454	2,404,982	23	19

At 31 December 2012 and 2013, there are no restricted deposits held at bank as reserve for serving of debt for revolving loans provided by bank.

Short-term bank deposits earn interest of floating rates from 0.17% to 3.35% per annum.

The carrying amounts of time deposits, bank balances and cash are denominated in the following currencies:

	The Group		The Company	
	2013	2012	2013	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
USD	182,783	109,790	–	–
Euro	356	–	–	–
RMB	393,307	2,250,014	–	–
HK$	1,045,471	45,178	23	19
SDG	478	–	–	–
IDR	59	–	–	–
Cash and cash equivalents	1,622,454	2,404,982	23	19

23 SHARE CAPITAL

Shares

	2013		2012	
	Number of Shares *000*	**Amounts** *HK$'000*	Number of Shares *000*	Amounts *HK$'000*
Authorised:				
Ordinary shares of HK$0.1 each	**3,000,000**	**300,000**	3,000,000	300,000
Issued and fully paid:				
At 1 January	**2,073,660**	**207,366**	1,036,830	103,683
Shares issued under rights issue	**–**	**–**	1,036,830	103,683
Share issued	**412,500**	**41,250**	–	–
At 31 December	**2,486,160**	**248,616**	2,073,660	207,366

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 HK$3.37 each. Total consideration amounted to HK$3,494,117,000 of which HK$103,683,000 was credited to share capital and the remaining proceeds of HK$3,390,434,000, less the share issuance costs of HK$31,174,000, were credited to the share premium account.

On 9 May 2013, 412,500,000 ordinary shares were issued at HK$6.50 each. Total consideration amounted to HK$2,681,250,000 of which HK$41,250,000 was credited to share capital and the remaining proceeds, less the share issuance costs HK$32,433,000, amounted to HK$2,607,567,000, were credited to the share premium account.

24 RESERVES

Company

	Share premium HK$'000	Contributed surplus HK$'000	(Accumulated losses)/ retained earnings HK$'000	Total HK$'000
Balance at 1 January 2012	333,857	242,397	(4,810)	571,444
Changes in equity for 2012:				
Shares issued under rights issue	3,359,260	–	–	3,359,260
Final dividends approved in respect of the previous year	–	–	(41,473)	(41,473)
Total comprehensive income for the year	–	–	8,818	8,818
Interim dividends declared in respect of the current year	–	–	(31,105)	(31,105)
Balance at 31 December 2012	3,693,117	242,397	(68,570)	3,866,944

	Share premium HK$'000	**Contributed surplus HK$'000**	**(Accumulated losses)/ retained earnings HK$'000**	**Total HK$'000**
Balance at 1 January 2013	**3,693,117**	**242,397**	**(68,570)**	**3,866,944**
Changes in equity for 2013:				
Shares issued under rights issue	**2,607,567**	**–**	**–**	**2,607,567**
Final dividends approved in respect of the previous year	**–**	**–**	**(49,724)**	**(49,724)**
Total comprehensive income for the year	**–**	**–**	**(4,223)**	**(4,223)**
Interim dividends declared in respect of the current year	**–**	**–**	**(37,292)**	**(37,292)**
Balance at 31 December 2013	**6,300,684**	**242,397**	**(159,809)**	**6,383,272**

24 RESERVES *(CONTINUED)*

Notes

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

(b) 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.

(c) The general reserves of the Group represent appropriations made by the Company's PRC subsidiary, associated companies and joint ventures, from retained earnings 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 general reserves, 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 HK$141,279,000.

(d) 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 2.6.

(e) 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) At 31 December 2013, the aggregate amount of reserves available for distribution to equity shareholders of the Company, including the contributed surplus and accumulated losses, was HK$82,589,000 (2012: HK$173,827,000). After the end of the reporting period the directors proposed a final dividend of HK$2.0 cents (2012: HK$2.0 cents) per ordinary share, amounting to HK$49,724,000 (2012: HK$41,473,000). The dividend has not been recognised as a liability at the end of the reporting period.

25 SPECIFIC RESERVE

According to relevant PRC regulations, the Group is required to transfer an amount to specific reserve for the safety production fund based on the turnover of certain refining and chemical products or based on the production volume of crude oil and natural gas. The movements of specific reserve are as follow:

	The Group *HK$'000*
Balance at 1 January 2013	–
Provision for the year	8,453
Utilisation for the year	(8,340)
Balance at 31 December 2013	113

26 DIVIDENDS

	2013 *HK$'000*	2012 *HK$'000*
Interim dividend declared and paid of HK$1.5 cents (2012: HK$1.5 cents) per ordinary share	37,292	31,105
Final dividend proposed after the end of the reporting period of HK$2.0 cents (2012: HK$2.0 cents) per ordinary share	49,724	41,473
	87,016	72,578

A final dividend in respect of the year ended 31 December 2013 of HK$2.0 cents per share, amounting to a total dividend of HK$49,724,000. These financial statements do not reflect this dividend payable.

The aggregate amounts of the dividends paid and proposed during 2012 and 2013 have been disclosed in the consolidated income statements in accordance with the Hong Kong Companies Ordinance.

27 CASH GENERATED FROM OPERATIONS

	Note	2013 HK$'000	2012 HK$'000
Profit before income tax		**662,044**	357,435
Adjustments for:			
Depreciation of property, plant and equipment	18	**171,735**	164,710
Depreciation of investment properties	19	**658**	659
Amortisation of interests in leasehold land		**10,914**	4,271
Finance costs	10	**3,807**	1,555
Bank interest income	7	**(36,826)**	(54,262)
Net loss on disposal of property, plant and equipment	7	**2,517**	423
Foreign exchange gain		**–**	(5,156)
Share of results of associated companies	12	**(108,780)**	(92,007)
Share of results of joint ventures	13	**(456,966)**	(59,759)
Changes in working capital:			
Decrease/(increase) in inventories		**1,247**	(6,767)
Decrease in trade and other receivables		**440**	438,761
Increase/(decrease) in trade and other payables		**225,115**	(384,839)
Cash generated from operations		**475,905**	365,024

In the statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

Group	2013 HK$'000	2012 HK$'000
Net book amount (Note 18)	**2,939**	446
Loss on disposal of property, plant and equipment	**(2,517)**	(423)
Proceeds from disposal of property, plant and equipment	**422**	23

28 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables				
– Amount due to a fellow subsidiary	**66**	66	**–**	–
– Third parties	**43,840**	34,765	**–**	–
	43,906	34,831	**–**	–
Amounts due to immediate, intermediate holding companies and fellow subsidiaries	**272,155**	182,806	**–**	–
Creditors and accrued charges	**246,787**	147,649	**3,810**	31,908
Land lease payable	**531,792**	–	**–**	–
Consideration payable to acquire equity interests in joint ventures	**128,770**	979,380	**–**	–
	1,223,410	1,344,666	**3,810**	31,908

As at 31 December 2013 and 2012, 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 and intermediate holding companies and fellow subsidiaries arising from non-trade related transactions are repayable with a credit term of 30 days and repayable on demand respectively.

Land lease payable represents the consideration payable for the land on development of oil storage business in Indonesia.

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	
	2013	2012
	HK$'000	*HK$'000*
Due within 1 month or on demand	**43,840**	34,765
Due after 1 month but within 3 months	**66**	66
	43,906	34,831

28 TRADE AND OTHER PAYABLES *(CONTINUED)*

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	2013	2012
	HK$'000	*HK$'000*
HK$	**193,563**	166,795
RMB	**281,071**	1,091,040
USD	**220,813**	86,831
SDG	**527,952**	–
IDR	**11**	–
	1,223,410	1,344,666

29 DEFERRED INCOME TAX

The gross movement on the deferred income tax account is as follows:

Deferred tax liabilities	**Undistributed profits of subsidiaries in the PRC** *HK$'000*	**Undistributed profit of a joint venture in the PRC** *HK$'000*	**Undistributed profit of an associated company in the PRC** *HK$'000*	**Total** *HK'000*
At 1 January 2012	–	–	–	–
Charged to income statement (Note 14)	–	–	2,300	2,300
At 31 December 2012	–	–	2,300	2,300
At 1 January 2013	**–**	**–**	**2,300**	**2,300**
Charged to income statement (Note 14)	**89,825**	**2,731**	**2,726**	**95,282**
At 31 December 2013	**89,825**	**2,731**	**5,026**	**97,582**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets in respect of tax losses attributable to subsidiaries of HK$101,657,000 (2012: HK$42,024,000), 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.

30 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2013 not provided for in the financial statements were as follows:

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Contracted for but not provided for	**1,192,517**	1,913,270
Authorised but not contracted for	**501,387**	696,422
	1,693,904	2,609,692

(b) At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Within 1 year	**154,636**	197,933
After 1 year but within 5 years	**164,241**	263,130
After 5 years	**7,342**	7,792
	326,219	468,855

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 HK$57,985,000 and were expected to be received in one year.

31 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with intermediate holding company and fellow subsidiaries

The Group is part of a larger Group of 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:

	2013	2012
	HK$'000	*HK$'000*
Crude oil sold to an intermediate holding company and a fellow subsidiary (note (i))	**22,435,933**	20,936,047
Crude oil and fuel oil purchased from an intermediate holding company and a fellow subsidiary and related charges (note (i))	**761,695**	1,104,499
Insurance premium charged by a fellow subsidiary (note (ii))	**5,099**	4,894
Jetty service fees charged to a fellow subsidiary (note (iii))	**556,711**	596,961
Vessel charter service fee charged to a fellow subsidiary (note (iv))	**339,973**	418,743
Interest income received from fellow subsidiaries	**72**	202
Interest expense charged by a fellow subsidiary (note (v))	**3,522**	1,754
Rental expenses charged by fellow subsidiaries (note (vi))	**659**	2,666
Rental income received from a director (note (vii))	**57**	57
Cash and cash equivalents placed in fellow subsidiaries (note (viii))	**305,756**	47,588
Construction costs charged by fellow subsidiaries (note (ix))	**16,876**	4,603

The balances with related companies are disclosed in Notes 20 and 28 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.

31 MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Transactions with intermediate holding company and fellow subsidiaries *(Continued)*

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 EURIBOR and LIBOR plus a spread ranging from 0.95% to 1.25% (2012: 0.95% to 1.25%) 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. The largest amount of construction costs paid to individual fellow subsidiary during the year was HK$6,279,000.

(b) Key management compensation

Key management solely represents directors of the Company. The compensation paid or payable to key management is shown as below:

	2013 **HK$'000**	2012 HK$'000
Directors' fees	**780**	780
Salaries, allowances and benefits-in-kind	**1,407**	1,156
Bonus	**951**	472
Total	**3,138**	2,408

31 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 31(a), 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

	For the year ended 31 December 2013 HK$'000	31 December 2012 HK$'000
Crude oil purchased by the Group	**21,668,677**	19,597,815
Jetty service fees charged by the Group	**22,614**	23,375

	2013 HK$'000	2012 HK$'000
Prepayment to/amounts due from other state-controlled entities	**1,682**	4,702
Amounts due to other state-controlled entities	**1,732**	8,889

31 MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

(ii) Transactions with state-controlled banks

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

	For the year ended	
	31 December	31 December
	2013	2012
	HK$'000	*HK$'000*
Interest income	**36,765**	54,060

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

	2013	2012
	HK$'000	*HK$'000*
Cash and cash equivalents	**1,319,872**	2,356,857

(d) Transactions with associated companies and joint ventures

During the year, the Group has interest income of approximately HK$2,702,000 (2012: nil) arising from the amounts due from an associated company and joint ventures.

(e) 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 defined in Chapter 14A of the Listing Rules, however they are exempted from the disclosure requirements in Chapter 14A of the Listing Rules.

32 SUBSEQUENT EVENT

On 30 December 2013, China Petroleum & Chemical Corporation (Sinopec Corp), the controlling shareholder of the Company, has notified the Company that Sinopec Corp is considering a potential asset injection of Yulin, Shaanxi Province-Jinan, Shandong Province Natural Gas Transmission Pipelines of about 940 kilometers long, passing through four provinces. As at the date of this report, the potential injection is still under negotiation, which may or may not fully proceed. Details of the subscription are set out in the announcement of the Company dated 30 December 2013.

FIVE YEAR SUMMARY

	2009 *HK$'000*	2010 *HK$'000*	2011 *HK$'000*	2012 *HK$'000*	**2013** ***HK$'000***
Results					
Turnover	21,281,232	16,592,880	19,684,732	22,041,792	**23,355,579**
Profit from operations	278,389	267,946	284,423	207,224	**97,403**
Finance costs	(29,975)	(15,898)	(3,505)	(1,555)	**(3,807)**
Finance income	–	–	–	–	**2,702**
Share of results of associated companies	–	–	–	92,007	**108,780**
Share of results of joint ventures	–	–	–	59,759	**456,966**
Profit before income tax	248,414	252,048	280,918	357,435	**662,044**
Income tax	(51,587)	(56,361)	(67,406)	(65,697)	**(170,637)**
Profit for the year	196,827	195,687	213,512	291,738	**491,407**
Assets and liabilities					
Fixed assets	1,950,801	1,914,761	1,894,627	1,945,716	**2,697,139**
Interests in associated companies	–	–	419,030	526,765	**617,864**
Interests in joint ventures	–	–	–	2,305,431	**5,475,680**
Net current assets	359,734	628,835	511,925	1,732,332	**1,163,120**
Deferred tax liabilities	–	–	–	(2,300)	**(97,582)**
Net assets	2,310,535	2,543,596	2,825,582	6,507,944	**9,856,221**
Capital and reserves					
Share capital	103,683	103,683	103,683	207,366	**248,616**
Reserves	2,206,852	2,439,913	2,721,899	6,300,578	**9,597,975**
Non-controlling interest	–	–	–	–	**9,630**
TOTAL EQUITY	2,310,535	2,543,596	2,825,582	6,507,944	**9,856,221**
Earnings per share					
Basic	HK$16.07 cents	HK$15.98 cents	HK$17.44 cents	HK$15.49 cents	**HK$21.00 cents**

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 (Resigned on 31 March 2014)
Ms. Tam Wai Chu, Maria
Mr. Fong Chung, Mark
Dr. Wong Yau Kar, David
(Appointed on 31 March 2014)

AUDIT COMMITTEE MEMBERS

Mr. Fong Chung, Mark
Mr. Wong Po Yan (Resigned on 31 March 2014)
Ms. Tam Wai Chu, Maria
Dr. Wong Yau Kar, David
(Appointed on 31 March 2014)

REMUNERATION COMMITTEE MEMBERS

Ms. Tam Wai Chu, Maria
Mr. Wong Po Yan (Resigned on 31 March 2014)
Mr. Fong Chung, Mark
Mr. Dai Zhao Ming
Mr. Ye Zhi Jun
Dr. Wong Yau Kar, David
(Appointed on 31 March 2014)

NOMINATION COMMITTEE MEMBERS

Mr. Wong Po Yan (Resigned on 31 March 2014)
Ms. Tam Wai Chu, Maria
Mr. Fong Chung, Mark
Mr. Dai Zhao Ming
Mr. Ye Zhi Jun
Dr. Wong Yau Kar, David
(Appointed on 31 March 2014)

COMPANY SECRETARIES

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

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LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Stock Code: 0934