SINOPEC KANTONS HOLDINGS LIMITED

(Incorporated in Bermuda with Limited Liability)

Stock Code: 934

2016

Annual Report

To become a world-class international petrochemical storage and logistics company.

Contents

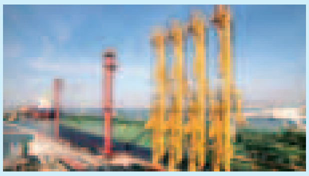
Company at a Glance

CHINA'S JETTY AND STORAGE

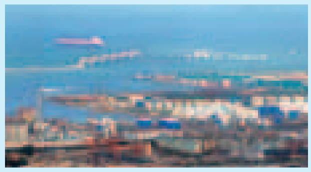
Jetty Coverage
7 ports

Berth Coverage
35 berths

Annual Jetty Design Capacity
272 mm tons



Huizhou Huade Petrochemical
2 berths
Largest tanker: 300,000 tons
Annual design throughput capacity: 30mm tons



Tianjin Shihua
1 berth
Largest tanker: 300,000 tons
Annual design throughput capacity: 20mm tons

Zhanjiang Port
14 berths
Largest tanker: 300,000 tons
Annual design throughput capacity: 45mm tons

Rizhao Shihua
2 berths
Largest tanker: 300,000 tons
Annual design throughput capacity: 38.5mm tons

Tangshan Caofeidian Shihua
1 berth
Largest tanker: 300,000 tons
Annual design throughput capacity: 20mm tons

Ningbo Shihua
3 berths
Largest tanker: 450,000 tons
Annual design throughput capacity: 35mm tons

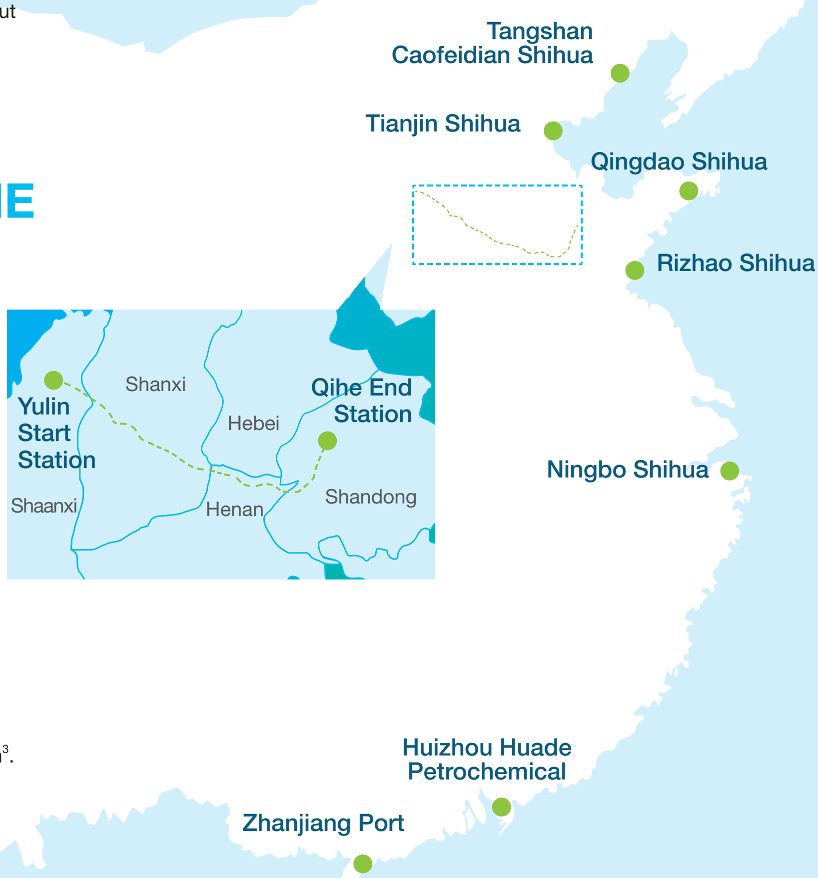
Qingdao Shihua
12 berths
Largest tanker: 300,000 tons
Annual design throughput capacity: 84mm tons

NATURAL GAS PIPELINE

Natural Gas Pipeline Coverage
944.93 km

Annual Design Transmission Capacity[1]
5 billion m³

[1] Current annual pipeline transmission capacity is 4 billion m³. It is planned to expand the capacity to 5 billion m³.

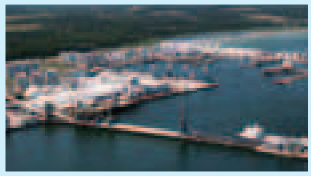


OVERSEAS' STORAGE

Jetty Coverage[2]
4 ports

Total Storage Design Capacity[2]
2.78 mm m^3

Fujairah Oil Terminal, United Arab Emirates, Middle East
34 storage tanks
Storage capacity: 1.155mm m^3



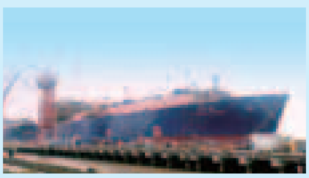
Vesta Terminal Tallinn, Estonia, Europe
35 storage tanks
Storage capacity: 405,600 m^3

Vesta Terminal Antwerp, Belgium, Europe
65 storage tanks
Storage capacity: 827,000 m^3

Vesta Terminal Flushing, Holland, Europe
27 storage tanks
Storage capacity: 388,500 m^3

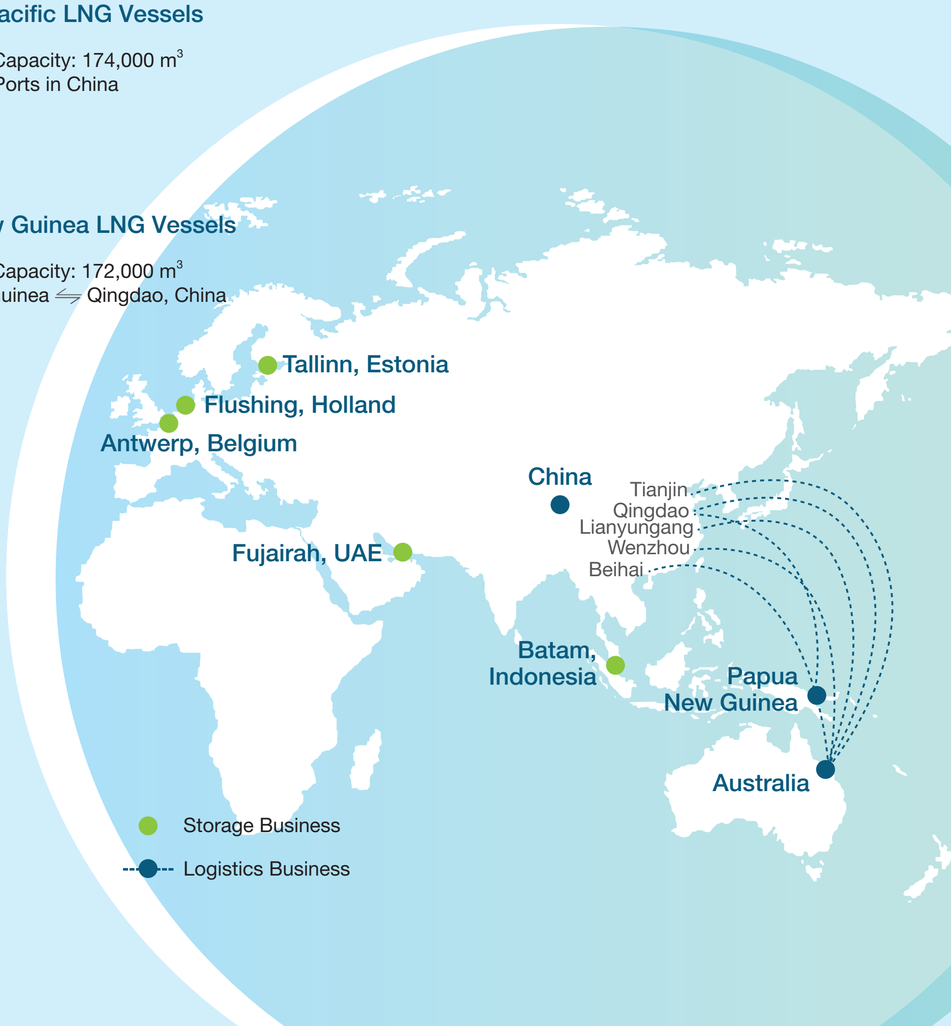
[2] Does not include Batam Project, which is still in planning phase.

LOGISTICS



Australia Pacific LNG Vessels
6 vessels[3]
Each Vessel Capacity: 174,000 m^3
Australia ⇋ Ports in China

Papua New Guinea LNG Vessels
2 vessels
Each Vessel Capacity: 172,000 m^3
Papua New Guinea ⇋ Qingdao, China



[3] 4 vessels are under construction.

Chairman's Statement

Mr. Chen Bo
Chairman

Dear Shareholders,

2016 was an extraordinary year for Sinopec Kantons Holdings Limited (the "**Company**"). Underpinned by relentless support from our shareholders together with dedication and hard work of entire staff, we moved ahead amid various challenges and stressful situation to ensure safe production and stable operating results of the Company. On behalf of the Board (the "**Board**") of Directors (the " **Directors**") of the Company, I would like to express my cordial gratitude to our shareholders for their care and support and our employees for their hard work.

The global economy in 2016 was clouded by growing uncertainties as a result of ever-changing international environment. It experienced a difficult recovery from a significant adjustment. Although the Chinese economy, while maintaining stability, has taken a turn for the better generally, the short-term oversupply in some regional natural gas markets weighed on the natural gas pipeline transmission business of the Company's subsidiary. Besides, fluctuation in the exchange rate of Renminbi ("**RMB**") posed challenges to the production and operations of the Company and its subsidiaries (collectively, the "**Group**"). In face of the difficult conditions, the Company adhered to established development strategies, implemented agile and flexible operating strategies, reinforced risk management for the safety and rectified safety risks and reined in various operating costs. As local teapot refineries in China were granted permission to use imported crude oil gradually, crude oil imports climbed further. The Company took advantage of this favourable development to vigorously explore new markets and customers. Moreover, it strived to increase the throughput volume of its crude oil terminals and investment return, which helped to stabilize and improve the Group's operating results. In 2016, the Group's revenue dropped by approximately 13.56% year-on-year to approximately HK$1,767 million on lower gas transmission volume to Shandong Province in China. However, thanks to stable business growth of its oil terminals and continued improvement in the profitability of Fujairah Oil Terminal FZC ("**FOT**"), the Group's consolidated net profit only decreased by approximately 2.14% year-on-year to approximately HK$1,005 million.

The business volume of Huizhou Daya Bay Huade Petrochemical Company Ltd. ("**Huade Petrochemical**"), a wholly-owned subsidiary of the Company, was adversely affected in 2016 due to the maintenance of refinery equipment at China Petroleum & Chemical Corporation ("**Sinopec Corp.**") Guangzhou Branch ("**Guangzhou Petrochemical**"), the largest customer of its downstream operations. Huade Petrochemical strengthened the control-oriented operation in production, enhanced the control and the management of processing technology, as well as organized the production reasonably. Meanwhile, it stepped up efforts to implement meticulous cost management and curb various expenses. As a result, the business volume and operating efficiency of its crude oil terminals steadily improved. In addition, Huade Petrochemical attached great importance to the safety of production and safety risk management. It overcame a variety of urgent, difficult, hazardous and arduous tasks for safety risk management, made relentless efforts to strengthen safety risk management for its crude oil pipeline operations, successfully identified and managed the safety risks involved within the time required, thereby ensuring the smooth operations of its crude oil pipelines. During the year, Huade Petrochemical unloaded approximately 12.34 million tonnes of crude oil from 97 oil tankers and transmitted approximately 12.23 million tonnes of crude oil, representing an increase of approximately 1.73% and 1.41% respectively from the year 2015, generating the segment results of approximately HK$243 million, representing an increase of approximately 4.52%.

Chairman's Statement

The Chinese government granted local teapot refineries higher quotas for using imported crude oil continuously in 2016. In order to capture the opportunity and to boost the throughput of its crude oil terminals, the Company's associates and joint ventures took a variety of measures to develop communication platforms, whereby actively reaching out to and exploring potential customers. Interacting with customers and meeting their needs are put in the top priority. Therefore, they stepped up marketing efforts and achieved satisfactory operating results. For the year, the aggregate throughput of Zhan Jiang Port Petrochemical Jetty Co., Ltd. ("**Zhan Jiang Port 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**") (collectively, the "**Six Domestic Terminal Companies**") amounted to approximately 197 million tonnes, representing an increase of approximately 12.64% from the year 2015. They generated an aggregate investment return of approximately HK$712 million, representing an increase of approximately 14.49% from the year 2015.

In response to the supply glut in liquefied natural gas ("**LNG**") market over a short period of time due to a large volume of LNG import in Shandong Province in 2016, Sinopec Yu Ji Pipeline Company Limited ("**Yu Ji Pipeline Company**"), a wholly-owned subsidiary of the Company, strived to take the initiative to explore the markets of other regions along the Yu Ji natural gas pipeline ("**Yu Ji Pipeline**") and in Hebei Province. It identified potential market demand and increased gas transmission to substitute markets so as to minimize the negative economic impacts brought about by a slowdown in gas transmission volume in Shandong Province. The safety of production for the operation of Yu Ji Pipeline was put to the test in 2016 because of extreme weather conditions. In face of the challenges, the entire staff of Yu Ji Pipeline Company stuck together and earnestly put the contingency plans in place according to strict requirements for the safety of production. They made sure that the safety plans were effectively implemented, all relevant parties were well informed and the contingency plans were effectively carried out. All these measures ensured the stable operation of Yu Ji Pipeline during the year. In addition, Yu Ji Pipeline Company actively planned in 2016 for the transmission capacity expansion of Yu Ji Pipeline in order to improve its profitability, which laid a solid foundation for its further capacity expansion. In 2016, the gas transmission volume of Yu Ji Pipeline Company was approximately 2.97 billion m^3, representing a decrease of approximately 0.08% from the year 2015. This segment generated revenue of approximately HK$1,040 million, representing a decrease of approximately 13.73% from the year 2015. The segment results were approximately HK$191 million, representing a decrease of approximately 43.55% from the year 2015.

2016 was the first full year of commercial operation for FOT. During the year, it actively explored new markets and enhanced its competitiveness in the market, driving the leasing rate of its storage facilities to 100% throughout the year. Besides, FOT vigorously promoted lean management and strived to reduce all kinds of operating expenses. As a result, it achieved satisfactory economic benefit and generated an aggregate investment return of approximately HK$30.58 million for the year. In 2016, two LNG vessel construction projects invested by the Group continued to make steady progress as scheduled. The second vessel under the Papua New Guinea LNG Project ("**PNGLNG**") has put into commercial operation since April 2016. Two vessels under PNGLNG completed 16 voyages during the year and generated investment return of approximately HK$4.90 million, representing an increase of approximately 50.17% from the year 2015. In October 2016, the first vessel under the Australia Pacific LNG Project ("**APLNG**") commenced operation. It completed two voyages during the year and generated investment return of approximately HK$4.74 million. Going forward, with more LNG vessels coming on stream, the investment return from LNG vessel business is expected to grow further and become a new growth driver for the Group. In 2016, the business of Vesta Terminals B.V. ("**Vesta**") under the Group in Europe generally remained a stable operation. Nevertheless, its business volume in Estonia dropped dramatically due to market factors. Despite its vigorous efforts to rein in costs and increase efficiency, Vesta's aggregate investment return dropped to approximately HK$27.27 million, representing a decrease of approximately 45.08% from the year 2015. In 2016, the development of a 2.6 million m^3 oil storage and terminal facility project in Indonesia (the "**Batam Project**") via PT. West Point Terminal ("**PT. West Point**"), a joint venture of the Company, was still pending. The Group is taking appropriate measures in arbitration and strived to do its best to protect the interest of the Company and its shareholders as a whole.

In view of sizeable swings in the international oil tanker futures market in 2016, the Group closely tracked the market developments and made reasonable judgments accordingly. It optimized the schedule of oil tankers and strived to increase the economic efficiency of chartered vessels. Six voyages were made during the year. The chartered vessel business generated revenue of approximately HK$140 million, while the segment results increased by approximately 38.56% to approximately HK$59.14 million from the year 2015. Given the wide fluctuations of international oil tanker market, the Group had made careful consideration and decided to suspend renewal of the charter contract of its sole chartered oil tanker for risk aversion after it expired on 20 December 2016.

Looking ahead to 2017, market opportunities are expected to outweigh challenges. We will continue to place the safety of production as our top priority and further enhance the establishment and operation of the health, safety and environmental protection ("**HSSE**") management system of the Company. Based on the foundation of safe and stable production in operation, the Group will step up efforts to expand oil storage business and logistics business by increasing its business volume and operating scale. By fully utilizing our strengths and overcoming the weaknesses, we will further improve our quality and efficiency striving for excellence in our operating results to our shareholders and staff as well as the society.

By order of the Board of
Sinopec Kantons Holdings Limited
Chen Bo
Chairman

Hong Kong, 30 March 2017

Management Discussion and Analysis

In 2016, the Company adhered to its established development strategy and continued to expand its oil storage and logistics projects. Benefited from the gradual growth of China's crude oil imports, the business volume and investment return of oil terminals have increased year by year, which contributed to boost the Group's operating results. In April 2016, the second vessel under PNGLNG has been put into operation. Since then, the two vessels under PNGLNG have come into full commercial operation. In addition, the first LNG vessel under APLNG has also been put into operation in October 2016. This marked the commencement of commercial operation of APLNG vessel business. As more LNG vessels will be built and put into operation in the future, the scale of LNG vessel business will expand year by year.

Revenue

For the year ended 31 December 2016 (the "**Year**" or the "**Period**"), the Group's revenue was approximately HK$1,766,590,000 (2015: HK$2,043,630,000), representing a decrease of approximately 13.56% as compared with the same period last year. The decrease in revenue was mainly due to a significant decrease in natural gas pipeline transmission volume of Yu Ji Pipeline Company, a wholly-owned subsidiary of the Company, in Shandong Province under the short-term oversupply in the natural gas market of Shandong Province in 2016.

Segmental Information

Segmental information of the Group during the year ended 31 December 2016 is set out in note 5 to the financial statements.

Gross Profit and Operating Profit

For the year ended 31 December 2016, the Group's gross profit was approximately HK$630,389,000 (2015: HK$839,012,000), representing a decrease of approximately 24.87% as compared with the same period last year; the operating profit was approximately HK$553,961,000 (2015: HK$730,373,000), representing a decrease of approximately 24.15% as compared with the same period last year. Both gross profit and operating profit decreased were mainly due to the decline in operating results of Yu Ji Pipeline Company in 2016 resulting from a decrease in natural gas pipeline transmission volume to Shandong Province.

Other Income and Other Gains, Net

For the year ended 31 December 2016, the Group's other income and other gains, net was approximately HK$107,329,000 (2015: HK$55,478,000), representing an increase of approximately 93.46% as compared with the same period last year. The increase in other income and other gains, net was mainly because the Group reduced its holdings of RMB monetary funds during the Period so that the exchange loss resulted from the depreciation of RMB against HK$ decreased, which led to an increase in other income and other gains, net.

Distribution Costs

For the year ended 31 December 2016, the Group's distribution costs were approximately HK$20,760,000 (2015: HK$25,598,000), representing a decrease of approximately 18.90% as compared with the same period last year. The decrease in distribution costs was mainly due to a decrease in the employees' remuneration as the number of employees of the Group was slightly reduced in 2016.

Administrative Expenses

For the year ended 31 December 2016, the Group's administrative expenses were approximately HK$162,997,000 (2015: HK$138,519,000), representing an increase of approximately 17.67% as compared with the same period last year. The increase in administrative expenses was mainly due to, on one hand, the fact that PT. West Point had amortized the current prepaid land lease payments since October 2015, while on the other hand, the service charges paid in relation to the engagement of relevant professional institutions for the Group regarding the Batam Project in 2016.

Finance Income

For the year ended 31 December 2016, the Group's finance income was approximately HK$10,421,000 (2015: HK$14,649,000), representing a decrease of approximately 28.86% as compared with the same period last year. The decrease of finance income was mainly due to a decrease in bank interest income caused by the reduction of fixed deposits of the Group in 2016.

Management Discussion and Analysis

Share of Results of Associates

For the year ended 31 December 2016, the Group's share of results of associates was approximately HK$135,549,000 (2015: HK$117,865,000), representing an increase of approximately 15.00% as compared with the same period last year. Share of results of associates increased mainly due to achieving better operating results from Zhan Jiang Port Terminal, an associate of the Company, during the Year.

Share of Results of Joint Ventures

For the year ended 31 December 2016, the Group's share of results of joint ventures was approximately HK$644,128,000 (2015: HK$553,901,000), representing an increase of approximately 16.29% as compared with the same period last year. Share of results of joint ventures increased mainly because some of the crude oil terminal joint ventures of the Company (including Qingdao Shihua, Rizhao Shihua, Ningbo Shihua and Tianjin Shihua) and FOT achieved better operating results during the Year.

Gearing Ratio

As at 31 December 2016, the Group's current ratio (current assets to current liabilities) was approximately 0.47 (as at 31 December 2015:0.50); and gearing ratio (total liabilities to total assets) was approximately 41.10% (as at 31 December 2015: 46.57%).

Liquidity and Source of Finance

As at 31 December 2016, cash and cash equivalents of the Group was approximately HK$323,206,000 (as at 31 December 2015: HK$1,057,732,000), representing a decrease of approximately 69.44% as compared with that at the end of last year, mainly due to the fact that the Group used cash in paying the consideration for the acquisition of Yu Ji Pipeline Company during the Period.

Property, Plant and Equipment

As at 31 December 2016, the Group's property, plant and equipment was approximately HK$6,872,274,000 (as at 31 December 2015: HK$7,575,508,000), representing a decrease of approximately 9.28% as compared with that at the end of last year. Besides normal depreciation, the depreciation of RMB against HK$ in 2016 also caused the decrease of property, plant and equipment given that most of the property, plant and equipment of the Group are located in the PRC whilst the corresponding amounts of property, plant and equipment are reported in HK$.

Inventories

As at 31 December 2016, the Group's inventories were approximately HK$15,584,000 (as at 31 December 2015: HK$21,261,000), representing a decrease of approximately 26.70% as compared with that at the end of last year, mainly due to the fact that the fuel oil of vessel was cleaned up after the suspension of vessel chartering business of the Group as at the end of 2016.

Trade and Other Receivables

As at 31 December 2016, the Group's trade and other receivables were approximately HK$1,173,286,000 (as at 31 December 2015: HK$988,236,000), representing an increase of approximately 18.73% as compared with that at the end of last year, which was mainly due to an increase in the amount due from a fellow subsidiary of Yu Ji Pipeline Company, a wholly-owned subsidiary of the Company, during the Period.

Borrowings

As at 31 December 2016, the Group's short-term interest-bearing loan was HK$2,273,812,000 (as at 31 December 2015: nil). The short-term interest-bearing loan was borrowed by Sinomart KTS Development Limited ("**Sinomart Development**"), a wholly-owned subsidiary of the Company, from Sinopec Century Bright Capital Investment Limited ("**Century Bright**"), and the entire amount was paid as the consideration of acquisition of Yu Ji Pipeline Company.

As at 31 December 2016, Yu Ji Pipeline Company, a wholly-owned subsidiary of the Company, borrowed long-term interest-bearing loan from China International United Petroleum & Chemicals Co., Ltd. ("**UNIPEC**") through Bank of Communications Co., Ltd. for a total amount of RMB3,000,000,000 (equivalent to approximately HK$3,353,791,000) (as at 31 December 2015: HK$3,938,982,000), which was unsecured with a 10% discount on the benchmark lending rate issued by The People's Bank of China.

Trade and Other Payables

As at 31 December 2016, the Group's trade and other payables were approximately HK$943,577,000 (as at 31 December 2015: HK$4,139,948,000), representing a decrease of approximately 77.21% as compared with that at the end of last year, mainly because the acquisition consideration in relation to Yu Ji Pipeline Company was fully paid to Sinopec Corp. by the Group during the Period.

Government Grants

As at 31 December 2016, the Group received government grants of approximately HK$13,178,000 (as at 31 December 2015: HK$4,667,000), representing an increase of approximately 182.37% as compared with that at the end of last year, mainly due to the fact that Huade Petrochemical received local government grants for commencing the safety risk rectification works of crude oil pipelines during the Period.

Income tax payable

As at 31 December 2016, the income tax payable of the Group was approximately HK$14,876,000 (as at 31 December 2015: HK$22,768,000), representing a decrease of approximately 34.66% as compared with that at the end of last year, mainly due to a decrease in taxable profit of Yu Ji Pipeline Company, a wholly-owned subsidiary of the Company.

Significant Investment, Acquisition and Disposal

Save as disclosed in this report, the Company did not have any other significant investment, acquisition and disposal for the year ended 31 December 2016.

Exchange risk

The Company is engaged in oil storage, oil terminal and logistics businesses in the PRC, Europe and Fujairah, United Arab Emirates ("**UAE**") through its respective subsidiaries, associates and joint ventures, and generates operating income in RMB, Euro and US$ respectively. As the exchange rates of RMB, Euro and US$ against HK$ fluctuate, the Group faces exchange risk to a certain extent.

In addition, in order to develop the storage and logistics businesses and 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 October 2012, the Group acquired 95% equity interest in PT. West Point and entered into the shareholders' agreement for the Batam Project. In accordance with the shareholders' agreement, as at 31 December 2016, the Group committed to a contribution obligation not exceeding the balance of US$144,685,000. In addition, in order to meet the needs of LNG vessel construction, on 28 April 2013, the Group entered into the vessel sponsors' undertakings in relation to the construction of six LNG vessels under Phase I of APLNG. Pursuant to the vessel sponsors' undertakings, as at 31 December 2016, the Group undertook a contribution obligation not exceeding the balance of US$75,182,441 in relation to the necessary shareholder's loan and cost overrun for vessel construction. Along with the progress of project and schedule, the Group shall fulfill the corresponding contribution obligations in accordance with the above agreements. As the exchange rates of such currencies fluctuate from time to time, there may be differences between the amount in HK$ to be paid accordingly and the amount based on the corresponding exchange rate as at the date of the agreements.

Save for the above, the Group was not exposed to any other significant foreign exchange risk during the Year.

Contingent Liabilities and Assets pledged of the Group

As at 31 December 2016, the contingent liabilities and assets pledged of the Group were as follows:

Guarantor	Guaranteed entity	Name of agreement	Content of guarantee clause	Date of agreement	Guarantee period	Guarantee balance as at 31 December 2016
The Company	Sinomart Development	Sponsor Support Agreement of Vesta	Sinomart Development shall make sponsor support loan to Vesta subject to the terms set out in this agreement. Sinomart Development's obligation shall be guaranteed by the Company.	24 May 2016	Until the full loan repayment in respect of the project	Not more than EUR 19 million
The Company	Sinomart Development	Sponsor Support Agreement of FOT	Sinomart Development shall make sponsor support loan to FOT subject to the terms set out in this agreement. Sinomart Development's obligation shall be guaranteed by the Company.	14 June 2015	Until the full loan repayment in respect of the project	US$30 million
Sinomart Development	FOT	Equity Pledge Agreement of FOT	Sinomart Development pledged its 50% equity interest in FOT to the bank which offered loan in respect of the project of FOT.	6 August 2015	Until the full loan repayment in respect of the project	US$135 million
Sinomart Development	PT. West Point	Land Lease Agreement of Batam, Indonesia	In the event that PT. West Point fails to pay to lessor any amount of the land lease fee when due under the Land Lease Agreement, Sinomart Development shall pay, on demand, an amount obtained by multiplying such unpaid amount by the percentage representing its shareholding interest in PT. West Point.	9 October 2012	Effective for 30 years after the date of execution	SGD 5.09 million
The Company	Six companies with LNG vessel assets	Vessel Sponsors' Undertakings in relation to the investment and construction of six LNG vessels under APLNG	The Company provided shareholder's loan and guarantee for the potential cost overrun in respect of the LNG vessel construction in proportion to Kantons International Investment Limited's shareholdings.	28 April 2013	Effective until 18 June 2032	US$75.18 million

Save for the above, the Group did not provide any financial assistance or guarantee and pledge of shares for other companies as at 31 December 2016.

Batam Project

On 9 October 2012, the Company, through its wholly-owned subsidiary, Sinomart Development, acquired 95% equity interest in PT. West Point, and proposed to invest and construct 2.6 million m^3 oil storage tank and terminal facility in Batam, Indonesia via PT. West Point. Due to the minority interests by the Indonesian shareholder, the project was still pending during the Period.

On 11 November 2016, Sinomart Development and PT. West Point received two requests for arbitration notices from the International Court of Arbitration of the International Chamber of Commerce ("**ICC**") in respect of the submission of arbitration applications. Currently, the parties are conducting the said arbitration in accordance with the ICC proceedings. For details please refer to the announcement dated 15 November 2016 published by the Company on the website of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (www.hkexnews.hk) and the website of the Company (www.sinopec.com.hk).

The Company will take all appropriate measures in the above arbitration and protect the rights and interest of the Company.

Employees and Emolument Policies

As at 31 December 2016, the Group had a total of 249 employees. Remuneration packages, including basic salaries, bonuses and benefits-in-kind, are structured with reference to market terms, trends of human resources costs in various regions, and employee contributions based on performance appraisals. Subject to the profit of the Group and the performance of the employees, the Group also provides discretionary bonuses to employees as an incentive for their greater contributions.

Report of the Directors

The Board is pleased to submit the annual report and the audited financial statements for the year ended 31 December 2016.

Principal Place of Business

The Company is a company incorporated and domiciled in Bermuda and has its registered office in Bermuda and its principal place of business in Hong Kong 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 Group during the Year is set out in note 5 to the financial statements.

Business Review and Prospect

For details in relation to the business review including an analysis of the Group's performance using financial key performance indicators during the Period and prospect of the Group, please refer pages 4 to 7 of this report under the section "Chairman's Statement" and pages 8 to 14 of this report under the section "Management Discussion and Analysis".

Principal Risks and Uncertainties

Save as disclosed in this report, the Company is not aware of any principal risks and uncertainties.

Compliance with Laws and Regulations

For the year ended 31 December 2016, so far as the Company is aware, the Group has complied with relevant laws and regulations that have material effect to the Group in all material aspects.

Major Customers and Suppliers

Information in respect of the Group's sales and purchases attributable to its major customers and suppliers respectively for the year ended 31 December 2016 is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	57%	
Five largest customers in aggregate	99%	
The largest supplier		30%
Five largest suppliers in aggregate		48%

China Petrochemical Corporation ("**Sinopec Group Company**"), the controlling shareholder of the Company indirectly holding 60.33% of the Company's share capital, had beneficial interests in three of the five largest customers and four of the five largest suppliers.

Save as disclosed above, none of the Directors, close associates of Directors, or any shareholders (which to the knowledge of the Directors hold 5% or more of the issued shares of the Company) had any interest in any of the aforementioned suppliers or customers.

Financial Statements

The profit of the Group for the year ended 31 December 2016 and the financial positions of the Group and the Company as at that date are set out in the financial statements on pages 52 to 130 of this report.

Transfer to Reserves

For the year ended 31 December 2016, profits attributable to equity holders of the Company, before dividends, of HK$1,005,259,000 (2015: HK$1,026,852,000) have been transferred to reserves. Details of changes in other reserves are set out in the Consolidated Statement of Changes in Equity on pages 56 to 57 of this report.

Final Dividend

The Board recommended a dividend of HK$0.070 per share payable in cash for the whole year of 2016 (2015: HK$0.050 per share), excluding the interim dividend of HK$0.035 per share in cash for 2016 (2015: HK$0.025 per share) paid on 18 October 2016, the final dividend of HK$0.035 per share in cash for 2016 (2015: HK$0.025 per share) will be paid to all the shareholders whose names appear in the register of the members of the Company on 30 June 2017 (Friday).

The register of members of the Company will be closed from 26 June 2017 (Monday) to 30 June 2017 (Friday) (both days inclusive) during which period no transfer of shares will 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 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 23 June 2017 (Friday). The cheques for dividend payment will be sent to shareholders on or about 10 July 2017 (Monday).

2016 Annual General Meeting

The Company will convene the 2016 Annual General Meeting on 13 June 2017 (Tuesday), and the register of members of the Company will be closed from 7 June 2017 (Wednesday) to 13 June 2017 (Tuesday) (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for attending the 2016 Annual General Meeting of the Company and casting votes at 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 6 June 2017 (Tuesday).

Fixed Assets

For the year ended 31 December 2016, the Group spent approximately HK$281,206,000 (2015: HK$313,207,000) on fixed assets. Details of movements in property, plant and equipment are set out in note 17 to the financial statements.

Share Capital

Details of the movements in share capital of the Company for the year ended 31 December 2016 are set out in note 22 to the financial statements.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Report of the Directors

The Board of Directors and Members of Each Professional Committee

For the year ended 31 December 2016 and up to the date of this report, members of the Board and the professional committees under which they sit are as follows:

Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors			
Mr. Chen Bo *(Chairman)*	Mr. Fong Chung, Mark *(Chairman)*	Ms. Tam Wai Chu, Maria *(Chairlady)*	Dr. Wong Yau Kar, David *(Chairman)*
Mr. Xiang Xiwen *(Deputy Chairman)*	Ms. Tam Wai Chu, Maria	Mr. Chen Bo	Mr. Chen Bo
Mr. Dai Liqi	Dr. Wong Yau Kar, David	Mr. Fong Chung, Mark	Ms. Tam Wai Chu, Maria
Mr. Li Jianxin		Dr. Wong Yau Kar, David	Mr. Fong Chung, Mark
Mr. Wang Guotao		Mr. Ye Zhijun	Mr. Ye Zhijun
Mr. Ye Zhijun *(Managing Director)*			
Independent Non-executive Directors			
Ms. Tam Wai Chu, Maria			
Mr. Fong Chung, Mark			
Dr. Wong Yau Kar, David			

In accordance with Bye-law 111 of the Company's Bye-laws (the "**Bye-laws**"), Mr. Chen Bo, Mr. Ye Zhijun, Ms. Tam Wai Chu, Maria and Dr. Wong Yau Kar, David will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Directors' Service Contracts

Each of the executive Directors has entered into a service contract with the Company for a term of one year renewable automatically upon expiry for successive terms of one year unless terminated by not less than three months' notice in writing served by either party.

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 2016, none of the Directors and chief executives of the Company had 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 is required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which is required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which is required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

Share Option Scheme

For the year ended 31 December 2016, the Company has not established and implemented any share option scheme.

Directors' Rights to acquire Shares or Debentures

For the year ended 31 December 2016, the Company, its holding companies, subsidiaries, or fellow subsidiaries did not participate in any arrangement to enable the Directors 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 2016, 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:

Name of Shareholder	Capacity and Nature of Interest	Total number of ordinary shares held	Approximate percentage of total issued shares
Sinopec Kantons International Limited [Note]	Beneficial owner	1,500,000,000 (L)	60.33%

Note: The entire issued share capital of Sinopec Kantons International Limited ("**Kantons International**") is held by 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 and 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 Transactions, Arrangements or Contracts

No transactions, arrangements or 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 or an entity connected with a Director had a material interest, either directly or indirectly subsisted at the end of the year ended 31 December 2016 or at any time during the Year.

Contracts of Significance of Controlling Shareholder or its Subsidiaries

For the details of the contracts of significance entered into between the Company or its subsidiaries and the controlling shareholder or its subsidiaries, please refer to the section "Connected Transactions" on pages 23 to 28 of this report, save and except for the Internal Labour Technical Services Framework Master Agreement, the Substation Power Technical Services Framework Master Agreement, the Six Oil Terminal Companies Entrusted Management Framework Master Agreement, the Huade Project Design Framework Master Agreement and the two Lands and Buildings Framework Master Lease Agreements dated 30 December 2014 and 11 November 2016, respectively, referred to in that section as the relevant percentage ratios of the above agreements were below 1%.

Arrangements to Enable Directors to Acquire Benefits by Means of the Acquisition of Shares and Debentures

Neither at the end of the year ended 31 December 2016 nor at any time during the Year did there subsist any arrangement whose object is to enable the Directors to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Bye-laws, or the applicable laws of Bermuda.

Bank Loans and Other Borrowings

For the details of the bank loans and other borrowings of the Group, please refer to the paragraph headed "Borrowings" under the section "Management Discussion and Analysis" on pages 8 to 14 of this report.

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 131 of this 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 2 to the financial statements.

Permitted Indemnity Provision

As permitted by the Bye-laws of the Company, every Director shall be entitled to be indemnified out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she may incur or sustain in or about the execution of the duties of his/her office, and no Director shall be liable for any loss, misfortune or damage which may happen to or be incurred by the Company in the execution of the duties of his/her office or in relation thereto, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty.

The Insurance of Responsibility of Directors

For the details of the insurance of the responsibility of Directors of the Company, please refer to the Corporate Governance Report on pages 33 to 44 of this report.

Compliance with the Corporate Governance Code

Save as the Chairman of the audit committee of the Company (the "**Audit Committee**") who did not attend the annual general meeting of the Company held on 7 June 2016 due to personal reason, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**Corporate Governance Code**") contained in Appendix 14 of the Listing Rules for the year ended 31 December 2016.

Confirmation of Independence of Independent Non-executive Directors

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

Based on the information that is publicly available to the Company and within the knowledge of the Directors, for the year ended 31 December 2016 and as at the date of this report, the Company has maintained sufficient public float prescribed under the Listing Rules.

Audit Committee

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

Auditor

PricewaterhouseCoopers will retire, and, being eligible, will offer themselves for re-appointment. A resolution in relation to the re-appointment of PricewaterhouseCoopers as the auditor of the Company will be submitted and proposed for shareholders' consideration and approval at the forthcoming annual general meeting.

Report of the Directors

Environmental Policies and Performance

The operation of the Group adheres to the highest standards for safety, environmental protection and compliance in order to promote sustainable development with the community together.

In 2016, the Group continued to actively undertake social responsibilities according to the "Working Guidelines for Social Responsibilities" formulated by the Board. The Group improved the system and organisational structure and conducted more work in performing social responsibilities.

The Group has incorporated relevant environmental protection measures into its overall work plan. The Group monitors and is committed to reducing emissions to ensure that waste and carbon emissions are all under reasonable control. In addition, the Group has formulated detailed emission treatment policies for waste gas, sewage and waste. Meanwhile, the Group has strict regulations on the use of energy, water resources and other raw materials and gives priority to recycling. For environmental risks from daily operations, the Group has adopted various preventive measures and formulated solutions for accidents to minimise the impact on the environment and natural resources. In 2016, the Group has not violated any relevant laws and regulations that have a significant impact on its business.

For further details of the Company's environmental policies and performance, please refer to the section "Environmental, Social and Governance Report" on pages 132 to 163 of this report.

Relationships with Employees, Customers and Suppliers

For the relationship between the Group and its employees, please refer to the paragraph headed "Employees and Emolument Policies" as set out in the section "Management Discussion and Analysis" on pages 8 to 14 of this report.

The Group actively interacts with all stakeholders including employees, customers, suppliers, investors and the regulatory authorities to maintain good relationships with them and understand their expectations on the Group. The Group will incorporate their suggestions into its operation as far as they are feasible and in the best interest of the Group and the shareholders as a whole.

Donations

No charitable and other donations were made by the Group during the year ended 31 December 2016.

By order of the Board of
Sinopec Kantons Holdings Limited
Chen Bo
Chairman

Hong Kong, 30 March 2017

Connected Transactions

I. Agreements entered into by the Company for Continuing Connected Transactions and Connected Transactions

In order to ensure the normal operations of the business of the Group and compliance with the relevant requirements of Chapter 14A of the Listing Rules, on 29 October 2013, the Group entered into the continuing connected transaction framework agreements with Sinopec Group Company and its subsidiaries for crude oil jetty services, crude oil supply and sourcing, vessel charter and financial services respectively for the three financial years ended 31 December 2016. In addition, on 30 December 2014, the Group entered into the continuing connected transaction framework agreements for natural gas transmission and financial services of Yu Ji Pipeline Company for the three financial years ending 31 December 2017. The details are as follows:

1. Huade Petrochemical, a wholly-owned subsidiary of the Company, entered into the Sinopec Guangzhou Branch Framework Master Agreement with Guangzhou Petrochemical for the provision of crude oil jetty services. Guangzhou Petrochemical is a branch company of Sinopec Corp., and Sinopec Corp. indirectly wholly owns Kantons International, the controlling shareholder of the Company.

2. The Group entered into the UNIPEC Framework Master Agreement with UNIPEC in relation to the (1) supply of crude oil by the Group to UNIPEC, and its associated companies and affiliates ("**UNIPEC Group**"); and (2) sourcing of crude oil by the Group from the UNIPEC Group. UNIPEC owns the entire issued share capital of Kantons International, the controlling shareholder of the Company.

3. Sinomart Development, a wholly-owned subsidiary of the Company, entered into the UNIPEC Vessel Charter Framework Master Agreement with UNIPEC for the provision of vessel chartering services to UNIPEC.

4. The Company entered into the Century Bright Financial Services Framework Master Agreement with Century Bright for the provision of financial services outside the PRC by Century Bright to the Company and its subsidiaries. Century Bright is a wholly-owned subsidiary of Sinopec Group Company, which indirectly controlled Kantons International, the controlling shareholder of the Company.

5. Huade Petrochemical, a wholly-owned subsidiary of the Company, entered into the Sinopec Finance Financial Services Framework Master Agreement with Sinopec Finance Company Limited ("**Sinopec Finance**") for the provision of financial services within the PRC by Sinopec Finance to Huade Petrochemical and its subsidiaries. Sinopec Finance is owned as to 51% equity interest by Sinopec Group Company and 49% equity interest by Sinopec Corp.. Sinopec Group Company is the controlling shareholder of Sinopec Corp. which indirectly wholly owns Kantons International, the controlling shareholder of the Company.

6. Yu Ji Pipeline Company, a wholly-owned subsidiary of the Company, entered into the Natural Gas Transmission Services Framework Master Agreement with Sinopec Natural Gas Branch Company ("**Sinopec Natural Gas Branch Company**") in respect of the provision of natural gas transmission services by Yu Ji Pipeline Company to Sinopec Natural Gas Branch Company. Sinopec Natural Gas Branch Company is a branch company of Sinopec Corp., which indirectly wholly owns Kantons International, the controlling shareholder of the Company.

7. Yu Ji Pipeline Company, a wholly-owned subsidiary of the Company, entered into the Yu Ji Pipeline Financial Services Framework Master Agreement with Sinopec Finance for the provision of financial services within the PRC by Sinopec Finance to Yu Ji Pipeline Company.

Connected Transactions

The above agreements and continuing connected transactions respectively obtained approval at the special general meetings of the Company held on 13 December 2013 and 10 February 2015.

In addition, in order to meet the operation and development needs of the Group, on 29 October 2013 and 30 December 2014, the Group entered into the corresponding continuing connected transaction/connected transaction framework agreements, respectively. The details are as follows:

1. Huade Petrochemical, a wholly-owned subsidiary of the Company, entered into the Huade Construction Project Framework Master Agreements with relevant subsidiaries of the Sinopec Group Company respectively, including (1) Sinopec Guangzhou Petrochemical Engineering Corporation, (2) Sinopec The Fourth Construction Company and (3) Sinopec International Business Company Limited in respect of the feasibility studies, project design, equipment and raw material procurement as well as project construction services for building fuel oil tanks and anciliary facilities.

2. Huade Petrochemical, a wholly-owned subsidiary of the Company, entered into the Sinopec Fuel Oil Sales Company Limited Framework Master Agreement with Sinopec Fuel Oil Sales Company Limited ("**Sinopec Fuel Oil**") for the provision of fuel oil jetty and storage services by Huade Petrochemical to Sinopec Fuel Oil for two financial years ended 31 December 2016. Sinopec Fuel Oil is a wholly owned subsidiary of Sinopec Corp., which indirectly wholly owns Kantons International, the controlling shareholder of the Company.

3. The Group entered into the UNIPEC Bunkering Framework Master Agreement with UNIPEC Singapore Pte Limited ("**UNIPEC Singapore**") in respect of the provision of marine bunkering services by UNIPEC Singapore to the Group with a term of three financial years ended 31 December 2016.

4. Yu Ji Pipeline Company, a wholly-owned subsidiary of the Company, entered into the Gas Storage Framework Master Lease Agreement with Sinopec Natural Gas Branch Company for the leasing of gas storage facilities to Yu Ji Pipeline Company by Sinopec Natural Gas Branch Company with a term of three financial years ending 31 December 2017.

5. Yu Ji Pipeline Company, a wholly-owned subsidiary of the Company, entered into the Services Outsourcing Framework Master Agreement with Sinopec Natural Gas Branch Company for the provision of service outsourcing to Yu Ji Pipeline Company by Sinopec Natural Gas Branch Company with a term of three financial years ending 31 December 2017.

As the applicable percentage ratios for the caps of each of the above continuing connected transactions/connected transactions are more than 0.1% but less than 5%, the continuing connected transactions/connected transactions contemplated under these agreements only require to comply with the reporting, annual review and announcement requirements, but are exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Also, on 30 December 2014, Yu Ji Pipeline Company entered into the Lands and Buildings Framework Master Lease Agreement with Sinopec Natural Gas Branch Company for the leasing of certain parcels of lands and buildings to Yu Ji Pipeline Company by Sinopec Natural Gas Branch Company with a term of three financial years ending 31 December 2017. As the applicable percentage ratio for the caps of the continuing connected transactions under the above agreement is less than 0.1%, they constituted fully-exempt continuing connected transactions.

For details of the above continuing connected transactions/connected transactions, please refer to the announcements published on 29 October 2013 and 30 December 2014 on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sinopec.com.hk).

As the above continuing connected transactions either expired on 31 December 2016 or will be expired on 31 December 2017, on 11 November 2016, the Group entered into new continuing connected transaction framework agreements to renew certain continuing connected transactions to maintain sustainable operation and meet the actual needs of the business development of the Group. The details are as follows:

1. Huade Petrochemical, a wholly-owned subsidiary of the Company, renewed and entered into the Sinopec Guangzhou Branch Framework Master Agreement with Guangzhou Petrochemical for the provision of crude oil jetty services by Huade Petrochemical with a term of three financial years ending on 31 December 2019.

2. Huade Petrochemical, a wholly-owned subsidiary of the Company, renewed and entered into the Sinopec Finance Financial Services Framework Master Agreement with Sinopec Finance for the provision of the financial services within the PRC to Huade Petrochemical and its subsidiaries by Sinopec Finance with a term of three financial years ending on 31 December 2019.

3. The Company renewed and entered into the Century Bright Financial Services Framework Master Agreement with Century Bright for the provision of financial services outside the PRC to the Company and its subsidiaries by Century Bright with a term of three financial years ending on 31 December 2019.

4. Yu Ji Pipeline Company, a wholly-owned subsidiary of the Company, renewed and entered into the Natural Gas Transmission Services Framework Master Agreement with Sinopec Natural Gas Branch Company in respect of the provision of natural gas transmission services to Sinopec Natural Gas Branch Company with a term of two financial years ending on 31 December 2019.

5. Yu Ji Pipeline Company, a wholly-owned subsidiary of the Company, renewed and entered into the Gas Storage Framework Master Lease Agreement with Sinopec Natural Gas Branch Company for the leasing of gas storage facilities to Yu Ji Pipeline Company by Sinopec Natural Gas Branch Company with a term of two financial years ending on 31 December 2019.

6. Yu Ji Pipeline Company, a wholly-owned subsidiary of the Company, renewed and entered into the Services Outsourcing Framework Master Agreement with Sinopec Natural Gas Branch Company for the provision of service outsourcing to Yu Ji Pipeline Company by Sinopec Natural Gas Branch Company with a term of two financial years ending on 31 December 2019.

7. Yu Ji Pipeline Company, a wholly-owned subsidiary of the Company, renewed and entered into the Yu Ji Pipeline Financial Services Framework Master Agreement with Sinopec Finance for provision of financial services within the PRC to Yu Ji Pipeline Company by Sinopec Finance with a term of two financial years ending on 31 December 2019.

The above agreements and continuing connected transactions obtained approval at the special general meetings of the Company held on 22 December 2016.

In addition, on 11 November 2016, Huade Petrochemical, a wholly-owned subsidiary of the Company, renewed and entered into the Sinopec Fuel Oil Sales Company Limited Framework Master Agreement with Sinopec Fuel Oil for the provision of fuel oil jetty and storage services to Sinopec Fuel Oil with a term of three financial years ending on 31 December 2019; Yu Ji Pipeline Company, a wholly-owned subsidiary of the Company, renewed and entered into the Lands and Buildings Framework Master Lease Agreement with Sinopec Natural Gas Branch Company for the leasing of certain parcels of lands and buildings from Sinopec Natural Gas Branch Company with a term of two financial years ending on 31 December 2019. As the applicable percentage ratios of each of the caps of the continuing connected transactions under the above two agreements are more than 0.1% but less than 5%, the continuing connected transactions under these agreements are subject to the reporting, annual review and announcement requirements but are exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

For details of the above continuing connected transactions, please refer to the announcement published on 11 November 2016 on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sinopec.com.hk).

II. New Continuing Connected Transaction/Connected Transaction Agreements entered into by the Company

In order to enhance the natural gas transmission capacity of Yu Ji Pipeline, Yu Ji Pipeline Company, a wholly-owned subsidiary of the Company, intends to commence the second phase of compression project of Yu Ji Pipeline. In view of the extensive experience in petrochemical project construction of Sinopec Petroleum Engineering Corporation, Yu Ji Pipeline Company intends to invite Sinopec Petroleum Engineering Corporation to participate in bidding for pipeline compression construction project, and entered into the Yu Ji Compression Project Framework Master Agreement on 11 November 2016 for the natural gas pipeline compression project. Sinopec Petroleum Engineering Corporation is a wholly-owned subsidiary of Sinopec Group Company, which indirectly controls Kantons International, the controlling shareholder of the Company. The relevant agreement and connected transactions were approved in the special general meeting of the Company held on 22 December 2016.

In addition, in order to meet the needs of business development, on 11 November 2016, the Group entered into continuing connected transaction/connected transaction framework agreements for the commencement of new businesses. The details are as follows:

1. Yu Ji Pipeline Company, a wholly-owned subsidiary of the Company, entered into the Internal Labour Technical Services Framework Master Agreement with Sinopec Zhongyuan Oilfield Natural Gas Technical Centre ("**Zhongyuan Natural Gas Technical Centre**") for the provision of internal technical services to Yu Ji Pipeline Company by Zhongyuan Natural Gas Technical Centre with a term of three financial years ending on 31 December 2019. Zhongyuan Natural Gas Technical Centre is a wholly-owned subsidiary of Sinopec Group Company, which indirectly controls Kantons International, the controlling shareholder of the Company.

2. Yu Ji Pipeline Company, a wholly-owned subsidiary of the Company, entered into the Substation Power Technical Services Framework Master Agreement with Sinopec Zhongyuan Oilfield Company Electricity Supply Centre ("**Zhongyuan Electricity Supply Centre**") for the provision of substation power station technical services to Yu Ji Pipeline Company by Zhongyuan Electricity Supply Centre with a term of three financial years ending on 31 December 2019. Zhongyuan Electricity Supply Centre is a wholly-owned subsidiary of Sinopec Corp., and Sinopec Corp. indirectly wholly owns Kantons International, the controlling shareholder of the Company.

3. Sinomart Development, a wholly-owned subsidiary of the Company, entered into the Six Oil Terminal Companies Entrusted Management Framework Master Agreement for entrusting the Sinopec Pipeline Storage and Transportation Company to manage the Six Domestic Terminal Companies with a term of three financial years ending on 31 December 2019. Sinopec Pipeline Storage and Transportation Company is a wholly-owned subsidiary of Sinopec Corp., and Sinopec Corp. indirectly wholly owns Kantons International, the controlling shareholder of the Company.

4. Huade Petrochemical, a wholly-owned subsidiary of the Company, entered into the Huade Project Design Framework Master Agreement with Luoyang Petrochemical Engineering Corporation Limited for the provision of project design services for the relocation and risk management in relation to oil storage tank area and pipelines owned by Huade Petrochemical by Luoyang Petrochemical Engineering Corporation Limited. Luoyang Petrochemical Engineering Corporation Limited is a wholly owned subsidiary of Sinopec Engineering (Group) Company Limited ("**Sinopec Engineering**"). Sinopec Group Company, which indirectly controls Kantons International, the controlling shareholder of the Company, is the controlling shareholder of Sinopec Engineering.

As the applicable percentage ratios for the caps of each of the above continuing connected transactions/connected transactions are more than 0.1% but less than 5%, the continuing connected transactions/connected transactions contemplated under these agreements require to comply with the reporting, annual review and announcement requirements, but are exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

For details of the above new continuing connected transactions/connected transactions, please refer to the announcement published on 11 November 2016 on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sinopec.com.hk).

III. Information on the Continuing Connected Transactions Made by the Group during the Year

For the year ended 31 December 2016, connected transactions (including continuing connected transactions) entered into by the Group are as follows:

	For the year ended 31 December 2016 HK$ million	Annual caps for the year 2016 HK$ million
Jetty service income	553	850
Natural gas transmission service income	1,000	1,714
Vessel chartering service income	140	1,035
Fuel oil purchase expenses	37	1,200
Service outsourcing fees	128	441
Gas storage facilities lease expenses	112	113
Maximum balance of deposits placed by Sinomart Development in Century Bright	494	500
Maximum balance of deposits placed by Huade Petrochemical in Sinopec Finance	79	580
Maximum balance of deposits placed by Yu Ji Pipeline Company in Sinopec Finance	209	696

Connected Transactions

Save as the above, connected transactions have been fully disclosed in note 31 to the financial statements of this report and constitute part of the Group's related party transactions. Save as mentioned therein, there were no continuing connected transactions/connected transactions required to be disclosed in accordance with the Listing Rules.

In accordance with Rule 14A.55 of the Listing Rules, the independent non-executive directors of the Company have reviewed and approved each of the continuing connected transactions/connected transactions above and confirmed that the continuing connected transactions/connected transactions were entered into in accordance with the following principles:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms or better; and

(3) terms of the agreements governing them are fair and reasonable and in the interests of the Company's shareholders as a whole.

The auditor of the Company was engaged to report on the Group's continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000, "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information," and with reference to Practice Note 740, "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules," issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its conclusions (with a copy provided to the Stock Exchange) in accordance with Rule 14A.56 of the Listing Rules and confirming that nothing has come to their attention that causes them to believe the continuing connected transactions:

(1) have not been approved by the Board;

(2) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involved provision of goods or services by the Group;

(3) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and

(4) have exceeded the caps.

In addition, 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 values of the relevant connected transactions in any financial year do 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

As at 31 December 2016, our directors and senior management are as follows:

Executive Directors

Mr. Chen Bo, aged 54, Chairman of the Company. Mr. Chen graduated from East China Institute of Chemical Technology, currently known as East China University of Science and Technology, majoring in oil refining engineering and obtained a Bachelor of Engineering in July 1986 and also has a professional qualification of engineer. Mr. Chen is currently the General Manager and Executive Director of UNIPEC. After graduation from university, Mr. Chen has been working in Sinopec Group Company. Since joining UNIPEC in 1993, he has successively held various positions including the Business Manager of Crude Oil Department of UNIPEC, Business Manager and Deputy Manager of UNIPEC Asia Company Limited, Deputy Manager and Manager of Crude Oil Department of UNIPEC and Assistant to General Manager and Deputy General Manager of UNIPEC. Mr. Chen has extensive working experience in international crude oil and natural gas trading and transportation as well as international storage and logistics and has maintained a good relationship with the world's major oil producers, large oil companies and large trading companies, and enjoys good reputation and credit in the industry. Mr. Chen has been the Chairman and Executive Director of the Company since May 2014.

Mr. Xiang Xiwen, aged 51, Deputy Chairman of the Company. Mr. Xiang graduated from Liaoning University in July 1989 majoring in accounting. He has the professional qualification of professor accountant. Also, he obtained a Master of Economics and has extensive experience in financial management and accounting. From July 1989 to April 2000, Mr. Xiang was Deputy Section Chief and Section Chief of Henan Petroleum Exploration Administration of Sinopec Group Company; from May 2000 to May 2002, he was Chief Accountant of the First Oil Production Plant of Henan Oilfield Branch Company of Sinopec Group Company; from June 2002 to April 2014, he was Deputy Chief Accountant and Chief Accountant of Henan Oilfield Branch Company of Sinopec Group Company; since May 2014, he has been Deputy Head of the Finance Department of Sinopec Corp., Mr. Xiang has been the Deputy Chairman and Executive Director of the Company since December 2015.

Mr. Dai Liqi, aged 49, Executive Director of the Company. Mr. Dai graduated from China Textile University in July 1989 majoring in chemical fiber with a Bachelor of Engineering. He also has a professional qualification of senior engineer. From August 1989 to February 1994, Mr. Dai was Lead Technician and Engineer of the Post-combed Drawing Workshop of Polyester Factory of Tianjin Branch Company of Sinopec Corp.; from February 1994 to January 2002, he was Engineer and Senior Engineer of Planning & Development Department of Sinopec Corp.; from February 2002 to October 2005, he was Deputy Head of the Project Cooperation Office of Planning & Development Department of Sinopec Corp.; from October 2005 to October 2010, he was Head of the Project Cooperation Office of Planning & Development Department of Sinopec Corp.; from October 2010 to December 2016, he was Deputy Director of the Foreign Cooperation Office of Sinopec Corp.; and since January 2017, he has been Director of the Foreign Cooperation Office and Deputy Director of the Planning & Development Department of Sinopec Corp., Mr. Dai has been an Executive Director of the Company since December 2015.

Directors and Senior Management

Mr. Li Jianxin, aged 49, Executive Director of the Company. Mr. Li graduated from Hangzhou University in 1990 majoring in finance with a Bachelor of Economics and graduated from International Business College of Nanjing University in June 1998 with a Master of Business Administration. He also has professional qualification of professor economist. From August 1990, Mr. Li worked for Sinopec Yangzi Petrochemical Company Ltd. ("**Yangzi Petrochemical Company**"); from August 1996 to July 2000, he was the Officer, Deputy Section Chief and Section Chief of the Finance Department of Yangzi Petrochemical Company; from July 2000 to April 2002, he was Deputy Director of the Finance Department of Guangdong Oil Products Branch Company of Sinopec Corp.; from April 2002 to September 2005, he was Deputy Chief Accountant and Chief Accountant of Shenzhen Oil Products Branch Company of Sinopec Corp.; from September 2005 to June 2007, he was Chief Accountant of Guizhou Oil Products Branch Company of Sinopec Corp.; from June 2007 to April 2015, he was the Chief Financial Officer, Director and General Manager of Sinopec (Hong Kong) Limited and also Director of Sinopec Century Bright Capital Investment Limited and Sinopec Insurance Limited; and since April 2015, he has been the Chief Accountant of Guangzhou Branch Company of Sinopec Corp., Mr. Li has been an Executive Director of the Company since December 2015.

Mr. Wang Guotao, aged 51, Executive Director of the Company. Mr. Wang graduated from Huazhong University of Science and Technology in July 1988 majoring in applied chemistry and held a master degree in Oil and Natural Gas Engineering. He also has professional qualification of senior engineer. From July 1988 to July 1995, he was a technician of Huangdao Oil Tanks of Shengli Oil Transmission Company of Pipeline Bureau; from July 1995 to June 1998, he was Deputy Station Head and Station Head of Shouguang Station of Shengli Oil Transmission Company of Pipeline Bureau; from June 1998 to June 2001, he was Station Head of Shouguang Station of Shengli Oil Transmission Company and Station Head of Shouguang Station of Weifang Pipeline Division of Pipeline Storage & Transportation Company; from June 2001 to August 2001, he was Deputy Head of Weifang Pipeline Division and Director of Huangdao Oil Tanks of Pipeline Storage & Transportation Company; from August 2001 to December 2004, he was Deputy Director of Huangdao Oil Tanks of Pipeline Storage & Transportation Branch Company; from December 2004 to May 2012, he was Director of Huangdao Oil Tanks of Pipeline Storage & Transportation Branch Company and Deputy Secretary to the Communist Party Committee (from April 2008 to May 2012, he was also Head of Qingdao Management Office of Pipeline Storage & Transportation Company); from May 2012 to September 2014, he was Deputy General Manager of Pipeline Storage & Transportation Branch Company and the Standing Committee Member of Communist Party Committee; since September 2014, he has been Deputy General Manager and the Standing Committee Member of the Communist Party Committee of Pipeline Storage & Transportation Company of Sinopec Corp.. Mr. Wang has been an Executive Director of the Company since December 2015.

Mr. Ye Zhijun, aged 51, Managing Director of the Company. Mr. Ye held a bachelor degree in Chemical Engineering and Master of Business Administration and has professional qualification of senior economist. He joined Guangzhou Petroleum and Chemical Plant of Sinopec Corp. in August 1988. He was Deputy Officer and Officer of Operations Department of Guangzhou Yinzhu Polypropylene Ltd. of Guangzhou Petroleum and Chemical Plant of Sinopec Corp. from June 1995 to July 1997; Deputy General Manager of Guangzhou Yinzhu Polypropylene Ltd. from July 1997 to September 1999; and Deputy Manager of Sales Centre of Guangzhou Branch Company of Sinopec Corp. from September 1999 to December 2001. Mr. Ye has been the Managing Director of the Company since January 2002.

Independent Non-executive Directors

Ms. Tam Wai Chu, Maria, GBM, JP, aged 71, Independent Non-Executive Director of the Company. Ms. Tam was graduated from London University. She qualified as a barrister-at-law at Gray's Inn, and practised in Hong Kong. Ms. Tam 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 of which are listed companies on the Hong Kong Stock Exchange. She is also a Director of Green Fun Limited, Love Foundation Limited and Love • Family Foundation Limited. She was a member of the Advisory Committee on Corruption and Witness Protection Review Board of Independent Commission Against Corruption ("**ICAC**") of Hong Kong from January 2010 to December 2014. She is the Chairman of Operations Review Committee, a member on the Panel of the Witness Protection Review Board, and an Ex-Officio of the Advisory Committee on Corruption under ICAC since January 2015. She is a Deputy to the National People's Congress of the PRC and a member of the Basic Law Committee of Hong Kong Special Administrative Region. She is also a member of various community service organisations. Ms. Tam has been an Independent Non-Executive Director of the Company since June 1999.

Mr. Fong Chung, Mark, aged 65, Independent Non-Executive Director of the Company. Mr. Fong was the former President of the Hong Kong Institute of Certified Public Accountants. Mr. Fong has over 40 years of experience in the accounting profession. Since June 2016 he is a Council Member of the Institute of Chartered Accountants in England and Wales and since February 2016 he is the Chairman of audit committee 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., Macau Legend Development Limited and China Oilfield Services Limited, all of which are listed companies on the Hong Kong Stock Exchange, and is also a Non-Executive Director of Worldsec Limited, a company listed on London Stock Exchange. Mr. Fong has been an Independent Non-Executive Director of the Company since September 2004.

Dr. Wong Yau Kar, David, BBS, JP, aged 59, Independent Non-Executive Director of the Company. Dr. Wong received a doctorate degree in Economics from the University of Chicago. Dr. Wong has extensive experience in manufacturing, direct investment and international trade. Dr. Wong is active in public service. He is a Hong Kong Deputy of the 12th National People's Congress of the PRC. He is also Chairman of the Land and Development Advisory Committee, Mandatory Provident Fund Schemes Authority and Protection of Wages on Insolvency Fund Board. Dr. Wong is currently an Independent Non-Executive Director of Concord New Energy Group Limited, Yunfeng Financial Group Limited, Huayi Tencent Entertainment Company Limited, Shenzhen Investment Limited and Redco Properties Group Limited, all of which are listed companies on the Hong Kong Stock Exchange. Dr. Wong has been an Independent Non-Executive Director of the Company since March 2014.

Directors and Senior Management

Other Senior Management

Mr. Pang Aibin, aged 47. Mr. Pang held a bachelor's degree and has the professional qualification of senior economist. He joined Jiujiang Petrochemical Factory of Sinopec Corp. in August 1991. He was the Deputy Chief of Crude Oil Department of Sinopec International Co. Ltd. from February 2005 to September 2005. He was the Deputy Chief of Crude Oil Department of UNIPEC from October 2005 to March 2008. Mr. Pang was Deputy General Manager of the Company from March 2008 to January 2017 and he has been the Chief of Crude Oil Department of UNIPEC since February 2017.

Ms. Zhang Xiulan, aged 50, Deputy General Manager of the Company. Ms. Zhang held a Bachelor of Finance, and the professional qualification of senior accountant. She also has a certified of Accountancy Profession in China (CICPA). Since August 1989, she worked in Refinery Factory of Beijing Yanshan Petrochemical Company, the Planning Institute and the Finance Department of Sinopec Corp. respectively. She was the Deputy Chief of Audit Division of Finance Department of Sinopec Corp. from June 2003 to October 2003, and the Deputy Chief of Treasury Division of Finance Department of Sinopec Corp. from November 2003 to March 2008. Ms. Zhang was the Chief Financial Officer of the Company from March 2008 to February 2012, and has been the Deputy General Manager of the Company since March 2012.

Mr. Li Wenping, aged 53, Secretary to the Board of the Company. Mr. Li held a Master of Business Administration and has the professional qualification of senior economist. He joined the research institute of Yangzi Petrochemical Company of Sinopec Corp. in August 1985. He was Deputy Head of Plastic Research and Development Centre of Yangzi Petrochemical Company Sinopec Corp. from January 1994 to September 1994, and Project Manager of Joint Venture and Cooperation Division of Yangzi Petrochemical Company Sinopec Corp. from January 1999 to January 2002, and the Investor Relations Manager of Hong Kong Representative Office of Sinopec Corp. from January 2002 to March 2008. Mr. Li has been the Secretary to the Board of the Company since March 2008.

Mr. Zhu Jian, aged 41, Deputy General Manager of the Company. Mr. Zhu held a Bachelor of Engineering and has the professional qualification of economist. He joined Ningbo Port Company Ltd. Oil Handling & Tug (Barge) Branch in August 1998 and joined UNIPEC in 2000, in which he served as Deputy Chief of Transportation Department from October 2007 to July 2011. Mr. Zhu has served as the Deputy General Manager of the Company since July 2011.

Mr. Chen Hong, aged 44, Chief Financial Officer of the Company. Mr. Chen graduated from Accounting Department of Renmin University of China in July 1994 majoring in international professional accounting and held a Master of Economics with professional qualification of senior accountant. He worked in the Finance Department of Sinopec International Co. Ltd, Sinopec International Products Trading Co, Sinopec (Singapore) Company, UNIPEC (Singapore) Company and other units respectively after his graduation. He was the Deputy Chief of Finance Department of UNIPEC from December 2008 to March 2012. Mr. Chen has been the Chief Financial Officer of the Company since March 2012.

Corporate Governance Report

Annual General Meeting

On 7 June 2016, the Company convened the 2015 Annual General Meeting at Taishan Room, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong strictly in accordance with the relevant notice, convening and holding requirements under laws, regulations and the Bye-laws. Mr. Chen Bo, Chairman of the Board of the Company, presided over the Annual General Meeting, and Ms. Tam Wai Chu, Maria (Chairlady of the remuneration committee of the Company (the "**Remuneration Committee"**)), Dr. Wong Yau Kar, David (Chairperson of the nomination committee of the Company (the "**Nomination Committee**")) and PricewaterhouseCoopers, the auditor, also attended the meeting upon invitation. Mr. Fong Chung, Mark (Chairperson of Audit Committee) did not attend the Annual General Meeting due to personal reason. For details and poll results of the above meeting, please refer to the relevant announcement of the Company published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sinopec.com.hk) on 7 June 2016.

On 22 December 2016, the Company convened a Special General Meeting at Taishan Room, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong to consider and approve the continuing connected transactions/connected transactions of the Group. The Managing Director of the Company, Mr. Ye Zhijun, chaired the Special General Meeting. Mr. Fong Chung, Mark, chairman of the Independent Board Committee, which was established for the purpose of the above matters, Ms. Tam Wai Chu, Maria, committee member, Somerley Capital Limited, the independent financial advisor, PricewaterhouseCoopers, the auditor, and Stephenson Harwood, the legal adviser, attended the meeting upon invitation. For details and poll results of the above meeting, please refer to the announcement of the Company published on the websites of Stock Exchange (www.hkexnews.hk) and the Company (www.sinopec.com.hk) on 22 December 2016.

Directors' attendance of the general meetings in 2016 are as follows:

Attendance	**No. of meetings attended**	**Attendance %**
Mr. Chen Bo *(Chairman)*	1	50
Mr. Xiang Xiwen *(Deputy Chairman)*	0	0
Mr. Dai Liqi	0	0
Mr. Li Jianxin	0	0
Mr. Wang Guotao	0	0
Mr. Ye Zhijun *(Managing Director)*	2	100
Ms. Tam Wai Chu, Maria	2	100
Mr. Fong Chung, Mark	1	50
Dr. Wong Yau Kar, David	1	50

Corporate Governance Report

The Board of Directors

The Board provides effective and responsible leadership for the Company. The Directors, individually and collectively, act in good faith and in the best interests of the Company and its shareholders as a whole. For the year ended 31 December 2016, the Company adopted and was in compliance with the code provisions in the Corporate Governance Code, save for those disclosed in this report.

As at 31 December 2016, the Board comprised six executive Directors and three independent non-executive Directors. The independent non-executive Directors were appointed for a term of three years, and being eligible, to offer themselves for re-election. The Board has established 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. Chen Bo *(Chairman)*	Mr. Fong Chung, Mark *(Chairperson)*	Ms. Tam Wai Chu, Maria *(Chairlady)*	Dr. Wong Yau Kar, David *(Chairperson)*
Mr. Xiang Xiwen *(Deputy Chairman)*	Ms. Tam Wai Chu, Maria	Mr. Chen Bo	Mr. Chen Bo
Mr. Dai Liqi	Dr. Wong Yau Kar, David	Mr. Fong Chung, Mark	Ms. Tam Wai Chu, Maria
Mr. Li Jianxin		Dr. Wong Yau Kar, David	Mr. Fong Chung, Mark
Mr. Wang Guotao		Mr. Ye Zhijun	Mr. Ye Zhijun
Mr. Ye Zhijun *(Managing Director)*			
Independent Non-executive Directors			
Ms. Tam Wai Chu, Maria			
Mr. Fong Chung, Mark			
Dr. Wong Yau Kar, David			

The Board sets the Group's strategies and directions and monitors its performance. The Board also decides on corporate matters such as annual and interim results, notifiable transactions and connected transactions, director appointments, dividends and accounting policies. The Board has delegated the authority and responsibility of managing and overseeing the Group's day-to-day operations to the management.

The company secretary assists the Board in setting the agenda of Board meetings as instructed, and each Director is invited to discuss or propose any businesses at the meetings. All Directors have timely access to all relevant information of the meetings and may seek professional advice if necessary. The Company held six Board meetings in 2016. Directors' attendance of the Board meetings are as follows:

Attendance	**No. of meetings attended**	**Attendance %**
Mr. Chen Bo *(Chairman)*	6	100
Mr. Xiang Xiwen *(Deputy Chairman)*	6	100
Mr. Dai Liqi	3	50
Mr. Li Jianxin	5	83
Mr. Wang Guotao	3	50
Mr. Ye Zhijun *(Managing Director)*	6	100
Ms. Tam Wai Chu, Maria	6	100
Mr. Fong Chung, Mark	6	100
Dr. Wong Yau Kar, David	6	100

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

Audit Committee

The Audit Committee comprises three independent non-executive Directors. It is responsible for reviewing the accounting principles and practices, auditing, internal control and risk management, internal audit and legal and regulatory compliance of the Group. It also reviews the interim and annual results of the Group prior to recommending them to the Board for approval. It meets to review financial reporting and risk management and internal control matters and to this end has unrestricted access to the Company's auditor. The Audit Committee is chaired by Mr. Fong Chung, Mark, a qualified accountant with extensive experience in financial reporting and control. In 2016, the Audit Committee held three meetings to review the annual results of the Group for the year ended 31 December 2015 and the interim results of the Group for the six months ended 30 June 2016, review the accounting principles and practices adopted by the Group with the management and external auditor, and discuss and review the risk management and internal control matters and financial reports. The attendance of members of the Audit Committee at the Audit Committee meetings are as follows:

Attendance	No. of meetings attended	Attendance %
Mr. Fong Chung, Mark *(Chairperson)*	3	100
Ms. Tam Wai Chu, Maria	3	100
Dr. Wong Yau Kar, David	3	100

The Company's annual results for the year ended 31 December 2016 have been reviewed by the Audit Committee.

Remuneration Committee

The Remuneration Committee comprises three independent non-executive Directors and two executive Directors, of which Ms. Tam Wai Chu, Maria, an independent non-executive Director, is the chairlady. The Remuneration Committee is responsible for studying and determining the remuneration and incentive policies of the Directors and senior management of the Company, and such Directors' remuneration and incentive policies will be proposed to the Board. 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 is that no individual should determine his or her own remuneration; remuneration should reflect the performance, the complexity of works, positions, duties, and level of responsibilities of the individual.

In 2016, the Remuneration Committee 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 attendance of members of the Remuneration Committee at the Remuneration Committee meeting are as follows:

Attendance	No. of meetings attended	Attendance %
Ms. Tam Wai Chu, Maria *(Chairlady)*	1	100
Mr. Chen Bo	1	100
Mr. Fong Chung, Mark	1	100
Dr. Wong Yau Kar, David	1	100
Mr. Ye Zhijun	1	100

Nomination Committee

The Nomination Committee comprises three independent non-executive Directors and two executive Directors, of which Dr. Wong Yau Kar, David, an independent non-executive Director, is the chairperson.

The Nomination Committee is responsible for formulating and implementing policies and various reference factors relating to the nomination of Directors such as cultural background related to the operations of the Company, professional experience, qualifications, integrity, availability and independence as well as age and gender of the nominee. Other functions of the Nomination Committee include: (i) reviewing the structure, number of member and composition (including skills, knowledge and experience) of the Board and proposing changes to the Board to adapt to the strategy of the Company; (ii) looking for candidates with adequate qualification for being a Director, selecting and nominating such candidates to the Board and advising thereon; (iii) making proposals to the Board on the appointment or re-appointment of Directors and successors of Directors (in particular the Chairman and the Managing Director); (iv) evaluating independence of independent non-executive Directors; and (v) in the event that the Board intends to propose a resolution in relation to the 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.

Corporate Governance Report

In 2016, the Nomination Committee convened one meeting, during which the structure and composition of the Board were reviewed, and rotation of Directors were discussed. The attendance of members of the Nomination Committee at the Nomination Committee meeting are as follows:

Attendance	**No. of meetings attended**	**Attendance %**
Dr. Wong Yau Kar, David *(Chairperson)*	1	100
Mr. Chen Bo	1	100
Ms. Tam Wai Chu, Maria	1	100
Mr. Fong Chung, Mark	1	100
Mr. Ye Zhijun	1	100

Functions of Corporate Governance

The Board sets its corporate governance policies pursuant to the Corporate Governance Code, and it accordingly reviews and monitors the training and continuing professional development of Directors and the senior management and its policies and practices in compliance with relevant laws and regulatory requirements.

In 2016, all Directors participated in trainings in respect of corporate governance practices through various ways.

Chairman of the Board and the Managing Director of the Company

Mr. Chen Bo is the Chairman of the Board. Mr. Ye Zhijun is the Managing Director of the Company. This segregation of duties ensures a clear distinction between the Chairman'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) determine the policy for the Company's corporate governance and perform duties under D.3.1 of the Corporate Governance Code;

(2) responsible for convening general meetings;

(3) execute the resolutions of general meetings;

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

(5) prepare the Company's profit distribution plan and loss recovery plan;

(6) prepare material acquisition or disposal plans of the Company, as well as the plans for merger, spin-off, change of corporate form and dissolution of the Company;

(7) under the authorization of 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 transactions, etc;

(8) appoint or dismiss the general manager of the Company, and appoint or dismiss the company secretary according to the nomination of the general manager;

(9) responsible for formulating the policies related to risk management, internal audit and internal control, and authorize the Audit Committee to represent the Board to monitor the progress of work in risk management, internal audit and internal control;

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

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

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

(13) manage the information disclosure of the Company;

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

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

(16) determine other material matters and administrative matters other than those required to be determined by 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) prepare the Company's fundamental management policies and submit them to the Board for approval;

(5) formulate specific regulations of the Company;

(6) propose the appointment or dismissal of the deputy general manager and chief financial officer of the Company; appoint or dismiss other management staff other than those that should be appointed or dismissed 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) thoroughly implement the risk management, internal audit and internal control policies formulated by the Board and confirm with the Audit Committee the effectiveness of the policies of risk management and internal control systems;

(10) thoroughly implement the environmental, social and governance policies and responsible for preparation of environmental, social and governance reports according to the regulatory requirements;

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

Compliance with the Corporate Governance Code

Save as disclosed in this report, the Group has complied with the applicable code provisions of the Corporate Governance Code during the year ended 31 December 2016.

Directors' Responsibility for the Financial Statements

Directors recognized their responsibilities for the preparation of financial statements for the year ended 31 December 2016 of the Company.

Save as disclosed in this report, the Directors are not aware of any material uncertainties relating to events or situations that may cast significant doubt upon the Company's ability to continue as a going concern.

The responsibility statement of the auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 45 to 51 of this report.

Liability Insurance for Directors

Sinopec Corp. (the intermediate controlling shareholder which indirectly holds 60.33% of the Company) has taken out 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. As such, the Company has not submitted to additional commercial insurance against the liability risks of the Directors of the Company.

Auditors' Remuneration

For the year ended 31 December 2016, the following fees were paid/payable by the Group to its auditor, PricewaterhouseCoopers and its network members:

(in HK$ million)

	2016	2015
Audit services		
– the Company	2.70	2.24
– subsidiaries	3.51	2.52
Non-audit services	1.08	1.99
Total	7.29	6.75

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as its own code of conduct regarding the Directors' securities transactions. Having made specific enquiry to all Directors, all Directors confirmed that they had complied with the required standard set out in the Model Code during the year ended 31 December 2016.

Risk Management and Internal Control

The Company adopted the "Enterprise Risk Management" framework in a top-down approach. The Board and the Audit Committee continue to oversee the risk management and internal control systems of the Company and fully identify and manage all significant risks in aspects including financial, operational and compliance controls. The Company has established the Risk Control Department with staff specialised in risk management and internal audit matters. Risk identification, assessment and response procedures are performed on a quarterly basis, and risk conferences are held for the purpose of studying existing and emerging risks and discussing the changes of significant risks caused by changes in internal and external environment. All the business units and functional departments of the Company participate in the above activities. Risk Control Department consolidates the identified significant risks during the risk management process, and compiles a quarterly risk management report, through aggregation, filtering, prioritising as well as consultation process, to the management. Risk management and internal control report is prepared by Risk Control Department on an annual basis and submitted to the Audit Committee after reviewed by the management of the Company.

The Company established the risk management and internal control systems according to the following principles:

(1) Alignment to the Company's strategy: The enterprise risk management is aligned to the Company's strategic targets;

(2) Compliance: The Company complies with relevant laws and regulations including the Listing Rules and relevant management systems;

(3) Comprehensiveness: Enterprise risk management involves all employees of the Company, and plays important roles in decision-making, management and execution in all areas of businesses;

(4) Materiality: The Company focuses on risk management of key businesses and high risk areas;

(5) Cost effectiveness: The Company optimizes existing resources, and implements effective risk control procedures at a reasonable cost to enhance the efficiency and effectiveness of risk management and internal control systems;

(6) Integration: Enterprise risk management should integrate with the existing management systems and complement and support each other.

To ensure the establishment and maintenance of appropriate and effective risk management and internal control systems of the Company, the Audit Committee is responsible for overseeing the management's design, implementation and supervision of such systems according to the delegation of the Board and the effectiveness of such systems is at least reviewed annually. The Board recognizes its responsibilities for the risk management and internal control systems of the Company and reviewing their effectiveness. However, such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Audit Committee evaluates the effectiveness of the risk management and internal control systems of the Company on an annual basis and assesses the financial, operational and compliance controls based on the following factors:

(1) the changes in the nature and the extent of significant risks and the Company's ability to respond to the changes in its business and external environment;

(2) the scope and quality of the management's ongoing monitoring of the risk management and internal control systems, and the work of its internal audit function and other assurance providers;

(3) the report of the operation and the effectiveness of the risk management and internal control systems, including its extent and frequency, to the Audit Committee;

(4) review any significant control deficiency or weakness that has been identified during the year, the outcome led by or may have led by such deficiencies or weaknesses, and the impact made or may have made on the Company, discuss and implement appropriate rectification measures;

(5) review the sufficiency of resources, qualification and experiences of employees as well as the training courses and the relevant budget in relation to accounting, internal audit and financial reporting;

(6) the effectiveness of the procedures on financial reporting and the compliance of the provisions under the Listing Rules.

The Company resolves the internal control weaknesses by setting a three-line defense system. The first line is operational management and control. All departments and their subordinate units should manage and control their respective risk areas, find and solve the problems in a timely manner. The second line is risk management and compliance. Risk Control Department coordinates all departments to carry out risk management process. If Risk Control Department finds out internal control weaknesses, they would be reported for rectification in a timely manner. The third line is the Audit Committee and the internal audit that are responsible for considering the system's construction plan and evaluating its effectiveness. Significant internal control deficiencies, which are found in the review and reporting procedures, will be reported to the Audit Committee for solutions.

The Company has complied with the Information Disclosure Policy formulated in accordance with the SFO and the Listing Rules and has authorized and designated senior management and the Company's Listing Department to take responsibility for information disclosure after completion of approval procedures. Besides, the Company has also formulated and implemented the Confidentiality Management Policy and clearly stated in the internal code that it is strictly forbidden to use confidential or inside information without authorization.

For the year ended 31 December 2016, the Board has reviewed the effectiveness of the Company's risk management and internal control systems and considered such systems effective and adequate based on their purposes. The Board and the management have also performed a high-level risk assessment for the core business management procedures and risk management function of the Company so as to enhance the Company's internal control policies and procedures.

Company Secretary

Mr. Li Wenping and Mr. Lai Yang Chau, Eugene are the joint company secretaries of the Company. Mr. Li Wenping has extensive experience in the management of listed companies, and has participated in trainings related to the monitoring of listed companies in 2016. Mr. Lai Yang Chau, Eugene is a practising lawyer in Hong Kong and is responsible for assisting Mr. Li Wenping 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 released by the Company.

The Company welcomes shareholders to attend the general meetings to express their opinions and encourages all Directors to attend the general meetings to directly communicate with shareholders. The external auditor is also required to attend the annual general meetings 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.

Corporate Governance Report

Updated information of the Group is available to institutional and retail investors via the websites of the Stock Exchange (www.hkexnews.hk) or the Company (www.sinopec.com.hk). All significant information such as announcements, circulars, annual and interim reports can be downloaded from the above websites.

Shareholders' Rights

(a) Procedures for shareholders to convene a special general meeting

Pursuant to the Companies Act of Bermuda, 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 special general meeting. If within twenty-one days of such deposit the Board fails to proceed to convene a special general meeting, the requisitionists or any of them representing more than one half of the total voting rights of all of them, may themselves convene a special general meeting, 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 propose a resolution at the general meeting. The number of shareholders necessary for a requisition shall represent not less than one-twentieth of the total voting rights at the general meeting, or a number of 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 general meeting. It must also be signed by all of the concerned shareholders 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 general meeting in case of a requisition requiring notice of a resolution and not less than one week before the general meeting in case of any other requisition.

The concerned shareholders 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 concerned shareholders under applicable laws and rules.

(c) Shareholders' enquiries

Shareholders should direct their questions about their shareholdings to the Company's branch share registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, 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 at 34/F, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong.

Changes in Constitutional Documents

During the year ended 31 December 2016, the Company had not made any changes to its Bye-laws. An up-to-date version of the Bye-laws is available on the Company's website (www.sinopec.com.hk) and the Stock Exchange's website (www.hkexnews.hk). Shareholders may refer to the Bye-laws for further details of their rights.

Independent Auditor's Report

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羅兵咸永道

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SINOPEC KANTONS HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

Opinion

What we have audited

The consolidated financial statements of Sinopec Kantons Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 52 to 130, which comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:
- Impairment assessment of interests in associates and joint ventures
- Arbitration and impairment assessment of non-current assets of PT. West Point Terminal

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of interests in associates and joint ventures Refer to note 4.1(b), note 12 – Interests in associates, and note 13 – Interests in joint ventures to the consolidated financial statements As at 31 December 2016, the carrying amounts of the Group's investments in associates and joint ventures, which are primarily engaged in crude oil jetty and storage business, amounted to HK$711 million and HK$6,460 million respectively, in aggregate representing approximately 44% of its total assets. A number of factors, including regional crude oil demand and supply and conditions of facilities may significantly affect the performance of jetty and storage business, which may give rise to possible indication that the carrying amounts of investments in certain associates and joint ventures as at 31 December 2016 might be impaired. Where impairment indicators existed, management further assessed the recoverable amounts of investments in associates and joint ventures based on higher of the value in use and fair value less cost of disposal. The Company adopted value in use approach in determining the recoverable amounts, which is the present value of the future cash flows expected to be derived from the investments. Because of the significance of the carrying amounts of investments in associates and joint ventures as at 31 December 2016, together with the use of judgments and various assumptions, including forecasted revenue, forecasted gross margin and discount rates, in estimating the recoverable amounts, we had identified this matter as a key audit matter.	In addressing this matter, we had performed the following procedures: – We understood the key processes and controls relating to the identification of potential impairment indicator and the assessment of the recoverable amounts. – For those investments where impairment indicator existed, we obtained the discounted cash flows of the investments from management and understood the key bases and assumptions adopted by management. – We checked mathematical accuracy of the relevant discounted cash flow models. – We checked the accuracy of data input, and evaluated the key assumptions in the discounted cash flow models, in particular, for: i. forecasted revenue and forecasted gross margin, by comparing against actual historical financial data and approved budget for 2017, and ii. discount rates, by comparing the underlying assumptions adopted against external market data and published information of comparable companies. – We evaluated management's sensitivity calculation over the recoverable amounts and the impact on potential downside movement of key assumptions. We found the key assumptions adopted by management were supported by the available evidence.

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Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Arbitration and impairment assessment of non-current assets of PT. West Point Terminal Refer to note 4.1(a), note 16 – Prepaid land lease payments, and note 17 – Property, plant and equipment and note 29 – Contingencies to the consolidated financial statements As at 31 December 2016, the carrying amounts of non-current assets (the "**Assets**") of PT. West Point Terminal ("**PT. West Point**") amounted to HK$714 million, representing approximately 4% of its total assets. The Group owns 95% interest in PT. West Point for potential development of crude oil terminal and storage facilities in Indonesia. In November 2016, PT. West Point and the Group received requests for arbitration from International Court of Arbitration of the International Chamber of Commerce lodged by the non-controlling shareholder as disclosed in note 29 – Contingencies of the consolidated financial statements. The Company, after taking considerations of the advice from external legal counsel, concluded that the arbitration has no financial impact to the consolidated financial statements of the Group as at 31 December 2016. In addition, in light of different views among the shareholders in the project development of the crude oil terminal and storage facilities, the construction of the project has not been commenced up to the date of this report, and there is impairment indicator for the Assets in PT. West Point. Management has prepared an impairment assessment to determine the recoverable amount of the Assets, based on value in use calculations. Such assessment involved complex and subjective judgments and assumptions, such as future cash flow projections using forecasted product life span, forecasted revenue, forecasted gross margin and discount rate.	In addressing this matter, we had performed the following procedures: – We discussed with management to understand the PT. West Point project, including latest status and development plan of the project, status of the arbitration, and the approach of assessing the outcome of the arbitration, and assets impairment assessment. – We obtained and reviewed relevant agreements and documents, including articles of association, shareholders' agreement and requests for arbitration. – Arbitration: (1) With respect to the advice received from the external legal counsel engaged by the Group, we evaluated the qualifications, expertise and objectivity of the external legal counsel. (2) We discussed with the external legal counsel to understand the latest status of the project and compared to our understanding from the management. (3) We obtained direct legal confirmation from the external legal counsel on their assessment to the outcome of the arbitration and corresponding impact to the 2016 consolidated financial statements. (4) We evaluated the disclosure prepared by management relating to contingencies on the arbitration. – Impairment assessment of the Assets: (1) We understood the key bases and assumptions adopted by management in the discounted cash flow model.

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Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Because of the significance of the carrying amounts of the Assets, the use of judgments and key assumptions adopted in the discounted cash flow model as well as significant judgment in assessing the likely outcome of the arbitration, we had identified this matter as a key audit matter.	(2) We checked mathematical accuracy of the relevant discounted cash flow model. (3) We checked the accuracy of data input, and evaluated the key assumptions adopted, in particular for: i. forecasted project life span, by discussing with management and comparing against the feasibility report and land lease agreement; ii. forecasted revenue and forecasted gross margin, by comparing against designed capacity and benchmarking to industry norm; and iii. discount rate, by comparing the underlying assumptions adopted against external market data and published information of comparable companies. (4) We evaluated management's sensitivity calculation over the recoverable amount and the impact on potential downside movement of key assumptions. We found the key assumptions and estimates adopted by management and judgment made were supported by the available evidence.

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Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

羅兵咸永道

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is LEONG Kin Bong.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2017

(If there is any inconsistency between the English and Chinese version of this independent auditor's report, the English version shall prevail.)

Consolidated Income Statement

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Revenue	5, 6	**1,766,590**	2,043,630
Cost of sales	8	**(1,136,201)**	(1,204,618)
Gross profit		**630,389**	839,012
Other income and other gains, net	7	**107,329**	55,478
Distribution costs	8	**(20,760)**	(25,598)
Administrative expenses	8	**(162,997)**	(138,519)
Operating profit		**553,961**	730,373
Finance income	10	**10,421**	14,649
Finance costs	10	**(203,756)**	(198,140)
Finance costs, net		**(193,335)**	(183,491)
Share of results of:			
– Associates	12	**135,549**	117,865
– Joint ventures	13	**644,128**	553,901
		779,677	671,766
Profit before income tax		**1,140,303**	1,218,648
Income tax expenses	14	**(135,317)**	(191,730)
Profit for the year		**1,004,986**	1,026,918
Profit attributable to:			
Equity holders of the Company		**1,005,259**	1,026,852
Non-controlling interests		**(273)**	66
		1,004,986	1,026,918
Basic and diluted earnings per share for profit attributable to equity holders of the Company (expressed in HK cents per share)	15	**40.43**	41.30

The notes on pages 59 to 130 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
Profit for the year	**1,004,986**	1,026,918
Other comprehensive income for the year:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on currency translation		
– Subsidiaries	**(283,744)**	(226,074)
– Associates	**(45,648)**	(39,624)
– Joint ventures	**(307,326)**	(385,595)
Cash flow hedges		
– Associates	**(6,688)**	–
– Joint ventures	**(23,732)**	–
Other comprehensive income for the year, net of tax	**(667,138)**	(651,293)
Total comprehensive income for the year	**337,848**	375,625
Total comprehensive income attributable to:		
Equity holders of the Company	**338,121**	375,559
Non-controlling interests	**(273)**	66
Total comprehensive income for the year	**337,848**	375,625

The notes on pages 59 to 130 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	6,872,274	7,575,508
Investment properties	18	62,555	68,062
Prepaid land lease payments	16	681,920	708,797
Prepayment and other receivables		–	137,356
Interests in associates	12	710,784	678,586
Interests in joint ventures	13	6,460,197	6,378,616
Total non-current assets		14,787,730	15,546,925
Current assets			
Inventories	20	15,584	21,261
Trade and other receivables	19	1,173,286	988,236
Cash and cash equivalents	21	323,206	1,057,732
Total current assets		1,512,076	2,067,229
Total assets		16,299,806	17,614,154
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	22	248,616	248,616
Reserves		9,313,764	9,124,813
Equity attributable to equity holders of the Company		9,562,380	9,373,429
Non-controlling interests		38,392	38,665
Total equity		9,600,772	9,412,094

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	28	**99,800**	95,695
Borrowings	27	**3,353,791**	3,938,982
Government grants		**13,178**	4,667
Total non-current liabilities		**3,466,769**	4,039,344
Current liabilities			
Trade and other payables	26	**943,577**	4,139,948
Borrowings	27	**2,273,812**	–
Income tax payable		**14,876**	22,768
Total current liabilities		**3,232,265**	4,162,716
Total liabilities		**6,699,034**	8,202,060
Total equity and liabilities		**16,299,806**	17,614,154

The financial statements on pages 52 to 130 were approved by the board of directors on 30 March 2017 and were signed on its behalf

Chen Bo
Chairman

Ye Zhijun
Managing Director

The notes on pages 59 to 130 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

		Attributable to equity holders of the Company									
	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 interests HK$'000	Total equity HK$'000
Balance at 31 December 2014, as previously reported		248,616	6,300,684	151	23,444	244,124	614,831	2,806,733	10,238,583	38,599	10,277,182
Business combinations under common control		–	–	–	2,128,853	2,387	95,512	–	2,226,752	–	2,226,752
Balance at 1 January 2015, as restated		248,616	6,300,684	151	2,152,297	246,511	710,343	2,806,733	12,465,335	38,599	12,503,934
Comprehensive income:											
Profit for the year		–	–	–	–	–	–	1,026,852	1,026,852	66	1,026,918
Other comprehensive income											
Exchange differences on currency translation:											
– Subsidiaries		–	–	–	–	–	(226,074)	–	(226,074)	–	(226,074)
– Associates		–	–	–	–	–	(39,624)	–	(39,624)	–	(39,624)
– Joint ventures		–	–	–	–	–	(385,595)	–	(385,595)	–	(385,595)
Other comprehensive income for the year, net of tax		–	–	–	–	–	(651,293)	–	(651,293)	–	(651,293)
Total comprehensive income for the year		248,616	6,300,684	151	2,152,297	246,511	59,050	3,833,585	12,840,894	38,665	12,879,559
Transaction with owners											
Business combinations under common control		–	–	–	(3,114,623)	–	–	–	(3,114,623)	–	(3,114,623)
Dividend paid to a former owner of a subsidiary under common control		–	–	–	–	–	–	(228,534)	(228,534)	–	(228,534)
Appropriation of reserves		–	–	34,197	–	40,997	–	(75,194)	–	–	–
Utilisation of specific reserve for the year	23	–	–	(34,238)	–	–	–	34,238	–	–	–
Dividends	24	–	–	–	–	–	–	(124,308)	(124,308)	–	(124,308)
Total transaction with owners		–	–	(41)	(3,114,623)	40,997	–	(393,798)	(3,467,465)	–	(3,467,465)
Balance at 31 December 2015		248,616	6,300,684	110	(962,326)	287,508	59,050	3,439,787	9,373,429	38,665	9,412,094

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

		Attributable to equity holders of the Company										
	Note	Share capital HK$'000	Share premium HK$'000	Specific reserve HK$'000	Merger reserve HK$'000	General reserves HK$'000	Hedging reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2016		248,616	6,300,684	110	(962,326)	287,508	-	59,050	3,439,787	9,373,429	38,665	9,412,094
Comprehensive income:												
Profit for the year		-	-	-	-	-	-	-	1,005,259	1,005,259	(273)	1,004,986
Other comprehensive income												
Exchange differences on currency translation:												
– Subsidiaries		-	-	-	-	-	-	(283,744)	-	(283,744)	-	(283,744)
– Associates		-	-	-	-	-	-	(45,648)	-	(45,648)	-	(45,648)
– Joint ventures		-	-	-	-	-	-	(307,326)	-	(307,326)	-	(307,326)
Net loss on cash flow hedges:												
– Associates		-	-	-	-	-	(6,688)	-	-	(6,688)	-	(6,688)
– Joint ventures		-	-	-	-	-	(23,732)	-	-	(23,732)	-	(23,732)
Other comprehensive income for the year, net of tax		-	-	-	-	-	(30,420)	(636,718)	1,005,259	338,121	(273)	337,848
Total comprehensive income for the year		248,616	6,300,684	110	(962,326)	287,508	(30,420)	(577,668)	4,445,046	9,711,550	38,392	9,749,942
Transaction with owners												
Appropriation of reserves		-	-	24,424	-	32,863	-	-	(57,287)	-	-	-
Utilisation of specific reserve for the year	23	-	-	(23,729)	-	-	-	-	23,729	-	-	-
Dividends	24	-	-	-	-	-	-	-	(149,170)	(149,170)	-	(149,170)
Total transaction with owners		-	-	695	-	32,863	-	-	(182,728)	(149,170)	-	(149,170)
Balance at 31 December 2016		248,616	6,300,684	805	(962,326)	320,371	(30,420)	(577,668)	4,262,318	9,562,380	38,392	9,600,772

The notes on pages 59 to 130 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Cash flows generated from operations			
Cash generated from operations	25	**723,686**	1,651,306
Hong Kong income tax refund/(paid)		**523**	(2,115)
People's Republic of China (the "**PRC**") current income tax paid		**(114,126)**	(128,607)
Withholding tax paid		**(19,505)**	(45,438)
Net cash generated from operating activities		**590,578**	1,475,146
Cash flows from investing activities			
Purchase of property, plant and equipment		**(143,850)**	(313,207)
Payment of land lease		**–**	(8,760)
Loans granted to an associate		**–**	(6,487)
Loans repayment from an associate		**1,651**	–
Loans granted to joint ventures		**(85,658)**	(251,434)
Dividend received from an associate	12	**53,114**	95,540
Dividend received from joint ventures		**106,224**	237,401
Compensation received relating to investment in a joint venture	13	**–**	8,190
Interest income received	10	**10,421**	14,649
Government grants received		**10,061**	–
Proceeds from disposal of property, plant and equipment		**2,493**	403
Decrease/(increase) in amounts due from an intermediate holding company and fellow subsidiaries		**412,996**	(404,002)
Decrease in amounts due to immediate, intermediate holding companies and fellow subsidiaries		**(62,673)**	–
Net cash generated from/(used in) investing activities		**304,779**	(627,707)
Cash flows from financing activities			
Proceeds from borrowings		**8,812,091**	–
Repayments of borrowings		**(6,957,461)**	–
Dividends paid to owners of the Company		**(149,170)**	(124,308)
Dividends paid to former owners of a subsidiary under common control		**–**	(228,534)
Finance costs paid	10	**(203,756)**	(198,140)
Payment for consideration payable to acquire equity interests in a subsidiary under common control		**(3,064,723)**	–
Net cash used in financing activities		**(1,563,019)**	(550,982)
Net (decrease)/increase in cash and cash equivalents		**(667,662)**	296,457
Cash and cash equivalents at 1 January	21	**1,057,732**	798,867
Effect of foreign exchange rate changes		**(66,864)**	(37,592)
Cash and cash equivalents at 31 December	21	**323,206**	1,057,732

The notes on pages 59 to 130 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 (together, the "**Group**") are principally engaged in the provision of crude oil jetty services, vessel chartering services and natural gas pipeline transmission services. The principal activities of the associates and joint ventures of the Group are principally engaged in operation of crude oil and oil product terminals and ancillary facilities, provision of logistics services including storage, transportation and terminal services, details of which are set out in Note 12 and 13.

These financial statements are presented in Hong Kong dollars ("**HK$**"), unless otherwise stated. These financial statements have been approved by the board of directors for issue on 30 March 2017.

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**"). China Petroleum & Chemical Corporation ("**Sinopec Corp.**"), is an intermediate holding company of the Company and its shares are listed on the stock exchanges of Shanghai, Hong Kong, New York and London.

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 ("**HKFRS**"). The consolidated financial statements have been prepared under the historical cost convention.

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

In December 2015, the Group completed its acquisition of the entire equity interest in Sinopec Yu Ji Pipeline Company Limited ("**Yu Ji Pipeline Company**"), which is under common control of Sinopec Group. The acquisition of Yu Ji Pipeline Company which is a business combination under common control is accounted for in a manner similar to a uniting of interests whereby the assets and liabilities acquired are accounted for at carryover predecessor values to the other party to the business combination with all periods presented as if the operations of the Group and the business acquired have always been combined. The difference between the consideration paid by the Group and the net assets or liabilities of the business acquired is adjusted against equity.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Going concern

As at 31 December 2016, the Group had net current liabilities of approximately HK$1,720 million, which was primarily due to the drawn down of approximately HK$2,274 million of the relatively lower interest rate short-term revolving facility, from Sinopec Century Bright Capital Investment Limited ("**Century Bright**"), for the settlement of consideration payable for the acquisition of the entire equity interest in Yu Ji Pipeline Company completed in December 2015. This short-term revolving facility is a financing arrangement within Sinopec Group companies.

The board of directors of the Company has considered, among others, internally generated funds and financial resources available to the Group in the adoption of going concern basis in the preparation of the consolidated financial statements. In December 2016, the Group has renewed the short-term revolving facility of US$500 million (equivalent to approximately HK$3,878 million) provided by Century Bright, expiring on 29 December 2017. Subject to fulfilment of certain conditions, Century Bright has confirmed their intention that without unforeseen situation, approval of renewal of the short-term facility is expected.

Based on the above, the directors of the Company believe that the Group will have adequate resources to continue its operations for the foreseeable future for a period that is not less than 12 months from the end of the reporting period. Accordingly, the directors of the Company continue adopting the going concern basis in preparing consolidated financial statements.

2.1.2 Changes in accounting policy and disclosures

(a) Amended standards adopted by the Group

Annual improvements project	Annual improvements to HKFRSs 2012 – 2014 cycle
HKAS 1 (Amendment)	Disclosure initiative
HKAS 27 (Amendment)	Equity method in separate financial statements
HKAS 16 and HKAS 38 (Amendments)	Clarification of acceptable methods of depreciation and amortisation

The adoption of these amendments to standards and interpretation have no significant effects on the Group's financial information.

(b) Amended standards mandatory for the first time for the financial year beginning on 1 January 2016 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

HKAS 16 and HKAS 41 (Amendments)	Agriculture: bearer plants
HKFRS 11 (Amendment)	Accounting for acquisitions of interests in joint operations
HKFRS 14	Regulatory deferral accounts

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policy and disclosures (Continued)

(c) *New standards, amendments and interpretations have been issued but are not effective for the financial year beginning on 1 January 2016 and have not been early adopted*

The following standards, amendments to standards and interpretation have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2017 or later periods, but the Group has not early adopted them:

		Effective for accounting periods beginning on or after
HKAS 12 (Amendments)	Income taxes	1 January 2017
HKAS 7 (Amendments)	Statement of cash flows	1 January 2017
HKFRS 2 (Amendments)	Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 16	Leases	1 January 2019
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be announced

HKFRS 15, 'Revenue from contracts with customers', establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach. HKFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. HKFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with earlier application permitted.

HKFRS 16, 'Leases', provides updated guidance on the definition of leases, and the guidance on the combination and separation of contracts. Under HKFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. HKFRS 16 requires lessees to recognise lease liability reflecting future lease payments and a 'right–of–use–asset' for almost all lease contracts, with an exemption for certain short–term leases and leases of low–value assets. The lessors accounting stays almost the same as under HKAS 17 'Leases'. An entity shall apply HKFRS 16 for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted if HKFRS 15 is also applied.

The adoption of other standards, amendments and interpretations listed above in future periods is not expected to have any material impact on the Group's results of operations and financial position.

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.

(i) Merger accounting for common control combinations

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party, as prescribed in Accounting Guideline 5 ("**AG 5**"), Merger Accounting for Common Control Combinations, issued by the HKICPA.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the period in which it is incurred.

2 Summary of significant accounting policies (Continued)

2.2 Subsidiaries (Continued)

(ii) Acquisition method of accounting for non-common control combinations

Apart from the business combination under common control which has been accounted for using the principles of merger accounting prescribed in AG 5 (Note 2.2(i)), the Group applies the acquisition method of accounting to account non-common control 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.

2 Summary of significant accounting policies (Continued)

2.2 Subsidiaries (Continued)

(iii) Separate financial statements

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.

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 Associates

An associate is an entity 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 associates 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 investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in associates 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 associates equals or exceeds its interest in the associate, 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 associate.

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

2 Summary of significant accounting policies (Continued)

2.3 Associates (Continued)

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

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

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. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. 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.

The Group determines at each reporting date whether there is any objective evidence that the investment in joint ventures is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and it's carrying value and recognises the amount adjacent to 'shares of results of joint ventures' in the income statement.

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, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the board of directors (the "**Group's chief operating decision-maker**") for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business.

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, associates, 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.

All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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
–	Natural gas pipelines	10-30 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 subsidiaries represents 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 identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**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

Intangible assets that have an indefinite useful life or intangible assets not ready to use 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 higher of an asset's fair value less costs of disposal 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 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 Offsetting financial instruments

Financial assets and liabilities are presented respectively in the consolidated balance sheet, without any offset. However, they are offset and reported in the balance sheet when satisfied the following: (1) There is a legally enforceable right to offset the recognised amounts. (2) There is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.13 Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in other reserves. The ineffective portion of any gain or loss is recognised immediately in the consolidated income statement.

If a hedge of a forecast transaction subsequently results in the recognition of a non–financial asset, the associated gain or loss is reclassified from equity to be included in the initial cost or other carrying amount of the non-financial asset.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to the consolidated income statement in the same period or periods during which the asset acquired or liability assumed affects the consolidated income statement (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to the consolidated income statement in the same period or periods during which the hedged forecast transaction affects the consolidated income statement.

2 Summary of significant accounting policies (Continued)

2.13 Cash flow hedges (Continued)

When a hedging instrument expires or is sold, terminated, exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to the consolidated income statement immediately.

2.14 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.

2.15 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 realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges for purchase of raw materials.

2 Summary of significant accounting policies (Continued)

2.16 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries, associates or joint ventures to secure loans, overdrafts and other banking facilities.

Where guarantees in relation to loans or other payables of subsidiaries, associates and joint ventures are provided for 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.

2.17 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.

2.18 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.19 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.

2.20 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)

2.21 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.

2.22 Current and deferred income tax

The tax expense for the period comprises current and deferred income 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 associates 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 income 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.

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.

2 Summary of significant accounting policies (Continued)

2.22 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates 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 associates. Only when there is an agreement in place that gives the group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is 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 associates, 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.

2.23 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 contributions have been paid.

Notes to the Financial Statements

2 Summary of significant accounting policies (Continued)

2.24 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.

2.25 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) Crude oil jetty service income

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

(b) Vessel chartering service income

Vessel chartering service income is recognised on a percentage of completion basis, which is determined on the straight-line basis over the period of each individual vessel voyage.

(c) Natural gas transmission service income

Natural gas transmission service income is recognised when the services are rendered.

(d) Rental income

Rental income from investment properties is recognised in the income statement on a straight-line basis over the term of the lease.

(e) Management fee income

Management fee income is recognised when the services are rendered.

2 Summary of significant accounting policies (Continued)

2.26 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.

2.27 Dividend income

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

2.28 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.

2.29 Dividend distribution

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

2.30 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.

Government grants relating to costs are deferred and recognised within "Other income and other gains, net" in the income statement over the period necessary to match with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

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 primarily focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

Foreign exchange risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Group's foreign exchange risk exposure primarily relates to deposits, accruals and other payables denominated in Renminbi ("**RMB**"), US dollars ("**USD**") and Singapore dollars ("**SGD**"), respectively.

A 3% strengthening/weakening of Hong Kong dollars ("**HK$**") against the following currencies would have increased/decreased post-tax profit of the Group by the amounts shown below. This analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the foreign currency balances to which the Group has significant exposure as stated above, and that all other variables remain constant.

	2016 HK$'000	**2015 HK$'000**
RMB	**5,536**	67,606
USD	**1,211**	–
SGD	**845**	885

(b) Interest rate risk

The Group's interest rate risk exposure arises primarily from its short-term and long-term borrowings. Borrowings bearing interest at variable rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates of short-term and long-term borrowings are disclosed in Note 27.

As at 31 December 2016, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would decrease/increase the Group's post-tax profit by approximately HK$46,729,000 (2015: decrease/increase by approximately HK$48,352,000). This sensitivity analysis has been determined assuming that the change of interest rates was applied to the Group's borrowings outstanding at the balance sheet date with exposure to cash flow interest rate risk, which in part be eliminated by cash holdings on a variable interest rates basis.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's deposits placed with financial institutions and receivables from customers.

To limit exposure to credit risk relating to deposits, the Group primarily places cash deposits only with large banks and financial institutions in/outside Hong Kong with acceptable credit ratings. The majority of the Group's trade receivables relate to the provision of crude oil jetty service, vessel chartering service and natural gas pipeline transmission service substantially to related parties.

As at 31 December 2016, no single customer accounted for greater than 10% of total trade receivables, except the amounts due from Sinopec Corp., an intermediate holding company and fellow subsidiaries. Management performs ongoing credit evaluations of the Group's customers' financial condition and generally does not require collateral on trade receivables. There was no history of doubtful accounts nor actual bad debt loss.

The Group monitors the exposure to credit risk in respect of the financial guarantee against bank loans of joint ventures through exercising joint control over their financial and operating policy decisions and reviewing their financial positions on a regular basis. As at 31 December 2016, the maximum credit risk exposure in respect of the financial guarantee is approximately HK$340 million (2015: approximately HK$234 million). Details of the financial guarantee are set out in note 13 to the financial statements.

The carrying amounts of cash and cash equivalents and trade and other receivables, represent the Group's maximum exposure to credit risk in relation to financial assets.

(d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach in managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Management prepares monthly cash flow budget to ensure that the Group will always have sufficient liquidity to meet its financial obligations as they fall due. The Group arranges and negotiates financing with financial institutions and maintains a certain level of standby credit facilities to reduce the Group's liquidity risk.

As at 31 December 2016, the Group has standby credit facilities with Century Bright, amounting to US$500 million, equivalent to approximately HK$3,878 million (2015: US$500 million, equivalent to approximately HK$3,900 million) on an unsecured basis, at a weighted average interest rate of 1.89% per annum (2015: nil). As at 31 December 2016, the Group's outstanding borrowings under these facilities were US$293 million, equivalent to approximately HK$2,274 million (2015: nil) and were included in short-term borrowings.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(d) Liquidity risk (Continued)

The following table sets out the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on prevailing rates current at the balance sheet date) and the earliest date the Group would be required to repay:

	Within 1 year or on demand HK$'000	**More than 1 year but less than 5 years HK$'000**
At 31 December 2016		
Trade payables	**51,325**	**–**
Other payables	**148,716**	**–**
Amounts due to immediate, intermediate holding companies and fellow subsidiaries	**743,536**	**–**
Borrowings	**2,455,645**	**3,568,853**
Financial guarantee against bank loans of joint ventures	**340,000**	**–**
At 31 December 2015		
Trade payables	77,224	–
Other payables	176,313	–
Consideration payable to acquire Yu Ji Pipeline Company	3,075,845	–
Amounts due to immediate, intermediate holding companies and fellow subsidiaries	810,566	–
Borrowings	196,910	4,332,802

3 Financial risk management (Continued)

3.2 Capital management

Management optimises the structure of the Group's capital, which comprises of equity and borrowings. In order to maintain or adjust the capital structure of the Group, management may cause the Group to issue new shares, adjust the capital expenditure plan, adjustment the investment plan or adjust the proportion of short-term and long-term borrowings. Management monitors capital on the basis of the current ratio (current assets divided by current liabilities), gearing ratio (total liabilities divided by total assets) and net debt-to-capital ratio (see below).

Management's strategy is to make appropriate adjustments according to the Group's operating and investment needs and the changes of market conditions, and to maintain the current ratio, gearing ratio and net debt-to-capital ratio at a range considered reasonable.

	2016 HK$'000	2015 HK$'000
Current ratio	**0.47**	0.50
Gearing ratio	**41%**	47%
Current liabilities		
Trade and other payables (Note 26)	**943,577**	4,139,948
Borrowings (Note 27)	**2,273,812**	–
Less: Cash and cash equivalents (Note 21)	**(323,206)**	(1,057,732)
Net debt	**2,894,183**	3,082,216
Total equity	**9,600,772**	9,412,094
Net debt-to-capital ratio	**30%**	33%

4 Critical accounting estimates and judgments

4.1 Critical accounting estimates and assumptions

Estimates and judgments 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 property, plant and equipment and prepaid land lease payments

Assets that are subject to depreciation and amortisation are reviewed for impairment to determine whether there is any indication that the carrying value of these assets may not be recoverable and have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of an assets' fair value less costs to dispose and value in use.

During the year, PT. West Point Terminal ("PT. West Point") and the Group received requests for arbitration lodged by the non-controlling shareholder, and with construction of the project has not been commenced up to the date of this report. The Group has performed impairment assessment on the property, plant and equipment and prepaid land lease payments of PT. West Point Terminal amounted to HK$87 million and HK$627 million respectively. The value-in-use calculation was based on the key assumptions, including (i) forecasted project life span based on management's expectation and the feasibility report, (ii) forecasted revenue and forecasted gross margin based on management's expectation (iii) pre-tax discount rate of 15.2% per annum.

With all other variables held constant, if the annual revenue is 1% less that management expectation, the profit before taxation would have been decreased by HK$42 million. Similarly, with all other variable held constant, if the post-tax discount rate increased by 0.5%, the profit before taxation would have been decreased by HK$159 million.

Based on the impairment assessment, the recoverable amounts of property, plant and equipment and prepaid land lease payments of PT. West Point in Indonesia are higher than their respective carrying amounts. There would be no impairment on the property, plant and equipment and prepaid land lease payments of PT. West Point during the year.

4 Critical accounting estimates and judgments (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(b) Estimated impairment of interests in associates and joint ventures

The Group determines whether interests in associates and joint ventures are impaired by regularly review whether there are any indications of impairment. Where impairment indicators existed, management further assessed the recoverable amounts of investments in associates and joint ventures based on value in use amounts estimated using discounted cash flow models.

During the year, the Group has performed impairment assessment on the interests in associates and joint ventures which have impairment indicators. The value-in-use calculation was based on the key assumptions, including (i) forecasted revenue and forecasted gross margin based on management's expectation and historical performances (ii) pre-tax discount rate of 8.3% per annum.

With all other variables held constant, if the annual revenue is 1% less that management expectation, the profit before taxation would have been decreased by HK$34 million. Similarly, with all other variable held constant, if the post-tax discount rate increased by 0.5%, the profit before taxation would have been decreased by HK$128 million.

Based on the impairment assessment, the recoverable amounts of interest in associates and joint ventures which have impairment indicators are higher than their respective carrying amount. There would be no impairment on interests in associates and joint ventures during the year.

(c) Withholding tax

The Group is subject to withholding taxes in the respective countries. Significant judgment is required in determining the provision for deferred income 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 income 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 chief operating decision-maker for the purposes of resource allocation and performance assessment, the Group has identified three reportable segments, namely, rendering of crude oil jetty and storage services, rendering of vessel chartering and logistics services and rendering of natural gas pipeline transmission services. All operating segments which fulfil the aggregation criteria under HKFRS 8-Operating segments are identified by the Group's chief operating decision-maker have been aggregated in arriving at the reportable segments of the Group.

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

– Vessel chartering and logistics services: this segment provides vessel chartering services 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.

– Natural gas pipeline transmission services: this segment provides transmission services through its natural gas pipelines located in the PRC.

For the purposes of assessing segment performance and allocating resources between segments, the Group's chief operating decision-maker monitors the results, assets and liabilities attributable to each reporting segment on the following basis:

Segment assets included all assets, except for cash and cash equivalents, investment properties, dividend receivable from joint ventures, prepaid land lease payments and unallocated trade and other receivables. Segment liabilities exclude unallocated trade and other payables, borrowings and deferred income tax liabilities. The Group's chief operating decision-maker has determined to present segment assets, liabilities and results of associates and joint ventures under respective segments. Comparative information has been reclassified to conform with current year's presentation.

(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.

The measure used for reporting segment profit is "segment results". Segment results 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 and other corporate costs or income are excluded from segment results.

5 Segment reporting (Continued)

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

In addition to receiving segment information concerning segment results, management is also provided with segment information concerning bank interest income, depreciation and amortisation and capital expenditures used by the segments in their operations.

Information regarding the Group's reportable segments as provided to the Group's chief operating decision-maker 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 2016:

Year ended 31 December 2016

	Crude oil jetty and storage services HK$'000	Vessel chartering and logistics services HK$'000	Natural gas pipeline transmission services HK$'000	Total HK$'000
Segment revenue	586,512	140,473	1,039,605	1,766,590
Segment results				
– Company and subsidiaries	242,578	59,139	191,156	492,873
– Associates	130,649	4,900	–	135,549
– Joint ventures	639,386	4,742	–	644,128
				1,272,550
Unallocated other corporate expenses				(132,247)
Profit before income tax				1,140,303
Income tax expenses				(135,317)
Profit for the year				1,004,986
Other segment items				
Bank interest income	263	3,926	6,232	10,421
Depreciation and amortisation	(148,503)	(1,420)	(374,421)	(524,344)
Capital expenditures	142,553	44	138,609	281,206

5 Segment reporting (Continued)

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

(i) As at and for the year ended 31 December 2016: (Continued)

As at 31 December 2016

	Crude oil jetty and storage services HK$'000	Vessel chartering and logistics services HK$'000	Natural gas pipeline transmission services HK$'000	Total HK$'000
Segment assets				
– Company and subsidiaries	2,244,228	124,822	5,512,290	7,881,340
– Associates	640,463	70,321	–	710,784
– Joint ventures	5,735,727	724,470	–	6,460,197
				15,052,321
Unallocated assets				
– Cash and cash equivalents				323,206
– Trade and other receivables				5,392
– Investment properties				62,555
– Dividend receivable from joint ventures				236,053
– Prepaid land lease payments				620,279
Total assets				16,299,806
Segment liabilities	122,304	2,269,356	3,429,529	5,821,189
Unallocated liabilities				
– Trade and other payables				699,893
– Borrowings				78,152
– Deferred income tax liabilities				99,800
Total liabilities				6,699,034

5 Segment reporting (Continued)

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

(ii) As at and for the year ended 31 December 2015:

Year ended 31 December 2015

	Crude oil jetty and storage services HK$'000	Vessel chartering and logistics services HK$'000	Natural gas pipeline transmission services HK$'000	Total HK$'000
Segment revenue	613,975	224,588	1,205,067	2,043,630
Segment results				
– Company and subsidiaries	232,094	42,682	338,627	613,403
– Associates	114,602	3,263	–	117,865
– Joint ventures	553,901	–	–	553,901
				1,285,169
Unallocated other corporate expenses				(66,521)
Profit before income tax				1,218,648
Income tax expenses				(191,730)
Profit for the year				1,026,918
Other segment items				
Bank interest income	327	13,270	1,005	14,602
Depreciation and amortisation	(178,386)	(1,421)	(370,674)	(550,481)
Capital expenditures	176,523	22	136,662	313,207

5 Segment reporting (Continued)

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

(ii) As at and for the year ended 31 December 2015: (Continued)

As at 31 December 2015

	Crude oil jetty and storage services HK$'000	Vessel chartering and logistics services HK$'000	Natural gas pipeline transmission services HK$'000	Total HK$'000
Segment assets				
– Company and subsidiaries	2,161,261	127,449	6,504,148	8,792,858
– Associates	608,478	70,108	–	678,586
– Joint ventures	5,793,101	585,515	–	6,378,616
				15,850,060
Unallocated assets				
– Cash and cash equivalents				1,057,732
– Trade and other receivables				1,151
– Investment properties				68,062
– Prepaid land lease payments				637,149
Total assets				17,614,154
Segment liabilities	112,693	3,144,082	4,206,716	7,463,491
Unallocated liabilities				
– Trade and other payables				642,874
– Deferred income tax liabilities				95,695
Total liabilities				8,202,060

5 Segment reporting (Continued)

(b) Analysis of information by geographical regions

The following tables set out information about the geographical information of the Group's revenue, non-current assets and total assets. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers, and segment assets are based on the geographical location of the assets.

Revenue

	2016 HK$'000	2015 HK$'000
The PRC	**1,626,117**	1,819,042
Hong Kong	**140,473**	224,588
	1,766,590	2,043,630

Non-current assets

	2016 HK$'000	2015 HK$'000
The PRC	**11,426,023**	12,258,775
Europe	**1,250,990**	1,271,854
Indonesia	**706,480**	724,116
Hong Kong	**821,368**	686,716
United Arab Emirates	**582,032**	604,577
Other	**837**	887
	14,787,730	15,546,925

Total assets

	2016 HK$'000	2015 HK$'000
The PRC	**12,557,960**	13,282,227
Europe	**1,250,990**	1,271,854
Indonesia	**813,589**	833,071
Hong Kong	**1,094,398**	1,621,538
United Arab Emirates	**582,032**	604,577
Other	**837**	887
	16,299,806	17,614,154

5 Segment reporting (Continued)

(c) Major customers

For the purpose of disclosure under segment reporting, one (2015: one customer (including Sinopec Gas Company, UNIPEC ASIA COMPANY LIMITED and China Petroleum & Chemical Corporation Guangzhou Branch) customer (including Sinopec Gas Company, UNIPEC ASIA COMPANY LIMITED and China Petroleum & Chemical Corporation Guangzhou Branch) from crude oil jetty services, vessel chartering services and natural gas pipeline transmission services has transactions that exceeded 96% of the Group's revenue, amounting to HK$1,697,415,000 (2015: HK$1,957,918,000). This customer mainly operates in the PRC.

(d) Capital expenditures

	2016 HK$'000	2015 HK$'000
Hong Kong	**44**	22
The PRC	**281,162**	313,185
	281,206	313,207

6 Revenue

	2016 HK$'000	2015 HK$'000
Provision of services:		
– Crude oil jetty services	**586,512**	613,975
– Vessel chartering services	**140,473**	224,588
– Natural gas pipeline transmission services	**1,039,605**	1,205,067
	1,766,590	2,043,630

7 Other income and other gains, net

	2016 HK$'000	2015 HK$'000
Other income:		
– Rental income from investment properties	8,593	6,083
– Sale of fuel oil for vessels	13,551	–
– Government grants		
– VAT refund	52,119	73,737
– Others	2,272	2,056
– Interest income from loan to:		
– An associate	3,750	2,748
– A joint venture	18,880	11,775
– Management fee income from a joint venture	3,420	841
	102,585	97,240
Other gains/(losses):		
– Net foreign exchange gain/(loss)	5,067	(39,170)
– Net loss on disposal of property, plant and equipment	(840)	(2,721)
– Others	517	129
	4,744	(41,762)
	107,329	55,478

8 Expenses by nature

	2016 HK$'000	2015 HK$'000
Cost of inventories sold		
– Fuel oil for vessels (Note 20)	**36,514**	53,553
Depreciation		
– properties, plant and equipment (Note 17)	**516,061**	535,395
– investment properties (Note 18)	**3,043**	4,054
Amortisation of prepaid land lease payments	**19,086**	14,311
Employee benefit expenses, including Directors' remuneration (Note 9)	**100,978**	99,590
Management fees to a fellow subsidiary (Note 31(a))	**9,010**	5,574
Auditor's remuneration		
– Audit and related services		
– the Company	**2,700**	2,237
– subsidiaries	**3,608**	2,743
– Non-audit services	**1,080**	1,991
Expenses relating to investment properties	**998**	938
Operating lease charges: minimum lease payments		
– hire of vessels	**62,293**	76,743
– hire of natural gas storage (Note 31(a))	**112,507**	101,605
– hire of a property	**12,205**	14,989

9 Employee benefit expenses

	2016 HK$'000	2015 HK$'000
Wages, salaries and other benefits (Note)	93,834	92,004
Retirement benefit scheme contributions	7,144	7,586
	100,978	99,590

Note: Relevant employee costs relating to natural gas pipeline operations are charged by an intermediate holding company in form of subcontracting charges, details of which are set out in Note 31(a).

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$30,000. Contributions to the plan vest immediately.

The Group's subsidiaries established in the PRC and Indonesia have participated in defined contribution retirement schemes organised by respective local government. These subsidiaries are required to make contributions to respective scheme at certain percentage of the employees' relevant basic salaries. Contributions to the scheme vest immediately.

As at 31 December 2016, there was no material outstanding contribution to employee retirement benefits. The Group does not have any other obligations other than the contributions described above.

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2016 and 2015 are as follows:

	Number of individuals	
	2016	2015
Directors	–	1
Non-director individuals	5	4
	5	5

9 Employee benefit expenses (Continued)

(a) Five highest paid individuals (Continued)

	2016 HK$'000	2015 HK$'000
Salaries and other benefits in kind	7,226	5,398
Bonuses	6,847	4,778
	14,073	10,176

	Number of individuals	
	2016	2015
Emolument bands		
HK$ 2,000,001 – HK$ 3,000,000	5	4

10 Finance costs, net

	2016 HK$'000	2015 HK$'000
Interest income:		
– Deposits at bank and related financial institutions	10,421	14,649
Interest expenses:		
– Borrowings	(203,756)	(198,140)

11 Subsidiaries

The following is a list of subsidiaries as at 31 December 2016 and 2015:

				Proportion of ordinary shares and voting powers at 31 December			
	Place of incorporation/ establishment and kind of legal entity	Principal activities	Particulars of issued and paid up capital/ registered capital	% held by the Group in 2016	% held by the Group in 2015	% held by non-controlling interests in 2016	% held by non-controlling interests in 2015
Directly held							
Sinomart KTS Development Limited ("**Sinomart Development**") (經貿冠德發展有限公司)	Hong Kong/ Limited liability company	Trading of crude oil and rendering vessel chartering services	185,250,050 ordinary shares of HK$1 each and 10,000 non-voting deferred shares of HK$1 each (Note (b))	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 Petrochemical Company Limited ("**Huade Petrochemical**") (Note (a)) (華德石化有限公司)	The PRC/ Limited liability company	Operating crude oil jetty and ancillary facilities	Registered capital US$93,758,200	100%	100%	–	–
PT. West Point	Jakarta, Indonesia/ Limited liability company	Provision of oil supporting services	100,000,000 shares of US$1 each	95%	95%	5%	5%
Yu Ji Pipeline Company (Note (c)) (中石化榆济管道有限責任公司)	The PRC/ Limited liability company	Natural gas pipeline transmission services	Registered capital RMB1,000,000,000	100%	100%	–	–

Notes:

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

(b) Holders of non-voting defined shares have no rights to dividends or to receive notice of or to attend or vote at any general meeting of Sinomart Development or to participate in any distribution on winding up.

(c) Acquisition of Yu ji Pipeline Company was completed on 31 December 2015 and became an indirect wholly-owned subsidiary of the Group.

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 associates

	2016 HK$'000	2015 HK$'000
Cost of unlisted investments	**419,030**	419,030
Share of post-acquisition results and other comprehensive income	**551,019**	422,158
Dividend received	**(248,522)**	(195,408)
Exchange differences	**(67,986)**	(22,338)
Share of net assets	**653,541**	623,442
Loan granted to an associate	**57,243**	55,144
	710,784	678,586

Loan granted to an associate are unsecured and interest bearing at approximately 6.6% per annum and are wholly repayable within 20 years after the vessels construction project undertaken by the associate is completed.

The following list contains only the particulars of associates, 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 2016	% held by the Group in 2015
Indirectly held						
Zhan Jiang Port Petrochemical Jetty Co. ("**Zhan Jiang Port Petrochemical Terminal**") (湛江港石化碼頭有限公司)	(a)	Provision of logistic service	The PRC	Registered capital RMB180,000,000	50%	50%
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)		Transportation of liquefied natural gas	Hong Kong	5,000,000 ordinary shares of US$1 each	30%	30%

(a) The Directors have determined that they do not control Zhan Jiang Port Petrochemical Terminal, even though Sinomart Development owns 50% of the issued capital of this entity. Sinomart Development have no rights to make decisions on operations and its financial policies, it mainly exercises significant influence to the investee instead of joint control.

12 Interests in associates (Continued)

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

Summarised balance sheet

	Zhan Jiang Port Petrochemical Terminal	
	2016 HK$'000	2015 HK$'000
Current		
Cash and cash equivalents	**34,309**	44,699
Other current assets (excluding cash)	**36,141**	16,197
Total current assets	**70,450**	60,896
Financial liabilities (excluding trade payables)	**(219,191)**	(399,045)
Other current liabilities (including trade payables)	**(79,577)**	(66,750)
Total current liabilities	**(298,768)**	(465,795)
Non-current		
Assets	**1,594,260**	1,706,929
Financial liabilities	**(85,018)**	(85,073)
Total non-current assets	**1,509,242**	1,621,856
Net assets	**1,280,924**	1,216,957

12 Interests in associates (Continued)

Summarised statement of comprehensive income

	Zhan Jiang Port Petrochemical Terminal	
	2016 HK$'000	2015 HK$'000
Revenue	627,354	619,826
Depreciation and amortisation	(44,599)	(51,612)
Interest income	438	492
Interest expense	(11,106)	(15,903)
Other expenses	(223,903)	(248,194)
Profit before income tax	348,184	304,609
Income tax expense	(86,888)	(75,404)
Post-tax profit	261,296	229,205
Other comprehensive income	(91,101)	(79,247)
Total comprehensive income	170,195	149,958
Dividends received from an associate	53,114	95,540

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

12 Interests in associates (Continued)

Reconciliation of summarised financial information

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

	Zhan Jiang Port Petrochemical Terminal	
	2016 HK$'000	2015 HK$'000
Net assets	1,280,924	1,216,957
Interest in an associate (%)	50%	50%
Group's share of net assets in an associate	640,462	608,479
Carrying value	640,462	608,479

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

	2016 HK$'000	2015 HK$'000
Share of profit	4,901	3,263
Share of other comprehensive income	(6,786)	–
Share of total comprehensive income	(1,885)	3,263
Carrying amount of interest in the associate	13,079	14,963

13 Interests in joint ventures

	2016 HK$'000	2015 HK$'000
Cost of unlisted investments	**4,468,763**	4,479,043
Share of post-acquisition results and other comprehensive income	**2,200,080**	1,560,574
Dividend received	**(605,823)**	(263,546)
Exchange differences	**(695,526)**	(388,200)
Share of net assets	**5,367,494**	5,387,871
Loans granted to joint ventures	**1,092,703**	990,745
	6,460,197	6,378,616

Certain loans granted to joint ventures are unsecured and interest bearing 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.

13 Interests in joint ventures (Continued)

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 2016	% held by the Group in 2015
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 ("**Qingdao Shihua**") (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 RMB1,000,000,000	Equity	50%	50%
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 ("**Rizhao Shihua**") (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 RMB1,080,000,000	Equity	50%	50%
Tangshan Caofeidian Shihua Crude Oil Terminal Company and its Limited ("**Caofeidian Shihua**") (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 chartering services	Hong Kong	5,000,000 ordinary shares of US$1 each	Equity	49%	49%
Fujairah Oil Terminal FCZ	(c)	Provision of oil storage services	Fujairah	100,000 shares of US$1 each	Equity	50%	50%
Vesta Terminals B.V.	(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%	50%

Notes to the Financial Statements

13 Interests in joint ventures (Continued)

Notes:

(a) The acquisition of the five joint ventures was 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 Caofeidian Shihua, even though Sinomart Development owns 90% of the issued capital of this entity. It is not a controlled entity of Sinomart Development, because decisions for financial and operating activities can only be passed with a unanimous consent of all members in the Board. Therefore, Sinomart Development is not exposed 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 venture 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 in Vesta from 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)

Summarised financial information

Set out below are the summarised financial information for Vesta, Qingdao Shihua, Rizhao Shihua and Caofeidian Shihua which are considered material to the Group's financial statements.

Summarised balance sheet – material joint ventures

	Vesta		Qingdao Shihua		Rizhao Shihua		Caofeidian Shihua	
	2016	2015	2016	2015	2016	2015	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Current								
Cash and cash equivalents	178,893	113,037	264,926	164,732	241,989	110,243	185,540	96,735
Other current assets (excluding cash)	19,027	54,620	28,427	22,990	5,332	9,798	9,165	256
Total current assets	197,920	167,657	293,353	187,722	247,321	120,041	194,705	96,991
Financial liabilities (excluding trade payables)	(35,625)	(231,720)	(284,976)	(552,574)	(5,725)	(14,054)	(131,318)	(7,648)
Other current liabilities (including trade payables)	(24,113)	(34,987)	(160,859)	(156,831)	(58,430)	(93,477)	(1,971)	(768)
Total current liabilities	(59,738)	(266,707)	(445,835)	(709,405)	(64,155)	(107,531)	(133,289)	(8,416)
Non-current								
Assets	1,633,612	1,804,412	3,355,302	3,722,514	1,883,155	2,043,884	559,845	621,067
Financial liabilities	(246,277)	(137,068)	–	–	–	(95,490)	–	–
Other liabilities	(10,337)	(11,386)	–	–	–	–	–	–
Total non-current net assets	1,376,998	1,655,958	3,355,302	3,722,514	1,883,155	1,948,394	559,845	621,067
Net assets	1,515,180	1,556,908	3,202,820	3,200,831	2,066,321	1,960,904	621,261	709,642

13 Interests in joint ventures (Continued)

Summarised financial information (Continued)

Summarised statement of comprehensive income – material joint ventures

	Vesta		Qingdao Shihua		Rizhao Shihua		Caofeidian Shihua	
	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000
Revenue	470,550	563,920	1,194,618	1,038,712	458,395	415,305	194,377	227,176
Depreciation and amortisation	(146,992)	(154,004)	(185,002)	(147,732)	(48,229)	(49,585)	(31,428)	(38,518)
Interest income	198	617	1,314	3,450	–	–	434	189
Interest expense	(9,677)	(15,543)	(2,638)	–	(2,159)	(12,583)	–	–
Other expense	(238,037)	(280,220)	(388,505)	(342,454)	(69,029)	(91,940)	(50,688)	(48,708)
Profit before income tax	76,042	114,770	619,787	551,976	338,978	261,197	112,695	140,139
Income tax expense	(21,511)	(15,480)	(159,044)	(143,526)	(21,272)	(19,803)	(13,778)	(17,498)
Post-tax profit	54,531	99,290	460,743	408,450	317,706	241,394	98,917	122,641
Other comprehensive income	(83,284)	(285,309)	(224,754)	(204,660)	(142,089)	(119,120)	(35,198)	(42,103)
Total comprehensive income	(28,753)	(186,019)	235,989	203,790	175,617	122,274	63,719	80,538

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).

13 Interests in joint ventures (Continued)

Summarised financial information (Continued)

Reconciliation of summarised financial information – material joint ventures

	Vesta		Qingdao Shihua		Rizhao Shihua		Caofeidian Shihua	
	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000
Opening net assets	1,556,908	1,742,927	3,200,831	3,239,377	1,960,904	1,838,630	709,642	629,104
Profit for the year	54,531	99,290	460,743	408,450	317,706	241,394	98,917	122,641
Other comprehensive income	(83,284)	(285,309)	(224,754)	(204,660)	(142,089)	(119,120)	(35,198)	(42,103)
Dividend paid	(12,975)	–	(234,000)	(242,336)	(70,200)	–	(152,100)	–
Closing net assets	1,515,180	1,556,908	3,202,820	3,200,831	2,066,321	1,960,904	621,261	709,642
Interests in Joint Ventures (%)	50%	50%	50%	50%	50%	50%	90%	90%
Group's share of net assets in joint ventures	757,590	778,454	1,601,410	1,600,416	1,033,160	980,452	559,135	638,678
Goodwill	493,400	493,400	7,609	7,609	4,237	4,237	8,830	–
Carrying value	1,250,990	1,271,854	1,609,019	1,608,025	1,037,397	984,689	567,965	638,678

13 Interests in joint ventures (Continued)

Summarised financial information (Continued)

Reconciliation of summarised financial information – material joint ventures (Continued)

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.

	2016 HK$'000	2015 HK$'000
Share of profit	**138,613**	68,957
Share of other comprehensive income	**(74,317)**	(43,158)
Share of total comprehensive income	**64,296**	25,799
Carrying amount of interests in these joint ventures	**902,123**	884,625

Commitments and contingent liabilities in respect of joint ventures

The Group has the following commitments relating to its joint ventures as at 31 December 2016 and 2015:

	2016 HK$'000	2015 HK$'000
Share of joint ventures' capital commitments		
– Contracted for	**229,910**	1,577,553

As at 31 December 2016, the Group provided a guarantee of US$30 million (equivalent to approximately HK$233 million) and pledged its 50% equity interest in Fujairah Oil Terminal FZC ("**FOT**"), a joint venture of the Group against certain bank loans of FOT.

As at 31 December 2016, the Group provided a guarantee of Euro13 million (equivalent to approximately HK$107 million) against a bank loan of Vesta Terminals B.V. ("**Vesta**"), a joint venture of the Group.

Other than those disclosed above, there were no contingent liabilities relating to the Group's interests in the joint ventures as at 31 December 2016 (2015: Nil).

14 Income tax expenses

	Note	2016 HK$'000	2015 HK$'000
Current income tax:			
– Hong Kong profits tax	(b)	1,398	2,115
– PRC current income tax	(c)	104,527	139,336
– Withholding tax		19,291	51,497
		125,216	192,948
Deferred income tax charged/(credited)	(d), 28	10,101	(1,218)
		135,317	191,730

(a) The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Law of the Bermuda and, accordingly, is exempted from payment of the Bermuda income tax.

(b) Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the year.

(c) The provision for PRC current income tax is based on a statutory income tax rate of 25% of the assessable income of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC (2015: 25%).

(d) Dividend distribution out of profit of foreign-invested enterprises earned in the PRC subsequent to 1 January 2008 is subject to withholding income tax at a tax rate of 5% or 10%. During the year, withholding income tax was provided for portion of the relevant undistributed profits of the Group's subsidiaries, joint ventures and associates established in the PRC at tax rates of 5% or 10% (2015: 5% or 10%) (Note 28).

14 Income tax expenses (Continued)

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

	2016 HK$'000	2015 HK$'000
Profit before income tax	1,140,303	1,218,648
Less: Share of results of associates	(135,549)	(117,865)
Share of results of joint ventures	(644,128)	(553,901)
	360,626	546,882
Tax calculated at domestic tax rates applicable to profits in the respective countries	95,905	138,296
Income not subject to tax	(27,780)	(36,449)
Expenses not deductible for tax purposes	28,244	54,135
Withholding tax	19,291	51,497
Under-provision in prior years	1,354	1,048
Utilisation of previously unrecognised tax loss	–	(951)
Tax losses for which no deferred income tax asset was recognised	11,834	12,772
Deferred income tax on undistributed profits	6,469	(28,618)
Income tax expenses	135,317	191,730

15 Earnings per share

	2016	2015
Profit attributable to equity holders of the Company (HK$'000)	1,005,259	1,026,852
Weighted average number of ordinary shares in issue (shares'000)	2,486,160	2,486,160
Basic earnings per share (HK cents per share)	40.43	41.30

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 Prepaid land lease payments

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

	2016 HK$'000	2015 HK$'000
At 1 January	**708,797**	747,153
Amortisation charge for the year	**(19,086)**	(14,311)
Transfer from prepaid land lease payments to construction in progress	**-**	(19,405)
Currency translation difference	**(7,791)**	(4,640)
At 31 December	**681,920**	708,797

17 Property, plant and equipment

	Buildings held for own use HK$'000	Leasehold improvements HK$'000	Jetty structures HK$'000	Jetty facilities HK$'000	Pipeline transmission equipment HK$'000	Plant and machinery HK$'000	Furniture, fixture and equipment HK$'000	Motor vehicle and vessels HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2015										
Opening net book amount, as previously restated	102,525	–	845,485	598,815	4,991,885	801,516	60,457	68,465	832,856	8,302,004
Currency translation differences	(4,260)	–	(46,360)	(33,509)	(281,092)	(59,069)	(2,653)	(3,387)	(45,812)	(476,142)
Additions	–	–	–	–	–	883	22	–	312,302	313,207
Disposals	–	–	(1,529)	–	–	(686)	(870)	(39)	–	(3,124)
Transfers	(44,447)	–	–	22,374	46,250	373,082	1,028	–	(423,329)	(25,042)
Depreciation charge	(2,983)	–	(66,454)	(62,880)	(297,178)	(74,868)	(19,686)	(11,346)	–	(535,395)
Closing net book amount	50,835	–	731,142	524,800	4,459,865	1,040,858	38,298	53,693	676,017	7,575,508
At 31 December 2015										
Cost	88,299	477	1,639,542	1,312,844	5,821,889	1,433,612	164,597	162,894	676,017	11,300,171
Accumulated depreciation	(37,464)	(477)	(908,400)	(788,044)	(1,362,024)	(392,754)	(126,299)	(109,201)	–	(3,724,663)
Net book amount	50,835	–	731,142	524,800	4,459,865	1,040,858	38,298	53,693	676,017	7,575,508

Notes to the Financial Statements

17 Property, plant and equipment (Continued)

	Buildings held for own use HK$'000	Leasehold improvements HK$'000	Jetty structures HK$'000	Jetty facilities HK$'000	Pipeline transmission equipment HK$'000	Plant and machinery HK$'000	Furniture, fixture and equipment HK$'000	Motor vehicle and vessels HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2016										
Opening net book amount	50,835	-	731,142	524,800	4,459,865	1,040,858	38,298	53,693	676,017	7,575,508
Currency translation differences	(2,889)	-	(49,311)	(42,792)	(263,655)	(70,177)	(2,012)	(2,802)	(31,408)	(465,046)
Additions	-	-	-	-	-	342	44	-	280,820	281,206
Disposals	(6)	-	-	(1,371)	(1,197)	(531)	(218)	(10)	-	(3,333)
Transfers	(11,387)	-	134,506	272,425	(172,357)	203,498	1,093	-	(427,778)	-
Depreciation charge	(1,951)	-	(62,088)	(58,487)	(266,507)	(107,312)	(9,112)	(10,604)	-	(516,061)
Closing net book amount	34,602	-	754,249	694,575	3,756,149	1,066,678	28,093	40,277	497,651	6,872,274
At 31 December 2016										
Cost	68,751	477	1,664,571	1,488,998	5,263,176	1,561,269	152,960	152,601	497,651	10,850,454
Accumulated depreciation	(34,149)	(477)	(910,322)	(794,423)	(1,507,027)	(494,591)	(124,867)	(112,324)	-	(3,978,180)
Net book amount	34,602	-	754,249	694,575	3,756,149	1,066,678	28,093	40,277	497,651	6,872,274

18 Investment properties

	2016 HK$'000	2015 HK$'000
At 1 January	**68,062**	29,389
Depreciation charge for the year	**(3,043)**	(4,054)
Transfer from owner-occupied properties to investment properties	**–**	44,447
Currency translation differences	**(2,464)**	(1,720)
At 31 December	**62,555**	68,062

As at 31 December 2016, the Group had no contractual obligations for future repairs and maintenance (2015: Nil).

18 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 2016. 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 2016 is estimated to be HK$166,534,000 (2015: HK$162,320,000). 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 2016 and 2015. The following table analyses the investment properties measured at fair value, by valuation method.

Fair value hierarchy

	Fair value measurements As at 31 December 2016 using		
	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
Description			
Fair value measurements			
Investment properties:			
– Residential (HK and Macau)	–	–	105,830
– Commercial (PRC)	–	–	60,704
	–	–	166,534

	Fair value measurements As at 31 December 2015 using		
	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
Description			
Fair value measurements			
Investment properties:			
– Residential (HK and Macau)	–	–	104,750
– Commercial (PRC)	–	–	57,570
	–	–	162,320

18 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

	2016 HK$'000	2015 HK$'000
Rental income	**8,593**	6,083
Direct operating expenses from property that generated rental income	**(998)**	(938)
	7,595	5,145

19 Trade and other receivables

	2016 HK$'000	2015 HK$'000
Trade receivables		
– An intermediate holding company and a fellow subsidiary	**576,634**	298,071
– Bills receivables	**55,998**	32,705
– Others	**1,704**	1,335
	634,336	332,111
Other receivables		
– Amounts due from an intermediate holding company and fellow subsidiaries	**250,423**	620,881
– Dividend receivables from joint ventures	**236,053**	5,968
– Management fee receivable from a joint venture	**3,420**	841
– Others	**49,054**	28,435
	538,950	656,125
	1,173,286	988,236

The Group grants credit periods of 30 to 90 days or one year from the date of billing to its customers.

The amounts due from an intermediate holding company are unsecured, interest free and repayable on demand.

The ageing analysis of the trade receivables based on invoice date was as follows:

	2016 HK$'000	2015 HK$'000
Within 1 month	**64,092**	95,985
1 to 2 months	**213,372**	61,912
2 to 3 months	**16,769**	20,231
Over 3 months but less than 12 months	**340,103**	153,983
	634,336	332,111

19 Trade and other receivables (Continued)

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

	2016 HK$'000	2015 HK$'000
HK$	**3,009**	3,664
RMB	**1,145,103**	959,374
US$	**25,174**	25,198
	1,173, 286	988,236

Ageing analysis of trade receivables past due but not impaired are set out below:

	2016 HK$'000	2015 HK$'000
Current	**294,233**	95,985
Less than 1 month past due	**70,176**	61,912
1 to 3 months past due	**147,729**	26,996
More than 3 months but less than 12 months past due	**122,198**	147,218
Amounts past due	**340,103**	236,126
	634,336	332,111

Amounts past due but not impaired were primarily related to trade receivables due from Sinopec Corp., the Group's intermediate holding company. Management considers that these balances are fully collectible as Sinopec Corp. is a state-owned enterprise with its shares listed on the stock exchanges of Shanghai, Hong Kong, New York and London with good credit history.

Current receivables that are related to Sinopec Corp. and a number of customers which have 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.

20 Inventories

	2016 HK$'000	2015 HK$'000
Fuel oil for vessels	-	6,861
Spare parts	15,584	14,400
	15,584	21,261

During the year, the cost of inventories recognized as expense and included in 'cost of inventories sold' (Note 8).

21 Cash and cash equivalents

	2016 HK$'000	2015 HK$'000
Cash at bank and on hand	96,147	509,581
Deposits at related financial institutions at call	227,059	548,151
	323,206	1,057,732

Deposits at related financial institutions primarily represent deposits placed at Century Bright and Sinopec Finance Company Limited, both of which are financial institutions registered with Hong Kong Monetary Authority and China Banking Regulatory Commission respectively.

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

	2016 HK$'000	2015 HK$'000
US$	98,661	160,302
Euro	373	6,598
RMB	223,443	804,389
HK$	694	86,408
Others	35	35
	323,206	1,057,732

22 Share capital

	2016		2015	
	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 and 31 December	**2,486,160**	**248,616**	2,486,160	248,616

23 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 crude oil jetty services and natural gas pipeline transmission services in the PRC. The movements of specific reserve are as follow:

	2016 HK$'000	2015 HK$'000
At 1 January	**110**	151
Provision for the year	**24,424**	34,197
Utilisation for the year	**(23,729)**	(34,238)
At 31 December	**805**	110

24 Dividends

	2016 HK$'000	2015 HK$'000
Interim dividend declared and paid of HK3.5 cents (2015: HK2.5 cents) per ordinary share	**87,016**	62,154
Final dividend proposed HK3.5 cents (2015: HK2.5 cents) per ordinary share	**87,016**	62,154
	174,032	124,308

A final dividend in respect of the year ended 31 December 2016 of HK3.5 cents per share, amounting to a total dividend of HK$87,016,000 is to be proposed at the annual general meeting on 13 June 2017. These financial statements do not reflect this dividend payable.

25 Cash generated from operations

	Note	2016 HK$'000	2015 HK$'000
Profit before income tax		**1,140,303**	1,218,648
Adjustments for:			
Depreciation			
– Property, plant and equipment	17	**516,061**	535,395
– Investment properties	18	**3,043**	4,054
Amortisation of prepaid land lease payments		**19,086**	14,311
Finance costs	10	**203,756**	198,140
Interest income	10	**(10,421)**	(14,649)
Net loss on disposal of property, plant and equipment	7	**840**	2,721
Share of results of associates	12	**(135,549)**	(117,865)
Share of results of joint ventures	13	**(644,128)**	(553,901)
Changes in working capital:			
Decrease in inventories		**5,677**	2,589
(Increase)/decrease in trade and other receivables		**(322,844)**	669,204
Decrease in trade and other payables		**(52,138)**	(307,341)
Cash generated from operations		**723,686**	1,651,306

(a) Proceeds from disposal of property, plant and equipment

	2016 HK$'000	2015 HK$'000
Net book amount (Note 17)	**3,333**	3,124
Loss on disposal of property, plant and equipment	**(840)**	(2,721)
Proceeds from disposal of property, plant and equipment	**2,493**	403

26 Trade and other payables

	2016 HK$'000	2015 HK$'000
Trade payables		
– Fellow subsidiaries	**14,873**	12,299
– Others	**36,452**	64,925
	51,325	77,224
Other payables		
– Amounts due to immediate, intermediate holding companies and fellow subsidiaries	**743,536**	810,566
– Accrued charges	**148,716**	176,313
– Consideration payable to acquire equity interests in a subsidiary under common control	**–**	3,075,845
	892,252	4,062,724
	943,577	4,139,948

The amounts due to immediate, intermediate holding companies and fellow subsidiaries are unsecured, interest free and repayable on demand.

The ageing analysis of the trade payables based on the invoice date was as follows:

	2016 HK$'000	2015 HK$'000
Due within 1 month or on demand	**51,259**	77,158
Due after 1 month but within 3 months	**66**	66
	51,325	77,224

26 Trade and other payables (Continued)

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

	2016 HK$'000	2015 HK$'000
HK$	506,439	478,518
RMB	393,881	3,623,948
US$	15,098	7,965
SG$	28,159	29,517
	943,577	4,139,948

27 Borrowings

	Note	2016 HK$'000	2015 HK$'000
Non-current			
– Entrusted loan	(a)	3,353,791	–
– An intermediate holding company	(a)	–	3,938,982
		3,353,791	3,938,982
Current			
– A related financial institution	(b)	2,273,812	–
		5,627,603	3,938,982

At 31 December 2016, the borrowings were repayable as follows:

	2016 HK$'000	2015 HK$'000
Within 1 year	2,273,812	–
Between 2 and 5 years	3,353,791	3,938,982
	5,627,603	3,938,982

27 Borrowings (Continued)

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2016 HK$'000	2015 HK$'000
HK$	**2,195,659**	–
RMB	**3,353,791**	3,938,982
US$	**78,153**	–
	5,627,603	3,938,982

Notes:

(a) In June 2016, the Group entered into an entrusted loan agreement with China International United Petroleum & Chemicals Co., Ltd ("**Unipec**") and Bank of Communication ("**BOCOM**"), whereby Unipec has agreed to provide a loan of RMB3,000,000,000 through BOCOM to the Group. This loan is unsecured, bore interest at lending rate for loans of one to five years as published by The People's Bank of China at discount of 10% per annum (approximately 4.75% per annum) and wholly repayable by 28 June 2019.

Prior to June 2016, the Group had loan from an intermediate holding company are unsecured, bore interest at 4.7% per annum (2015: 5.0% per annum). The Group fully repaid this loan upon drawn down of the entrusted loan as above.

(b) As at 31 December 2016, the undrawn borrowing facilities provided by a related financial institution was US$207,079,000, approximately HK$1,604,000,000 (2015: US$500,000,000, approximately HK$3,900,000,000). Details of borrowing facilities are set out in note 3(d) to the financial statements.

(c) The carrying amount of loans approximates their fair values.

28 Deferred income tax

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

	Undistributed profits of a subsidiary in the PRC HK$'000	Undistributed profits of joint ventures in the PRC HK$'000	Undistributed profits of an associate in the PRC HK$'000	Accelerated tax depreciation HK$'000	Total HK$'000
Deferred income tax liabilities					
At 1 January 2015	78,773	19,860	4,707	–	103,340
Charged/(credited) to income statement (Note 14)	(31,304)	2,408	278	27,400	(1,218)
Exchange differences	(3,537)	(1,455)	(306)	(1,129)	(6,427)
At 31 December 2015	43,932	20,813	4,679	26,271	95,695
At 1 January 2016	**43,932**	**20,813**	**4,679**	**26,271**	**95,695**
Charged/(credited) to income statement (Note 14)	**7,293**	**(1,576)**	**615**	**3,769**	**10,101**
Exchange differences	**(2,853)**	**(1,024)**	**(318)**	**(1,801)**	**(5,996)**
At 31 December 2016	**48,372**	**18,213**	**4,976**	**28,239**	**99,800**

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$263,938,000 (2015: HK$234,962,000), 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.

29 Contingencies

On 11 November 2016, the Group received two requests for arbitration from the International Court of Arbitration of the International Chamber of Commerce in respect of the submission of arbitration applications by PT. MAS Capital Trust ("**PT. MAS**"), the 5% shareholder of PT. West Point and PT. Batam Sentralindo ("**PT. BS**"), a shareholder of PT. MAS and the owner of the land leased to PT. West Point, respectively on disputes regarding shareholders' agreement dated 9 October 2012 entered into between Sinomart Development and PT. MAS for the establishment of PT. West Point and land lease agreement dated 9 October 2012 entered into between PT. West Point and PT. BS.

As at the date of this report, the arbitral tribunal has been established and the claimants have yet to file their statement of claims. As the arbitration was in preliminary phase, after taking into consideration of the advice by the Group's legal counsel, the Directors are of the view that no provision is presently required with respect to the arbitrations.

30 Commitments

(a) As at 31 December 2016, the outstanding capital commitments not provided for in the financial statements were as follows:

	2016 HK$'000	2015 HK$'000
Contracted for but not provided for	**340,448**	476,119
Authorised but not contracted for	**272,119**	332,961
	612,567	809,080

(b) As at 31 December 2016, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2016 HK$'000	2015 HK$'000
Within 1 year	**71,943**	131,837
After 1 year but within 5 years	**7,208**	65,207
After 5 years	**13,214**	17,798
	92,365	214,842

The Group leases a number of properties with an initial lease term of 3 to 32 years, with an option to renew the lease. None of the leases includes contingent rentals.

(c) As at 31 December 2016, the total future minimum lease payments under non-cancellable operating leases were receivable as follows:

	2016 HK$'000	2015 HK$'000
Within 1 year	**128**	856

31 Significant related party transactions

(a) Transactions with related parties

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

During the year, the Group had the following significant transactions with Sinopec Group companies, joint ventures and associates:

	2016 HK$'000	2015 HK$'000
Sinomart Development		
Vessel chartering service fee from a fellow subsidiary (Note (i)(a))	140,473	224,588
Fuel oil purchased from a fellow subsidiary and related charges (Note (i)(b))	36,514	53,553
Fees for oil terminals entrusted management to a fellow subsidiary ((Note (i)(c))	9,010	5,574
Interest expenses to a fellow subsidiary	(27,763)	–
Interest income from a fellow subsidiary	845	12,956
KII		
Interest expenses to a fellow subsidiary	(352)	–
Huade Petrochemical		
Jetty service fees to an intermediate holding company (Note (ii)(a))	552,519	578,103
Insurance premium paid to a fellow subsidiary (Note (ii)(b))	4,208	2,116
Interest income from a fellow subsidiary	116	68

31 Significant related party transactions (Continued)

(a) Transactions with related parties (Continued)

	2016 HK$'000	2015 HK$'000
Yu Ji Pipeline Company		
Natural gas transmission income from an intermediate holding company (Note (iii)(a))	**1,000,069**	1,155,227
Natural gas storage fees to an intermediate holding company (Note (iii)(b))	**112,507**	101,605
Outsourcing fees to an intermediate holding company (Note (iii)(c))	**127,798**	203,680
Rental income from leasing of land and building to an intermediate holding company (Note (iii)(d))	**6,272**	4,155
Interest expenses paid to an intermediate holding company	**(107,579)**	(198,140)
Interest income from a fellow subsidiary	**6,221**	946
Joint ventures and associates		
Interest income from:		
– An associate	**3,750**	2,748
– A joint venture	**18,880**	11,775
Management fees income from a joint venture	**3,420**	841

The balances with related parties are disclosed in Notes 19, 21 and 26 to the financial statements.

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

Notes:

(i) Sinomart Development

(a) The vessel chartering fees were charged in accordance with the relevant vessel chartering agreements and were determined by reference to the prevailing market rate on a transaction-by-transaction basis.

(b) The fuel oil trading transactions were carried out in accordance with the terms of the relevant sale and purchases agreement and on terms agreed between the parties having regard to commercial practise of the international market conditions during the period the transactions were carried out.

(c) Management fees were charged by fellow subsidiaries for providing entrusted management services for the joint ventures and were charged by the actual costs of entrusted management and on normal commercial terms.

31 Significant related party transactions (Continued)

(a) Transactions with related parties (Continued)

Notes: (Continued)

(ii) Huade Petrochemical

(a) 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 Transport and government-approved prices approved by the Guangdong Provincial Price Supervision and Inspection and Anti-Trust Bureau in the PRC.

(b) 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) Yu Ji Pipeline Company

(a) The price for provision of natural gas transmission services will be charged by Yu Ji Pipeline Company in accordance with the State-prescribed prices without deduction of costs or charges under the Natural Gas Transmission Services Framework Master Agreement.

(b) The natural gas storage fees were charged on arm's length negotiation on normal commercial terms with reference to the costs and taxes, and will be adjusted subject to the State policy in accordance with the Gas Storage Framework Master Lease Agreement.

(c) Outsourcing fees were charged on arm's length negotiation on normal commercial terms with reference to the costs of provision of services and products, and taxes in accordance with the Services Outsourcing Framework Master Agreement.

(d) Rental income was received from a fellow subsidiary for leasing an office.

(b) Transactions with key management

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

	2016 HK$'000	2015 HK$'000
Compensations to key management		
Directors' fees (Note 33(a))	**960**	960
Salaries, allowances and benefits-in-kind (Note 33(a))	**1,135**	1,615
Bonus (Note 33(a))	**1,066**	1,422
Total	**3,161**	3,997

31 Significant related party transactions (Continued)

(b) Transactions with key management (Continued)

	2016 HK$'000	2015 HK$'000
Rental income from a director	114	57

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

(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

	2016 HK$'000	2015 HK$'000
Jetty service fees by the Group	26,086	25,966

	2016 HK$'000	2015 HK$'000
Prepayment to/amounts due from other state-controlled entities	399,202	671,860
Amounts due to other state-controlled entities	283,288	214,666

31 Significant 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:

	2016 HK$'000	2015 HK$'000
Interest income	**3,391**	678

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

	2016 HK$'000	2015 HK$'000
Cash and cash equivalents	**14,347**	509,925

32 Subsequent event

Subsequent to the year end, the useful life of natural gas pipeline has been changed from 20 years to 30 years.

33 Benefits on interests of directors

(a) Directors' and chief executives emoluments

The remuneration of the Directors for the years ended 31 December 2016 and 2015 are set out below:

2016	Fees HK$'000	Salaries HK$'000	Discretionary Bonus HK$'000	Allowances and benefits in kind HK$'000	Employer's contribution to retirement benefit scheme HK$'000	Total HK$'000
Executive Directors						
Chen Bo (Chairman)	–	–	–	–	–	–
Xiang Xiwen (Deputy Chairman)	–	–	–	–	–	–
Dai Liqi	–	–	–	–	–	–
Li Jianxin	–	–	–	–	–	–
Wang Guotao	–	–	–	–	–	–
Ye Zhijun (Managing Director)	–	1,040	1,066	95	–	2,201
Independent non-executive Directors						
Tam Wai Chu, Maria	320	–	–	–	–	320
Fong Chung, Mark	320	–	–	–	–	320
Wong Yau Kar, David	320	–	–	–	–	320
	960	1,040	1,066	95	–	3,161

33 Benefits on interests of directors (Continued)

(a) Directors' and chief executives emoluments (Continued)

2015	Fees HK$'000	Salaries HK$'000	Discretionary Bonus HK$'000	Allowances and benefits in kind HK$'000	Employer's contribution to retirement benefit scheme HK$'000	Total HK$'000
Executive Directors						
Chen Bo (Chairman)	–	–	–	–	–	–
Xiang Xiwen (Deputy Chairman) (Note)	–	–	–	–	–	–
Zhu Zeng Qing (Deputy Chairman) (Note)	–	–	–	–	–	–
Zhu Jian Min (Note)	–	–	–	–	–	–
Tan Ke Fei (Note)	–	–	–	–	–	–
Zhou Feng (Note)	–	–	–	–	–	–
Dai Liqi (Note)	–	–	–	–	–	–
Li Jianxin (Note)	–	–	–	–	–	–
Wang Guotao (Note)	–	–	–	–	–	–
Ye Zhijun (Managing Director)	–	1,089	1,422	526	–	3,037
Independent non-executive Directors						
Tam Wai Chu, Maria	320	–	–	–	–	320
Fong Chung, Mark	320	–	–	–	–	320
Wong Yau Kar, David	320	–	–	–	–	320
	960	1,089	1,422	526	–	3,997

Note:

Zhu Zeng Qi, Zhu Jian Min, Tan Ke Fei and Zhou Feng resigned on 14 December 2015 as executive directors of the Company due to change in job assignment within Sinopec Group. Xiang Xiwen, Dai Liqi, Li Jianxin and Wang Guotao were appointed as executive directors of the Company on 14 December 2015.

(b) Directors' retirement benefits

No retirement benefits was paid to every directors and the chief executive of the Company or its subsidiary undertaking during the year (2015: nil).

(c) Consideration provided to third parties for making available directors' services

During the years ended 31 December 2016 and 2015, no emoluments was paid to the Group to the directors of the Company as an inducement to join or upon joining the Group, or as compensation for loss of office.

(d) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

34 Balance sheet and reserve movement of the Company

Balance sheet of the Company

		As at 31 December	
	Note	2016 HK$'000	2015 HK$'000
Assets			
Non-current assets			
Investments in subsidiaries		**7,638,758**	7,803,718
Current assets			
Cash and cash equivalents		**31**	26
Total assets		**7,638,789**	7,803,744
Equity and liabilities			
Equity attributable to owners of the company			
Share capital		**248,616**	248,616
Reserves	(a)	**7,382,217**	7,548,406
Total equity		**7,630,833**	7,797,022
Liabilities			
Current liabilities			
Trade and other payables		**7,956**	6,722
Total liabilities		**7,956**	6,722
Total equity and liabilities		**7,638,789**	7,803,744

The balance sheet of the Company was approved by the Board of Directors on 30 March 2017 and was signed on its behalf

Chen Bo
Chairman

Ye Zhijun
Managing Director

34 Balance sheet and reserve movement of the Company (Continued)

Reserve movement of the Company

	Share premium HK$'000	Contributed surplus HK$'000	(Accumulated losses)/Retained earnings HK$'000	Total HK$'000
At 1 January 2015	6,300,684	242,397	(126,882)	6,416,199
Interim dividends declared in respect of the current year	–	–	(62,154)	(62,154)
Total comprehensive income for the year	–	–	1,256,515	1,256,515
Final dividends declared in respect of the current year	–	–	(62,154)	(62,154)
At 31 December 2015	6,300,684	242,397	1,005,325	7,548,406
At 1 January 2016	**6,300,684**	**242,397**	**1,005,325**	**7,548,406**
Interim dividends declared in respect of the current year	**–**	**–**	**(87,018)**	**(87,018)**
Total comprehensive income for the year	**–**	**–**	**(17,017)**	**(17,017)**
Final dividends declared in respect of the current year	**–**	**–**	**(62,154)**	**(62,154)**
At 31 December 2016	**6,300,684**	**242,397**	**839,136**	**7,382,217**

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.

34 Balance sheet and reserve movement of the Company (Continued)

Notes: (Continued)

(c) The general reserves of the Group represent appropriations made by the Company's PRC subsidiary, associates 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 Petrochemical from Sinopec Guangzhou Petrochemical Complex in 2006 amounting to a debit balance of HK$141,279,000.

(d) The contributed surplus of the Company represents the differences between the aggregate shareholders' funds of the subsidiaries at the date on which the Company became the holding company of the Group and the nominal amount of the share capital of the Company issued under a Group reorganisation.

Under the Companies Act 1981 of Bermuda, the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

(i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

(e) At 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company, including the contributed surplus and accumulated losses/retained earnings, was HK$1,081,533,000 (2015: HK$1,247,722,000). After the end of the reporting period the directors proposed a final dividend of HK$3.5 cents (2015: HK$2.5 cents) per ordinary share, amounting to HK$87,016,000 (2015: HK$62,154,000). The dividend has not been recognised as a liability at the end of the reporting period.

Five Year Financial Summary

	2012 HK$'000 (Unrestated) (Note b)	2013 HK$'000 (Unrestated) (Note b)	2014 HK$'000 (Restated) (Note a)	2015 HK$'000	2016 HK$'000
Results					
Revenue	22,041,792	23,355,579	20,669,579	2,043,630	**1,766,590**
Operating profit	207,224	97,403	812,898	730,373	**553,961**
Finance income	–	2,702	21,470	14,649	**10,421**
Finance costs	(1,555)	(3,807)	(219,469)	(198,140)	**(203,756)**
Share of results of associates	92,007	108,780	103,506	117,865	**135,549**
Share of results of joint ventures	59,759	456,966	489,948	553,901	**644,128**
Profit before income tax	357,435	662,044	1,208,353	1,218,648	**1,140,303**
Income tax expenses	(65,697)	(170,637)	(190,270)	(191,730)	**(135,317)**
Profit for the year	291,738	491,407	1,018,083	1,026,918	**1,004,986**
Assets and liabilities					
Fixed assets	1,945,716	2,697,139	9,187,939	8,489,723	**7,616,749**
Interests in associates	526,765	617,864	686,650	678,586	**710,784**
Interests in joint ventures	2,305,431	5,475,680	6,124,978	6,378,616	**6,460,197**
Net current assets/(liabilities)	1,732,332	1,163,120	795,862	(2,095,487)	**(1,720,189)**
Deferred income tax liabilities	(2,300)	(97,582)	(103,340)	(95,695)	**(99,800)**
Borrowings	–	–	(4,183,199)	(3,938,982)	**(3,353,791)**
Government grants	–	–	(4,956)	(4,667)	**(13,178)**
Net assets	6,507,944	9,856,221	12,503,934	9,412,094	**9,600,772**
Equity					
Share capital	207,366	248,616	248,616	248,616	**248,616**
Reserves	6,300,578	9,597,975	12,216,719	9,124,813	**9,313,764**
Non-controlling interests	–	9,630	38,599	38,665	**38,392**
Total equity	6,507,944	9,856,221	12,503,934	9,412,094	**9,600,772**
Basic earnings per share for profit attributable to equity holders of the Company	HK15.49 cents	HK21.00 cents	HK40.96 cents	HK41.30 cents	**HK40.43 cents**

Notes:

(a) Due to business combination under common control completed in 2015, the financial information of the Group has been restated in a manner similar to a uniting of interests to reflect the acquisition.

(b) The financial information of the Group has not been restated as the Directors consider that the unrestated financial information is more appropriate for year-on-year comparison of the change in the Group's business operation.

Environmental, Social and Governance Report

This Report was prepared with reference to the "Environmental, Social and Governance Reporting Guide" set out in Appendix 27 of the Listing Rules issued by the Stock Exchange.

Reporting Period

This Report covers the year ended 31 December 2016, in line with the 2016 Annual Report of the Company.

Reporting Scope

This Report covers the Company and its wholly-owned subsidiaries and controlled subsidiaries, but does not include the associates and joint ventures of the Company. On 31 December 2015, the Group completed the acquisition of the entire equity interest in Yu Ji Pipeline Company, which has become a wholly-owned subsidiary of the Company since then. As a result, this Report covers Yu Ji Pipeline Company for the first time. In addition, as the Batam Project of PT. West Point, a controlled subsidiary of the Company, has not initiated project construction and commercial operation, PT. West Point is excluded from this Report for the time being.

Environmental, Social and Governance Report

Overview

The operation of the Company and its subsidiaries (excluding PT. West Point and collectively referred to as the "**Group**" or "**we**") adheres to the highest standards for safety, environmental protection and compliance in order to promote sustainable development with the community together. The Group also interacts with all stakeholders including employees, customers, suppliers, investors and the regulatory authorities to understand their expectations on the Group and incorporate their suggestions into our operation.

In 2016, the Group continued to actively undertake social responsibilities according to the "Working Guidelines for Social Responsibilities" formulated by the Board. We advanced the work on social responsibilities in four aspects including environmental protection, employee welfare and benefits, operating practices and community involvement, improved the system and organisational structure and conducted more work in performing social responsibilities.

In 2016, we actively emphasised the importance of social responsibilities to our employees and adopted such emphasis into the training program on the sustainable development of employees in order to improve their awareness and recognition to social responsibilities and let them fully perform social responsibilities in their job positions.

Total Training Hours for Employees Reached

14,000 Hours

Total Hours for Volunteer Work Reached

300 Hours

Percentage of Employees Trained Reached Nearly

100%

Participating Volunteers Exceeded

200 Men-times

Yu Ji Pipeline Company garnered the "2016-2017 National Quality Project Award" by China Association of Construction Enterprise Management

ENVIRONMENTAL PROTECTION

Environmental protection is essential in the operation of the Group. We have incorporated relevant measures into our overall work plan. The Group monitors and is committed to reducing emissions to ensure that waste and carbon emissions are all under reasonable control. In addition, the Group has formulated detailed emission treatment policies for waste gas, sewage and waste. Meanwhile, the Group has strict regulations on the use of energy, water resources and other raw materials and gives priority to recycling. For environmental risks from daily operations, the Group has adopted various preventive measures and formulated solutions for accidents to minimise the impact on the environment and natural resources. In 2016, the Group has not violated any relevant environmental protection laws and regulations on treatment of waste gas, sewage and waste.

Emissions, Waste and Use of Resources

The Group implemented strict monitoring measures and systems on emissions and waste from its operations and their treatment methods. We determined emission indicators for each business unit and adopted them in the performance indicators of the business unit and staff members to ensure that the entire staff undertook responsibilities on reducing emissions and met the targets, so as to achieve excellent environmental, economic and social benefits. Besides, the Group devoted itself to save energy and water and reduce unnecessary consumptions through technological transformation and raising the awareness of the staff on environmental protection. The Group also contributed to reduce waste and protect natural resources by promoting the recycling of waste and reuse of materials in order to minimise the consumption of natural resources in our business operations.

Huade Petrochemical, a wholly-owned subsidiary of the Company, mainly engages in crude oil unloading, storage and transmission. All hazardous waste produced during the maintenance of crude oil tanks, such as oil sludge and grease, is handled by a qualified professional enterprise while other solid waste and household garbage is treated by qualified enterprises. As for waste gas, greenhouse gas and particles produced during the operation of the boiler in Mabianzhou Island of Huade Petrochemical passed the national emission standards of "The Emission Standard of Air Pollutant from Boiler" (GB13271-2001) as confirmed in the testing by local environment authorities.

Huade Petrochemical prepares a comprehensive energy-saving proposal every year and sets targets for annual power and water consumption, and fuel consumption for tugboats, tankers and boilers based on the annual crude oil purchasing plan of Guangzhou Petrochemical, its downstream client. Such targets are compared with the actual consumption regularly and the reasons for deviation will be analysed. When energy consumption exceeds the targets, Huade Petrochemical will carry out accountability assessment based on the system.

Energy savings in sea water desalination and lighting system maintenance

The new sea water desalination system of Huade Petrochemical commissioned in the beginning of 2016 adopted highly efficient, energy-saving inverter motor pumps to reduce the construction cost of water towers. Compared with motors with same power, inverter motor pumps saved about one-third of electrical energy.

When Yuanzhou Intermediate Station of Huade Petrochemical repaired the lighting system of maintenance control room and cable system, the original lights were replaced with LED lights. This not only significantly improved the brightness of lighting, but also reduced energy consumption as the power of lights were reduced from 1,360 watts to 318 watts.

Adjusting temperature for the storage of high solidification oil

According to relevant requirements under the "SYT5920—2007 Regulation on the Operation Management of Crude Oil and Light Hydrocarbon Stations" issued by the Technical Committee on Petroleum, Industrial Oil and Gas Storage and Transportation Standardisation and actual needs in operations, Huade Petrochemical adjusted the temperature for the storage of high solidification oil from 10°C above the condensation point to 5°C above the condensation point in 2016 while guaranteeing operation safety. This effectively reduced the operation duration of the boiler and energy consumption. Based on the reduction of 5°C in oil temperature for about eight days in the coldest month, it saved about 16 tons of diesel oil or RMB 112,000 per oil tank in a warming operation after the adjustment.

Yu Ji Pipeline Company, a wholly-owned subsidiary of the Company, fully practised the ideas of green and low-carbon development in 2016 by establishing a coordinated energy saving and carbon reduction management system to ensure the achievement of emission reduction targets. Yu Ji Pipeline Company formulated regulations such as the "Administrative Regulation on Environmental Protection", the "Administrative Regulation on Environmental Monitoring", the "Administrative Measures on Water Conservancy Protection", and set specific requirements on environmental protection and pollution prevention. During the natural gas pipeline transmission, Yu Ji Pipeline Company strictly adhered to relevant rules and systems to properly dispose solid waste at the substations. It appointed local environmental and sanitary authorities to regularly dispose household garbage and other ordinary waste. For hazardous waste produced from pigging and condensate tanks, it signed agreements with local qualified agencies to dispose of the hazardous waste strictly in accordance with laws. In 2016, 100% of household garbage and hazardous waste disposed of met relevant standards.

Meanwhile, Yu Ji Pipeline Company promoted clean production and reduction of energy consumption, and strived to raise the awareness of all employees on the necessity and importance of such ideas. Based on the overall target of clean production, it adopted such promotion in daily management and gradually integrated the idea with various environmental management systems. It strengthened the leadership and organisation of clean production and assigned specialised departments and employees to perform the task.

Optimising the operating methods of compressors

The emission of greenhouse gases by Yu Ji Pipeline Company mainly comes from power consumption, most of which is consumed by compressors. In 2016, Yu Ji Pipeline Company adjusted the operation and optimised the operating methods of compressors through analysing the daily energy consumption pattern, so as to reduce such energy consumption. The adjustments made include:

- the completion of the frequency conversion of air coolers at Yulin Substation. Through the conversion from stable frequency to variable frequency, it has reduced the frequency of start-stop and hence the power consumption of air coolers. Such adjustment can save a significant amount of energy of about 80,000 kilowatt hours a year.

- the optimisation of the operation of compressors at Yulin Substation. It adjusted the operating methods of compressors according to technological research findings. Based on the variation of gas transmission volume, it has optimised the operating parameters of compressors, increased the gas transmission volume of each compressor and reasonably shortened the operation time to reduce energy consumption in the operation of compressors.

- the optimisation of the electric operation model of Pingyao Compression Station. Through the adjustment of the input model of the static var generator (SVG), it has further optimised the operation time of compressors and reduced power consumption, saving about RMB 1.9 million of electricity cost every month.

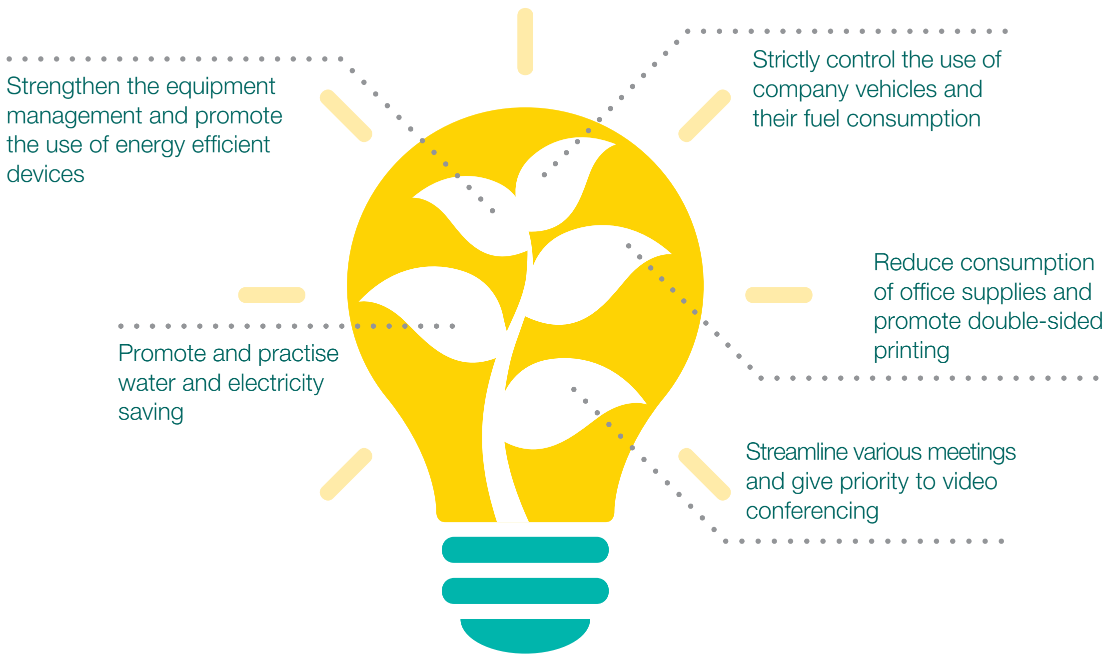
Emission of waste gas and pollutants by the Group (including gaseous fuel consumption and vehicles emission) in 2016	
NO_x	271 kg
SO_x	7 kg
Particulate matters (PM)	20 kg

Total waste generated by the Group in 2016	
Hazardous waste	160 tons
Non-hazardous waste	483 tons

(Note: As the Hong Kong Office produced little non-hazardous waste and the building in which it is located did not provide the amount of non-hazardous waste for individual premises, the Hong Kong Office was not included in the above statistics on non-hazardous waste.)

In 2016, the Company continued to promote saving in office and efficient use of resources. We reinforced the promotion and education of these ideas and encouraged our staff to practise green living. Our Hong Kong Office implemented long-term saving measures and actively participated in various consumption reduction and energy saving activities organised by community groups in Hong Kong, such as Earth Hour, Hong Kong No Air Con Night and the recycling of consumables during festive periods.

Long-term Office Saving Measures



Total emission of greenhouse gases by the Group in 2016	
CO_2 equivalent emission	120,415 tons

Total energy and water consumption of the Group in 2016	
Energy consumption	
— Electricity consumption	149,120 kWh
— Gas consumption	9,426 kWh
— Fuel consumption	10,238 kWh
Water consumption	115,037 m^3

(Note: As the Hong Kong Office had little water consumption and no independent water meter was installed in the building at which it is located, the Hong Kong Office was not included in the above statistics on water consumption.)

Protection of Environment and Natural Resources

The Group is principally engaged in petrochemical storage and logistics businesses. The occurrence of spill and other accidents will have immeasurable impact on the environment. As such, the Group has drawn up preventive measures on environment and natural resources protection based on the unique characteristics of each business unit. We conduct routine inspections and maintenance to reduce risks, establish corresponding emergency plans on different risks and conduct regular drills to raise the awareness of the staff on preventing and responding to risks and to minimise the possibility of risk incidents.

The biggest risk on the environment and natural resources from the production and operation of Huade Petrochemical lies in the spills during the crude oil loading, unloading and transmission on the loading and unloading platforms at terminals and along the pipelines. Huade Petrochemical has installed oil spill alerting systems at the two oil terminals, sent inspection staff to conduct field inspections on the pipeline every day and appointed qualified institutes to carry out comprehensive testing on the pipeline during the year. Through these professional techniques, Huade Petrochemical achieved "early prevention, early monitoring and early treatment" and effectively prevented spill incidents.

Huade Petrochemical has established an oil spill contingency plan and prepared sufficient contingency equipment such as oil containment booms, oil collection machines and oil absorbing rolls. Huade Petrochemical also organises regular drills so that all departments can coordinate well in handling oil spills and effectively control the impact of oil spills on the environment.

In addition, the sewage on Mabianzhou Island of Huade Petrochemical is processed and reused in the greening of the island after passing the tests. The noise produced during operation has met national standards (the "Standard on Noise Emission to the Environment Surrounding Industrial Enterprises" GB12348-2008).

In 2016, Yu Ji Pipeline Company conducted environmental monitoring at the gas transmission stations according to the "Regulation on the Administration of Environment Monitoring" issued by Sinopec Group Company. To minimise the impact on the environment by the sewage produced in the operations, Yu Ji Pipeline Company has installed integrated sewage treatment facilities at the gas transmission stations and engaged professional agencies to conduct two rounds of facility maintenance to ensure normal running of the equipment. In 2016, 100% of domestic and industrial sewage met the criteria after treatment.

Yu Ji Pipeline Company puts great emphasis on the assessment of environmental risks. In 2016, it arranged 13 men-times of trainings on the assessment on environmental risks held by Sinopec Group Company for designated staff. It conducted inspections on the pipelines, drew up a list of environmental risks and completed the assessment reports on such risks for each unit under assessment. It also implemented environmental protection works during the construction of projects and took environmental protection measures such as water and soil conservation, vegetation recovery, treatment of construction waste and prevention of water pollution based on these assessment results.

On the other hand, Yu Ji Pipeline Company actively promoted education on environmental protection. A promotion campaign of the World Environment Day was launched on 5 June 2016 with the theme of "improving the environmental quality and promote green development". It deepened the understanding of policies and regulations on safety and environmental protection of its staff by learning relevant regulations and policies such as the "Environmental Protection Law", the "Air Pollution Prevention Law", the "Action Plan on Air Pollution Prevention", the "Action Plan on Water Pollution Prevention", the "Standard on the Emission of Pollutants from Petroleum Refining" and the "Standard on the Emission of Pollutants from Petrochemical Engineering". Through this promotion campaign, Yu Ji Pipeline Company has raised staff awareness on safety, environmental protection and saving.

Reducing consumption of natural gas resources

Yu Ji Pipeline Company has adopted a series of measures on saving natural gas resources in 2016, such as:

- controlling the volume of venting gas at substations and prohibiting unplanned venting. It strengthened the maintenance and reduced the fault and failure rates of equipment at substations. Staff members strictly followed operation procedures to avoid repeated venting and operation.

- strengthening the control over gas venting for important operations. For example, during the pigging operation, temporary pipelines were installed for pollutant discharge. More stringent controls were implemented over pollutant discharge by reducing the discharge time and improving the discharge efficiency. The volume of venting gas was effectively reduced.

- optimising the sealed venting of dry gas from compressors. It effectively reduced the volume of venting gas during the operation of compressors.

EMPLOYEE POLICIES AND OCCUPATIONAL SAFETY

Employees are our most precious assets. Guided by the idea of "people-centered", the Group provides diversified training and welfare to its employees, improves their working conditions, pays attention to their physical and mental health and ensures their occupational safety in order to achieve mutual growth of both the Group and its employees.

Employee Policies and Welfare

The Group follows the principles of "diversification" and "equality and non-discrimination" for its employee recruitment. The Group considers the skills and experience of the candidates and recruits talents of different nationalities, races, religions and cultural backgrounds.

We recruit our staff in Hong Kong through, on one hand, internal selection within Sinopec Group Company with its advantages in the reserves of professional talents and, on the other hand, external recruitment in a fair and open manner to introduce excellent domestic and overseas professional talents. Both Huade Petrochemical and Yu Ji Pipeline Company recruit their employees through the platform of Sinopec Group Company and conduct centralised recruitment in the campus and the community with high transparency.

In addition, the Group strictly complies with the requirements of relevant local laws and regulations where the Group operates when carrying out procedures for staff employment and dismissal. It prohibits the employment of minor workers and forced labours.

Breakdown of employees of the Group by gender, employment type, age and region		
		As at the end of 2016
Total number		249
Gender	Male	212
	Female	37
Employment type	Part-time staff	0
	Temporary staff	0
	Contract staff	3
	Full-time staff	246
Age	40 or below	164
	Over 40	85
Region	Mainland China	224
	Hong Kong	23
	Overseas	2

The Group has a sound remuneration and promotion mechanism. It carries out comprehensive appraisal on the job nature, ability and experience of the candidates, as well as market benchmark remuneration in determining the initial salaries of the employees. The daily job performance, ability and attitude of the employees are appraised through various methods and the appraisal results form the key basis for determining basic salary adjustments, bonus, promotion, adjustment of job position and selection for training of the employees. As such, employees are encouraged to make more contributions to the Group and achieve sustainable development together with the Group.

In addition to basic remuneration and bonus, the Group also provides staff with a package of welfare and subsidies. Employees working in Hong Kong receive contributions to Mandatory Provident Fund (MPF) and medical insurance subsidies. In Mainland China, the Group strictly complies with the "Labour Law of the People's Republic of China" and makes contributions to the social insurance for pension, medical, unemployment, work-related injuries and maternity as well as housing provident funds for all local employees. Employees in Mainland China also participate in the corporate pension plan.

The Group does not encourage and tries not to arrange staff to work overtime. It strictly implements the standard working hour system of the national or local authorities. If it is necessary to arrange staff to extend working hours on working days or work on statutory holidays, compensation leaves will be granted or overtime payments will be given according to the relevant policies depending on the situations.

The Group strictly abides by the local laws and regulations where it operates to ensure the staff enjoys public holidays, paid leaves, sick leaves, private affair leaves, marital leaves, compassionate leaves, maternity leaves and breastfeeding leaves. We fully safeguard and guarantee their rights to take leaves and holidays.

Environmental, Social and Governance Report

The Group attaches great importance to the physical and mental health of staff. In addition to the above working hour and holiday arrangements to enable the staff to enjoy work-life balance, the Group also provides them with free and healthy lunch. Besides, the Groups also organises staff activities to promote communication among the staff and improve cohesiveness of the team.

In 2016, the Group conducted the "visiting the grass-root families" activity. The management visited the families of grass-root staff to understand their living conditions and family needs, gave them best wishes and helped them solve difficulties. Through the activity, the staff received our heartfelt concern and increased their sense of belonging to the Group.

2016 Staff Basketball Competition of Yu Ji Pipeline Company

Yu Ji Pipeline Company held the annual Staff Basketball Competition in Changzhi City, Shanxi Province on 12 April 2016. Twenty-eight players from seven teams from different business units participated in the competition. After one day of intense competition, the teams from Shaanxi Management Office, Head Office and Dezhou Management Office won the first, second and third prizes respectively. Shanxi Management Office received the Outstanding Team Organisation Award.

Participation in the Seventh Games of the Hong Kong Chinese Enterprises Association

To enhance the team spirit of the staff and enrich their cultural life, the Hong Kong Office arranged their staff to join the Seventh Games of the Hong Kong Chinese Enterprises Association on 12 and 13 November 2016. They participated in the opening ceremony, track and field events and telematch games, and achieved good performance.

Organising Bicycle Ride and Barbeque Fun Day for Hong Kong Office

On 19 November 2016, the Hong Kong Office organised a Bicycle Ride and Barbeque Fun Day. Staff members at the Hong Kong Office, their family members and relatives took bicycle rides along the seaside from Tai Wai to the barbeque site at Tai Mei Tuk. They enjoyed the food, chatted by the barbecue grill and enjoyed a relaxing and happy time.

Staff turnover rate of the Group by gender, age and region in 2016		
		Turnover rate*
Total turnover rate		4.78%
Gender	Male	1.88%
	Female	20.78%
Age	40 or below	6.73%
	Over 40	1.14%
Region	Mainland China	2.21%
	Hong Kong	29.79%
	Overseas	0.00%

* Turnover rate = Number of staff turnover for the year/((Number of staff at the beginning of the year + Number of staff at the end of the year)/2) X 100%

Staff training and development

At the beginning of the year, the Group has coordinated and formulated training programs for staff at different levels and positions according to its operation plan. The training courses cover a broad range of topics with extensive contents. These well-knit training courses include skill training closely related to their working positions, as well as integrated and management knowledge outside their job positions. The training programs aim at cultivating the idea of life-long learning among the staff and improving their all-round knowledge and skills, thus helping them move upward on the Group's promotion ladder and grow together with the Group.

In 2016, training courses of the Group covered safety education, operational skills, equipment management, financial management, operation management, information management, administration, anti-corruption and comprehensive quality to fully meet the development needs of the staff. To ensure the effectiveness and continual enhancement of training program, the Group requires the staff to make prior application for receiving training, attend the training and submit a post-training report or share their training results; for professional skill courses, assessments will be made according to the circumstances. Besides, trainers are evaluated after completion of the courses. In 2016, 247 employees or 99% of the employees of the Group received training and their total training hours added up to over 14,000 hours.

The percentage of the trained employees of the Group, and their average training hours completed by gender and employee category in 2016

		Percentage of employees trained	Average training hours per employee
Gender	Male	99%	59
	Female	100%	52
Employee category	Senior management	100%	44
	Middle management	91%	36
	General staff	100%	60
Total		99%	58
Total training hours		14,241	

Due to the specific safety requirements of their businesses, Huade Petrochemical and Yu Ji Pipeline Company conduct safety education for newly joined staff. Only those who pass the examinations are permitted to report duty. In addition, our employees are required to attend safety refreshment courses and technical trainings on their working positions every year to consolidate their safety awareness and further improve their working skills. For those working positions requiring special qualifications, Huade Petrochemical and Yu Ji Pipeline Company organise professional trainings to help them obtain the corresponding qualifications.

Training program of Yu Ji Pipeline Company

Mentoring system: Mentoring agreements are entered into with new university graduates. They are arranged to practise on the production lines by rotation to make them familiar with the working environment and grow as soon as possible.

One course and one exercise per week: As the staff are scattered at various work sites, we train and guide the frontline units to practise the "one course and one exercise per week" activities. In adopting the "three seminars" model, more staff members are able to attend the trainings, enhancing the learning attitude among our staff and effectively improving the overall quality of the team.

Professional qualification training: We arrange properly various HSSE trainings. At the beginning of the year, we have formulated the annual HSSE training scheme. Detailed descriptions of qualifications required, terms of renewal, relevant legal basis and training models for different working positions were prepared to enhance the knowledge of our staff on the qualifications and abilities required for their working positions, thus encouraging them to participate proactively in various training courses.

Training courses in 2016:

- We carried out three-level safety education and licensing qualification training on direct operation procedures for new staff, and conducted safety education for new recruits.

- In response to the newly issued Administrative Requirements of Licensing for Sinopec Group by Sinopec Group Company, and the qualification requirements of approvers and guardians for fire and excavation operations in relevant safety regulations, we conducted a certificate training course from 16 to 18 April 2016, in which 20 people obtained the approver certificate and 23 people obtained the guardianship certificate.

- From 17 to 19 May 2016, a licensing qualification training course in direct operation procedures was organised for Sinopec Natural Gas Branch Company.

Occupational Health and Safety

The Group is engaged in energy-related businesses, and therefore has to pay more attention to the safety and health of our staff. We implement stringent safety measures at work sites, and are strictly abided by a series of local laws and regulations where we operate in relation to occupational disease prevention and control. We enhance the basic works of occupational health to ensure the safety and health of our staff. In 2016, the Group did not record any work-related fatality or loss of working days resulting from work injury.

The Group implements strict requirements in the safety measures for its frontline staff. In 2016, we established the deployment plan for protective equipment at the beginning of the year according to the Administrative Measures for Protective Equipment of Labours issued by Sinopec Group Company. Such products were delivered timely. All staff members were required to wear protective products before entering the operation areas. The Group conducted inspections regularly to make sure that frontline staff adhere to such measures and is supervised on the proper use of protective products to strengthen their protection. During the year, the Group also carried out the "Occupational Disease Prevention Law Publicity Week Activity" according to the national requirements, inviting experts to give seminars and conveying our employees the sense of occupational safety and health.

In 2016, the Group arranged all frontline operation personnel to perform occupational health check-ups at the local qualified occupational disease prevention and control institutions according to specific occupational hazards in different working positions. The results of check-up were given in writing to our employees timely, and an occupational health monitoring file was set up for each employee so that the employees were reassured of their work safety. For those employees involved in occupational hazards, the Group arranged occupational health check-ups before, during and upon leaving their positions in compliance with the stringent government requirements of safety and health. The related expenses were borne by the Group.

Environmental, Social and Governance Report

In addition, the Group has formulated the corresponding preventive measures for occupational hazard in accordance with the respective business features of each business unit. In view of the flammable and explosive properties of crude oil, Huade Petrochemical established a professional firefighting team in accordance with the national standard of "Code for Design of Oil Depot", equipped with fire extinguishing foam system and cooling water system. Huade Petrochemical has also installed an optical fiber grating fire automatic alarm system in oil tanks, and set up the manual alarm system on the roads around the storage tank area. The Group has also prepared adequate dry powder fire extinguishers and fire extinguishing sand in accordance with the national standard of "Code for Design of Building Fire Extinguisher Configuration".

Safety production month activity

In late May 2016, Huade Petrochemical carried out the Safety Production Month activity, during which we gave a thorough promotion of relevant safety instructions and requirements to our employees through banners, safety posters, boards and essays. This activity effectively implemented the safety responsibilities in operation to further enhance the awareness for safety of our employees during operation.

Safety training activity

In April 2016, the Safety and Environment Department of Huade Petrochemical arranged all staff to attend the fire gas safety training to further increase the safety awareness of our staff and help them understand and learn the skills of firefighting and first aid.

Skill contest for operation commencement of fuel oil project

On 2 June 2016, in order to improve the operational skills and theoretical knowledge of the operation personnel on fuel oil, Huade Petrochemical organised a skill contest for the operation commencement of fuel oil project. Comprising individual and group competitions, the contest was to test their knowledge of fuel oil and operational skills, as well as their abilities of emergency response and team spirit with reference to operation procedures and safety emergency issues of the fuel oil project.

Yu Ji Pipeline Company has set up occupation hazard warning signs in each gas transmission substation to improve the awareness of frontline staff on the prevention of occupational hazards. It also carries out occupational hazard monitoring to guide the direction of occupational disease prevention and control. In 2016, Yu Ji Pipeline Company engaged local institutions to inspect the occupational hazard factors at its gas transmission substations. The passing rate of monitoring points at Yu Ji Pipeline was 97%, while the passing rate of eight-hour equivalent noise hazard in working positions reached 100%.

Launching "I Perform a Diagnosis for Safety" activity

In 2016, Yu Ji Pipeline Company continued to actively launch safety diagnosis activities and encourage their staff to discover, record, correct and stop unsafe behaviours including "three violations" and "human, machine, environment and management" in time. Four were adopted among the ten recommendations collected. Through this activity, Yu Ji Pipeline Company promoted its employees to take the safety awareness as their daily conscious behaviour, thus increased the safety awareness of the entire staff.

Staff technical contest

In June and August 2016, Yu Ji Pipeline Company held the staff technical contest, and the commendation ceremony took place at Jinan Control Center on 11 August. Through the contest, all departments exchanged their ideas about operation techniques. Yu Ji Pipeline Company appreciated their outstanding employees and encouraged their staff to make continual improvement to enhance the overall operational effectiveness and improve occupational safety.

The Group also attaches great importance to the workplace occupational safety. Huade Petrochemical conducted an analysis on the formaldehyde content for the air in its office in the third quarter of 2016. According to the analysis report, the quality of air met the required standard. In Hong Kong, the office building is equipped with fire hoses in accordance with relevant fire laws and regulations of Hong Kong. A comprehensive inspection was carried out to uncover the potential risk of fire in the office under the centralised arrangement of the property management center. A fire escape mask and a towel have been distributed to each employee. The Group also organised the staff in the Hong Kong Office to participate in the fire drill arranged by the property management center in December 2016. To ensure the accommodation safety of its employees stationed in to Hong Kong, the Company also engaged professional personnel to inspect the water, electricity and towngas facilities in their living quarters.

Occupational health training for office staff

On 24 November 2016, the Hong Kong Office invited the Labour Department of Hong Kong to carry out occupational health training for its office staff. The training mainly introduced occupational health precautions and hazard prevention methods in office, and methods to reduce physical strain in office.

OPERATING PRACTICES

The Group strictly complies with the local laws and regulations where it operates. It is committed to improving its corporate governance. We invite tenders from suppliers under strict mechanism with open and fair principles, and formulate the assessment and corresponding follow-up mechanism. By adhering to the principle of operation safety and improving both the techniques and equipment, the Group improves its production efficiency and reduces the risk in its supply chain to provide safe, quality and satisfactory services for our customers. In 2016, the Group did not record any incidents of product recall due to health and safety reasons or received any complaints regarding its products and services.

Supply Chain Management

The Group has cooperated with suppliers under the concepts of “law compliance, openness, competitiveness, selection for quality and win-win”. The Group strictly complies with the rule of “allowing open access to tender information and announcing non-tender information” to increase transparency in tender process. At the same time, the Group continuously enhances the tender management. Through the promotion of fair competition, it continues to enhance the quality of products and services from suppliers.

The number of suppliers of the Group by region in 2016	
Mainland China	499
Hong Kong	5

Environmental, Social and Governance Report

The Group adopts the supplier management system of Sinopec Group Company to conduct centralised management and keep records on its suppliers within the system. In selecting suppliers, the Group checks their business scopes, relevant qualifications, production capacity, service standard and performance. As an enterprise which attaches great importance to safety, environmental protection and compliance, we take into account safety qualifications, environmental protection qualifications, business reputation and law compliance records when selecting suppliers to promote their continuous improvement in these aspects. If candidate suppliers have bad records or unfair competition behaviour in the past three years, such suppliers will be disqualified immediately.

In addition to adoption of the centralised purchasing system of Sinopec Group Company, Huade Petrochemical has also established its self-employed material supplier system as a supplement. This allows Huade Petrochemical flexibility to use a different supplier system based on its own needs of production and construction. Huade Petrochemical is responsible for recommending, investigating and approving the self-employed suppliers, and an accountability system for recommending suppliers has been established in accordance with the principle of "the recommender is responsible for his recommendation".

Apart from the pre-procurement management, the Group also assesses the suppliers after transactions based on the four aspects of "quality, delivery, price, service" with its supplier reward and punishment mechanism. For suppliers with higher assessment ranking, the Group will give priority for share of order and demand information sharing; for suppliers with poor performance, the Group will give penalties such as warning, notification, suspension, cancellation and blacklisting based on the results of the assessments. Through this mechanism, the Group continues to optimise its supplier structure, cultivate its main supplier base and strategic supplier base and streamline the supply chain to ensure reliability and stability of the supply chain.

The Group avoids as far as possible both excessive reliance on a single supplier and engaging excessive number of suppliers for the same product or service which would result in management difficulties. As the supplier resources are well protected, the fluctuation in material price and disruption risk of supply chain is remote, thus guaranteeing smooth operation of business.

Service Safety and Privacy Protection

As an energy-related enterprise, we believe that safe operation environment and facilities not only prevent the risks in supply chain, but also provide customers with sustainable and stable services, guaranteeing the safety of services to customers. In this way, customers can feel at ease in choosing the Group as their partner. In addition, the Group is devoted itself to protecting the privacy of personal information and continues to be abided by relevant laws and regulations throughout the year.

Safety is the cornerstone for the existence and development of the Group. Without safety, the Group loses the basis to survive, not even to mention efficiency and development. The Group always insists on following the safety management guideline of “safety first, prevention crucial”. We actively promote the construction of the HSSE management system, strengthen the safety management and increase the level of inspections of production and operation, set up a sound safety management system and strive to achieve standardisation of the safety regulation of the Group.

In order to define safety responsibility and enforce professional management, the Group establishes an HSSE Committee, comprising the responsible person of each department, on the basis of the HSSE Executive Team. Four professional units, namely, overseas storage, local storage, logistics and general are formed under the committee. Regular meetings of the Safety Committee are held every two weeks and are chaired by the managing director. During the meeting, the business departments give reports on recent safety affairs in the operations of companies under the Group, analyse problems and arrange corresponding trainings.

In 2016, combining the safety control standards of international oil terminal and storage companies and the actual business conditions, the Group completed the identification of safety risks and factors affecting the environment. It also completed the collection of nine categories of laws and regulations and has preliminarily established archives of relevant laws and regulations.

In order to guarantee the implementation of HSSE responsibilities, the Group and all HSSE responsible subjects signed “HSSE undertaking letters” in 2016 to ensure each business unit or working position takes its responsibility. In addition, to ensure safety and active response to emergencies, the Group arranged the preparation of regulations on emergency management. The “Emergency Plan on Production Safety Incidents” and the “Operating Rules to the Emergency Plan on Production Safety Incidents” were revised. It also established an emergency command center and improved the overall emergency command mechanism.

Based on the characteristics of each business unit, the Group actively launched safety examinations and arranged accident drills in 2016. Through thorough inspections, the Group tried to extinguish any risk of accidents in the initial stage.

During the year, Yu Ji Pipeline Company strengthened the geological disaster investigation and the construction of water conservation restoration before the flooding period. It established a leading group on flood prevention and disaster alleviation, and a team on emergency rescue. It also set up an information reporting and liaison system covering three levels comprising the head office, the management offices and the substations. Responsible persons were assigned for a total of 450 high risk geographical points at main river crossings, key crossings and regions of high geological risks. It also prepared preventive measures for each of these points.

Environmental, Social and Governance Report

Huade Petrochemical arranged staff to carry out daily checking at fixed intervals. Every Friday, routine inspections were organised by staff at their own stations. Comprehensive HSSE examinations were carried out quarterly. Special inspections were arranged before the Chinese New Year and National Day holidays. In March and September, lightning protection and electrostatic prevention inspections were arranged. Also, there were inspections for drainage and flood control before the raining season, and for typhoon protection before the typhoon season. In addition, Huade Petrochemical held a pipeline emergency drill and a sea oil spill drill in June and November respectively.

Huade Petrochemical conducted an inspection for drainage and flood control in June 2016

Huade Petrochemical held a sea oil spill drill in November 2016

Huade Petrochemical held a pipeline emergency drill in June 2016

Inspection and rectification of crude oil pipeline

Huade Petrochemical continuously strengthens the inspections and risk rectifications in crude oil pipelines. It is the responsibility of Huade Petrochemical to secure the personnel and property safety in the communities around the pipelines. In 2016, Huade Petrochemical established a special workforce to carry out scheduled inspections and risk rectifications for the long pipelines and inter-factory pipeline and tanking facilities. A working group was formed under this workforce to undertake scheduled inspections and risk rectifications seriously.

As at the end of 2016, Huade Petrochemical has completed the rectification of all of the 205 problems and hidden risks found. In addition, according to the inspection and assessment of China Special Equipment Inspection and Research Institute, the present pipeline conditions meet the requirements for safe operation and their safety is effectively guaranteed.

The Group emphasises the importance of protecting the privacy of its employees, customers, business partners and other relevant parties. This includes the collection, use, disclosure, storage, obtaining or handling of data. We devote ourself to protect the privacy of personal information based on local regulations where it operates. Besides, the Group signs confidentiality agreements with relevant parties that will obtain private personal information to prevent illicit disclosure of information.

Anti-Corruption

The Group strictly abides by local laws and regulations. Through the internal monitoring system and anti-corruption education, we conduct the work on anti-corruption and prevent corruption risks. There were no corruption complaints or lawsuit cases against the Group in 2016.

The Group continued to launch anti-corruption promotion for the staff in 2016 to continuously raise their awareness of anti-corruption:

Huade Petrochemical

- To strengthen anti-corruption and self-discipline learning, core group learning was held every month. It arranged a series of training on anti-corruption to help staff members establish a correct perspective on life and value and consciously fight against corruption.
- It conducted thematic study and education activities to learn about relevant national laws and regulations.
- It held a corruption risk warning meeting for key personnel on 24 February 2016 and arranged them to sign the “Anti-corruption Undertaking Letter of the Management of Huade Petrochemical”. This ensured their immediate awareness, rectification and action against corruption.
- It conducted 13 communications on anti-corruption with key staff working in important positions with high job difficulties.

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Yu Ji Pipeline Company

- On 11 March 2016, it arranged centralised learning, held special trainings, wrote papers on theoretical discussion and organised knowledge contests for key personnel on anti-corruption. Through the activity, they deeply mastered the requirements of relevant national laws and regulations and consciously strengthened the awareness on anti-corruption, self-discipline and compliance.

- On 30 June 2016, an anti-corruption knowledge contest covering relevant national laws and regulations was held. Thirty-two staff from eight teams from different units participated in the contest.

Hong Kong Office

- Staff members were arranged to participate in the anti-corruption education lectures held by Sinopec Hong Kong Representative Office on 5 and 7 July 2016. Speakers from the Independent Commission Against Corruption of Hong Kong conducted the training and shared corruption cases in trade and financial sectors. Through the lecture, participants strengthened the awareness against corruption risks and maintained self-discipline in daily work.

COMMUNITY PARTICIPATION AND INVESTMENT

The Group understands that the sustainable development of both the Group and its places of operations complement each other. As such, the Group cares about community development, actively participates in community works and establishes good relationship with the community to promote harmonious development of the places where it operates. The Group puts particular emphasis and assumes its social responsibilities on environmental protection, the physical and mental health of local residents where it operates and community services.

Resources employed by the Group in community activities in 2016	
Participants	213
Total activity hours	Over 300 hours

In 2016, the Group continued to participate in a series of community activities to actively contribute to the society and community development.

Yu Ji Pipeline Company's "Month of Volunteer Services" community activities

In order to advocate unity and friendship, good manners, diligence and thrift and selfless sacrifice, Yu Ji Pipeline Company launched the "Month of Volunteer Services" community activities in March 2016.

Community services

Voluntary bicycle repairing: The volunteer team from Dezhou Management Office helped residents in surrounding areas repair and clean bicycles for free. They repaired and maintained more than 30 bicycles in a morning and earned appraise from local residents. The volunteer team also promoted the knowledge and ideas of environmental protection, low-carbon travelling and the use of natural gas, spreading the message of "offering clean energy" to thousands of households with their actions.

Visiting the elderly: The volunteer team from Shanxi Management Office visited nursing homes and gave rice, noodles, oil and fruits to the elderly. The team also helped them clean the yard and chatted with them to make them feel warm.

Environmental protection

Cleaning parks: The volunteer team from Dezhou Management Office collected plastic bags, beverage bottles, cigarette ends, waste papers and other household garbage at Jianhe Wetland Park to promote the awareness on environmental protection, wetland protection and the knowledge about natural gas industry to the local residents.

River protection: The volunteer team from Shaanxi Management Office walked for more than ten kilometers carrying a banner with "Inviting You to Protect the Mother River Together" printed on it along the east and west banks of the Yellow River (the mother river). The volunteers inspected the trusses, tunnels, large-span steel structures, large water conservancy and other pipeline infrastructures nearby. They let more people understand the current conditions of the Yellow River and called for their concern. They also promoted environmental protection ideas such as saving water, avoiding disposable wooden chopsticks and plastic bags and prohibiting littering to residents on both banks of the Yellow River.

Planting trees: Henan Management Office, the Gas Storage Management Office and Shanxi Management Office organised the "Planting Trees and Caring the Nature" activity. They planted more than 120 saplings and made their contributions to the reduction of carbon dioxide emission.

The "Tung Wah Group of Hospitals Radio-I-Care Pressure Reduction Promotion" activity of the Hong Kong Office

In order to raise the awareness of mental health among the local residents, the Hong Kong Office set up a stand on the street to promote the "Radio-I-Care" service platform of Tung Wah Group of Hospitals on 5 March 2016. The volunteers introduced the importance of mental health to residents and shared the meaningful service platform with them.

Huade Petrochemical's "Warm Mid-Autumn and Care for the Aged" activity

Ten volunteers from Huade Petrochemical joined force with a local philanthropic organisation to conduct the "Warm Mid-Autumn and Care for the Aged" activity on 10 September 2016 to enrich the leisure time of the aged and enhance the communication among residents in the community.

The volunteer team and social workers visited the aged living alone with oil, moon cakes and fruits to wish the aged a happy festival. The volunteers actively chatted with the elderly and let them feel the caring of the volunteers.

Huade Petrochemical's "Celebrating Double Ninth Festival by Hiking and Advocating Green Travelling and Environmental Protection" activity

In order to advocate green living and environmental protection, Huade Petrochemical conducted the "Celebrating Double Ninth Festival by Hiking and Advocating Green Travelling and Environmental Protection" activity on 9 October 2016. All participants collected garbage when walking down the hill to protect the environment.

Hong Kong Office participated in the "Hong Kong & Kowloon Walk for Millions"

The Hong Kong Office arranged its staff to participate in the "Hong Kong & Kowloon Walk for Millions" organised by the Community Chest of Hong Kong on 10 January 2016. The funds raised were used to sponsor 24 social welfare agency members which provided "Family and Child Welfare Services". This activity aroused the enthusiasm to care for the community and the benevolent attitude of the staff.

Hong Kong Office participated in cleaning beaches

The Hong Kong Office arranged its staff to participate in the "Voluntary Cleaning of Lung Kwu Tan, Tuen Mun" and the "Voluntary Cleaning of To Tau Wan, Ma On Shan" on 30 January and 18 June 2016 respectively. The volunteers cleaned the household garbage in surrounding areas, cared the living environment of marine lives and made their contribution to the protection of the sea.

Corporate Information

EXECUTIVE DIRECTORS

Mr. Chen Bo (Chairman)
Mr. Xiang Xiwen (Deputy Chairman)
Mr. Dai Liqi
Mr. Li Jianxin
Mr. Wang Guotao
Mr. Ye Zhijun (Managing Director)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Tam Wai Chu, Maria
Mr. Fong Chung, Mark
Dr. Wong Yau Kar, David

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Mr. Fong Chung, Mark (Chairperson)
Ms. Tam Wai Chu, Maria
Dr. Wong Yau Kar, David

REMUNERATION COMMITTEE MEMBERS

Ms. Tam Wai Chu, Maria (Chairperson)
Mr. Chen Bo
Mr. Fong Chung, Mark
Dr. Wong Yau Kar, David
Mr. Ye Zhijun

NOMINATION COMMITTEE MEMBERS

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Mr. Chen Bo
Ms. Tam Wai Chu, Maria
Mr. Fong Chung, Mark
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LISTING INFORMATION

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