



SINOPEC KANTONS HOLDINGS LIMITED

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

Annual Report 2017

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



CONTENTS

2	Company at a Glance
4	Chairman's Statement
10	Management Discussion and Analysis
18	Report of the Directors
29	Connected Transactions
36	Directors and Senior Management
42	Corporate Governance Report
56	Independent Auditor's Report
64	Consolidated Income Statement
65	Consolidated Statement of Comprehensive Income
66	Consolidated Statement of Financial Position
68	Consolidated Statement of Changes in Equity
70	Consolidated Statement of Cash Flows
71	Notes to the Financial Statements
147	Five Year Financial Summary
148	Environmental, Social and Governance Report
180	Corporate Information



COMPANY AT A GLANCE



China's Jetty and Storage

Jetty Coverage

Total Number of Berths

Total Designed Annual Throughput Capacity of Jetty

Total Designed Capacity of China's Storage

7 ports

36 berths

272 mm tons

3.21 mm m³



Huizhou Huade Petrochemical
2 berths
Largest tanker capacity: 300,000 tons
Designed throughput capacity: 30mm tons p.a.
Storage capacity: 1.34mm m³



Tianjin Shihua
1 berth
Largest tanker capacity: 300,000 tons
Designed throughput capacity: 20mm tons p.a.



Zhanjiang Port
14 berths
Largest tanker capacity: 300,000 tons
Designed throughput capacity: 45mm tons p.a.
Storage capacity: 838,000 m³



Qingdao Shihua
13 berths
Largest tanker capacity: 300,000 tons
Designed throughput capacity: 84mm tons p.a.
Storage capacity: 1.032mm m³



Rizhao Shihua
2 berths
Largest tanker capacity: 300,000 tons
Designed throughput capacity: 38.5mm tons p.a.



Tangshan Caofeidian Shihua
1 berth
Largest tanker capacity: 300,000 tons
Designed throughput capacity: 20mm tons p.a.



Ningbo Shihua
3 berths
Largest tanker capacity: 450,000 tons
Designed throughput capacity: 35mm tons p.a.



Natural Gas Pipeline



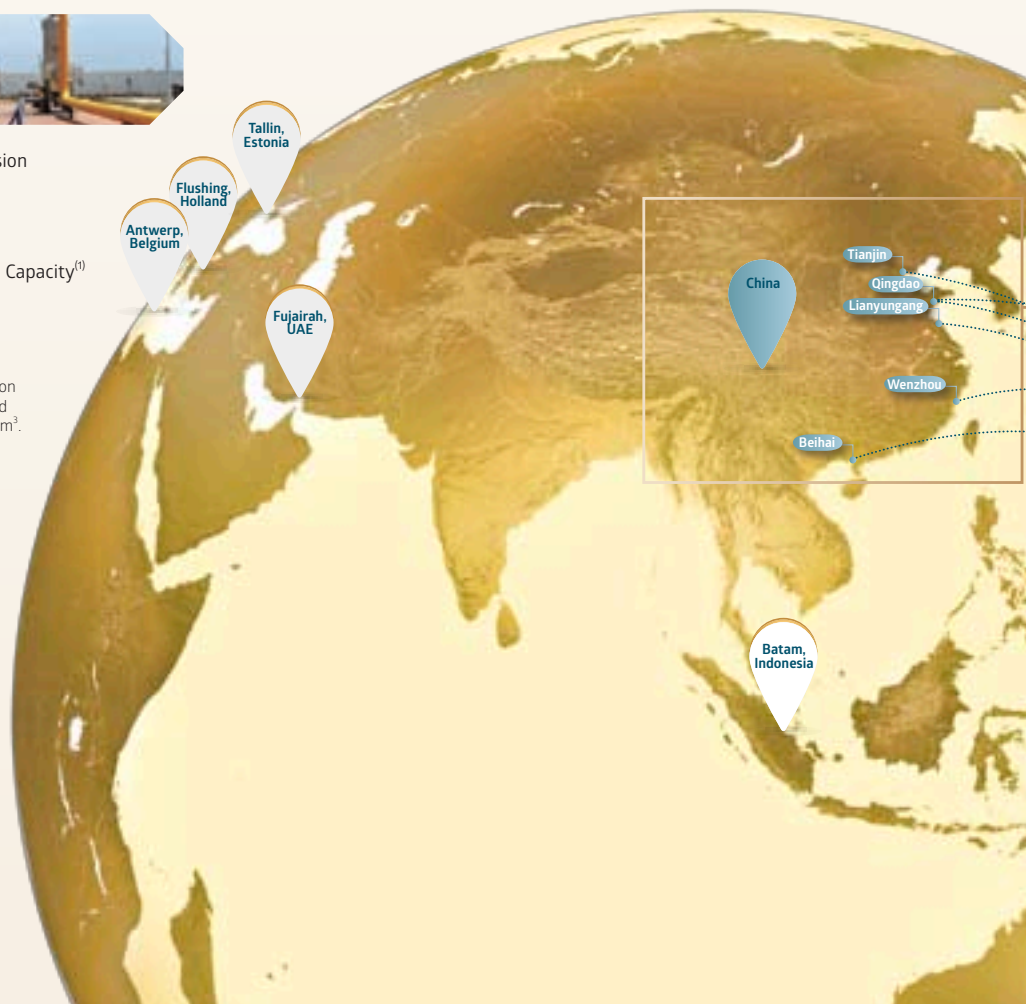
Natural Gas Pipeline Transmission

997 km

Designed Annual 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.



Tallin, Estonia
Flushing, Holland
Antwerp, Belgium
Fujairah, UAE

China
Tianjin
Qingdao
Lianyungang
Wenzhou
Beihai

Batam, Indonesia



Storage Business



Logistics Business



Overseas' Storage

Jetty Coverage⁽²⁾

Total Designed Capacity of Overseas' Storage⁽²⁾

4 countries

2.78 mm m³



Fujairah Oil Terminal, United Arab Emirates, Middle East
34 storage tanks
Storage capacity: 1,155,000 m³



Vesta Terminal Tallinn, Estonia, Europe
35 storage tanks
Storage capacity: 405,600 m³



Vesta Terminal Antwerp, Belgium, Europe
65 storage tanks
Storage capacity: 827,000 m³



Vesta Terminal Flushing, Holland, Europe
27 storage tanks
Storage capacity: 388,500 m³



Logistics



Australia Pacific LNG Vessels
6 vessels⁽³⁾
Each vessel capacity: 174,000 m³



Papua New Guinea LNG Vessels
2 vessels
Each vessel capacity: 172,000 m³

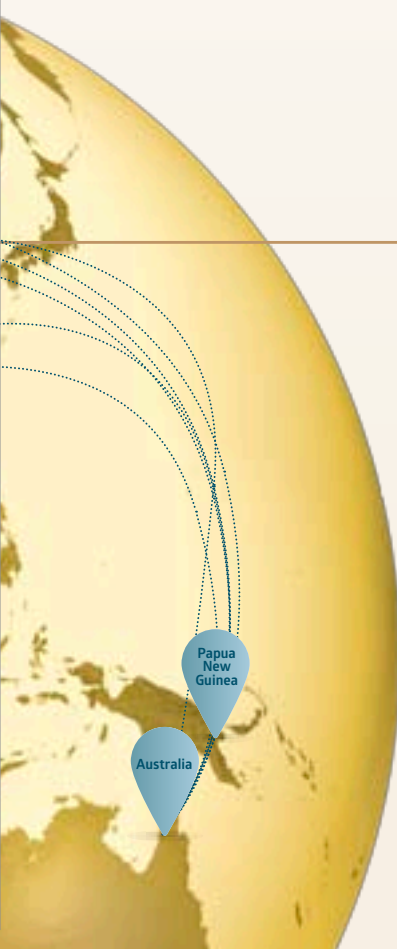
⁽²⁾ Does not include Batam Project, which is still in planning phase.

⁽³⁾ One vessel is under construction.

Natural Gas Pipeline



Crude Oil Pipeline





Dear Shareholders,

The year 2017 marked the conclusion of the first phase of development of Sinopec Kantons Holdings Limited (the “**Company**”). Thanks to the relentless support from our shareholders as well as the dedication and hard work of entire staff, the Company and its subsidiaries (collectively, the “**Group**”) achieved remarkable growth in operating results and posted an excellent performance in the year. On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of the Company, I would like to express my heartfelt gratitude for all your support, care and contributions.

Since 2011, the Board carried out studies and formulated the strategic plan and set the development direction of becoming a “world-class international petrochemical storage and logistics company” for the Group. Under the leadership of the Board and vigorous patronage from our controlling shareholder China Petroleum & Chemical Corporation (“**Sinopec Corp.**”) over the past few years, the entire staff have moved ahead steadfastly, strived tenaciously, overcome various complicated difficulties and transformed pressure to driving force. Through mergers and acquisitions as well as other means, the Group has actively expanded its storage and logistics business. As a result, the scale of operations, asset quality, business coverage, profitability and other aspects remarkably advanced. As at the end of 2017, the Group’s net assets reached approximately HK\$11.370 billion, representing an increment of 3.47 times over the approximately HK\$2.544 billion as at the end of 2010; its consolidated net profit surged by 5.16 times from approximately HK\$196 million in 2010 to approximately HK\$1,207 million in 2017. The Company expanded its business scale from the only operating entity Huizhou Daya Bay Huade Petrochemical Company Ltd. (“**Huade Petrochemical**”) to currently 13 entities, including

CHAIRMAN'S STATEMENT



Chen Bo
Chairman

CHAIRMAN'S STATEMENT

Huade Petrochemical, Sinopec Yu Ji Pipeline Company Limited ("**Yu Ji Pipeline Company**"), Vesta Terminals B.V. ("**Vesta**") and Fujairah Oil Terminal FZC ("**FOT**"). The operating coverage of oil terminal and storage business includes the Pearl River Delta, the Yangtze River Delta and Bohai Bay in China, the Amsterdam-Rotterdam-Antwerp ("**ARA**") region in Europe, and the areas around the Strait of Hormuz in the Middle East. The throughput capacity of oil jetties increased 8.07 times from 30 million tonnes per year to 272 million tonnes per year. Meanwhile, the number of oil terminal berths expanded from 2 to 36, of which very large crude carrier (VLCC) berths grew from 1 to 12. At the same time, its total oil storage capacity surged from 0.8 million m³ to 5.99 million m³, representing an increment of approximately 6.49 times. The Company originally operated a 170-km crude oil pipeline connecting Huizhou to Guangzhou. After adding the 997-km natural gas pipeline connecting Yulin, Shaanxi to Jinan, Shandong into its portfolio, the total length of the Group's pipeline reached 1,167 km. Besides, the Group actively expanded its liquefied natural gas ("**LNG**") transportation business. Six LNG vessels had completed construction and were put into operations as at the end of 2017. Since the Group's LNG shipping operation is closely connected to the gas resources, this business possesses the characteristics of low risk and high return, and has become an important component of the Group's core business. Thanks to the efforts over the past few years, the Group has developed itself into the China's largest oil terminal service operator with extensive scale of operation in petrochemical storage, pipeline transmission and LNG vessel transportation, achieving the Board's targets for the first phase of development. We are embarking on a new stage of development and setting off a new journey. Going forward, the Group will integrate its development with the Belt and Road Initiative and actively explores the opportunities arising in major countries and regions along the Belt and Road and in China. Through mastering the macroeconomic environments in China and overseas, the Group will formulate the development plan for the next phase. The Group will step up its efforts to expand the storage and logistics businesses and strives to achieve its strategic goal as soon as possible.

During 2017, the Chinese government actively promoted the use of clean energy and granted higher quota for local refineries in using imported crude oil. This created favourable market environment for the Group's natural gas pipeline transmission and oil terminal businesses. In order to fully grasp these opportunities, the Group took measures to ensure its safe and smooth operation, and enhance the service quality to expand its market coverage and business volumes. Both businesses achieved outstanding operating results with record highs in its oil terminal throughput and natural gas transmission volume during the year. Nevertheless, due to the suspension of its chartered vessel business, the Group's total revenue for 2017 dropped by approximately 2.11% year-on-year to approximately HK\$1,729 million, while its consolidated net profit grew by approximately 20.07% year-on-year to approximately HK\$1,207 million, translating into an earnings per share of HK48.59 cents. In view of the Company's cash positions and the

needs for its future development, the Board recommended the payment of annual dividend of HK12 cents per share for 2017, representing a year-on-year growth of approximately 71.43%. Excluding the interim dividend of HK5 cents per share paid, a final dividend of HK7 cents per share for 2017 is recommended, which represents a year-on-year increase of 100%.

In 2017, China's natural gas market saw a phenomenal growth in demand as the government stepped up efforts to promote the use of clean energy to rein in air pollution. This created an exceptional opportunity for the natural gas pipeline transmission business of Yu Ji Pipeline Company, the Company's wholly-owned subsidiary. In the face of the new market conditions, Yu Ji Pipeline Company strove to overcome the challenges arising from the shortage of upstream resources by expanding its gas supply channels to boost natural gas supply. At the same time, it continuously optimized the production processes and further enhanced its pipeline network management so as to boost its transmission volume and improve profitability. In 2017, the natural gas transmission volume of Yu Ji Pipeline Company amounted to approximately 4.114 billion m³, representing a year-on-year increment of approximately 38.52%. This segment generated revenue of approximately HK\$1,137 million, representing a year-on-year increase of approximately 9.36%. The segment results were approximately HK\$475 million, representing a year-on-year growth of approximately 148.58%. Overall, the operating results were pleasing in 2017.

In 2017, Huade Petrochemical, a wholly-owned subsidiary of the Company, actively developed a systematic approach to its management and strove to improve its delicacy management standards. While securing stable operations, it made progress in the newly-built fuel oil storage project by putting forward completion acceptance works and preparing for the commencement of its commercial operation, which laid a solid foundation for its full operation in 2018. Besides, persistent efforts were made on exploring external cooperation opportunities to boost its revenue and improve profit. Although its business volume was adversely affected in 2017 by the maintenance of the refinery equipment of Sinopec Corp. Guangzhou Branch ("**Guangzhou Petrochemical**"), the largest customer of its downstream operations, which led to a reduction in crude oil imports, Huade Petrochemical's profitability will be continuously enhanced following the full operation of the newly-built fuel oil storage facilities in 2018 and the increasing external cooperation. During 2017, Huade Petrochemical unloaded approximately 11.63 million tonnes of crude oil from 87 oil tankers and transmitted approximately 11.72 million tonnes of crude oil, representing a year-on-year decrease of approximately 5.75% and 4.17% respectively. This segment generated revenue of approximately HK\$592 million, representing a year-on-year growth of approximately 1.00%. The segment results were approximately HK\$231 million, representing a year-on-year decrease of approximately 4.69%.

CHAIRMAN'S STATEMENT

The year 2017 marked the third year of opening up of domestic crude oil market to local refineries by the Chinese government through the granting of import quota. With increasing imports by local refineries, China's crude oil imports continued to grow steadily. While ensuring safe and stable operations, the Company's oil terminal joint ventures and associates strengthened their service quality assessments and all-round service awareness. They were committed to delivering efficient, convenient and unique services and energetically expanded their markets and business scales. As a result, their throughput volumes had maintained steady growth for the past consecutive years. For the year 2017, 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**") reached approximately 223 million tonnes, representing a year-on-year growth of approximately 13.20%. Despite the negative impacts resulting from the expiry of preferential income tax treatment and higher income tax charges in some of the terminal joint ventures in 2017, the Six Domestic Terminal Companies still generated an aggregate investment return of approximately HK\$743 million, representing a year-on-year increment of approximately 4.35%.

The overall performance of the Group's LNG vessel construction and LNG shipping business remained stable in 2017, with three LNG vessels completed constructions and were put into commercial operations as scheduled. As at the end of 2017, a total of six LNG vessels were in commercial operations, of which the two LNG vessels under the Papua New Guinea LNG Project ("**PNG LNG**") completed 25 voyages during the year and generated an investment return of approximately HK\$7.06 million, representing a year-on-year improvement of approximately 44.08%. The four LNG vessels under the Australia Pacific LNG Project ("**AP LNG**") completed a total of 35 voyages and generated an investment return of approximately HK\$56.28 million, representing a year-on-year growth of approximately 1,087.34%. After another two LNG vessels come on stream in 2018, all the eight LNG vessels under PNG LNG and AP LNG will become fully operational. The scale and profitability of the Group's LNG vessel business are expected to grow further.

With the changing expectations on international crude oil price movements, the competition in international oil storage market was increasingly intensified in 2017. This, together with the deteriorating geopolitical situation in certain regions, imposed greater challenges on the production and operation of FOT and Vesta, the Company's joint ventures. Lower leasing rates and rentals in their oil tanks were seen for certain period during the year. In face of these challenges, the Group increased income and reduced expenditures through external market exploration and internal cost control, and improved competitiveness through short-term measures and long-term planning. By flexibly adopting these effective measures, the Group enhanced the efficiency of these companies. During the year, FOT generated an investment return of approximately HK\$30.20 million, representing a year-on-year decrease of approximately 1.24%, while Vesta generated an investment return of approximately HK\$6.42 million, representing a year-on-year reduction of approximately 76.46%.

Looking back, we are satisfied with the Group's achievements while going through numerous challenges. Going forward, the Group will adhere to its established development strategy and stick to its business philosophy of "placing production safety as its top priority and pursuing market-oriented development". We will seize the emerging market opportunities to build the Group into a "world-class petrochemical storage and logistics company" as soon as possible and strive for excellence in the Group's operating results to give back to our shareholders, staff and the society.

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

Hong Kong, 21 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS



In 2017, the Company adhered to its established development strategy and continued to develop its oil storage and logistics projects. Benefiting from the Chinese government's active promotion of clean energy and the gradual annual growth in China's crude oil imports, the business volume for natural gas pipeline transmission and oil terminals recorded significant increase, leading to sharp rises in operating results of such transmission business and investment return of terminal companies. Three LNG vessels under APLNG have been put into operation in 2017, which resulted in a corresponding substantial growth in investment return generated from APLNG.

Revenue and Cost of Sales

For the year ended 31 December 2017 (the "Year" or the "Period"), the Group's revenue was approximately HK\$1,729,239,000 (2016: HK\$1,766,590,000), representing a decrease of approximately 2.11% as compared with the same period last year, and its cost of sales was approximately HK\$864,771,000 (2016: HK\$1,136,201,000), representing a decrease of approximately 23.89% as compared with the same period last year. The decreases in the Group's revenue and cost of sales were mainly due to the following reasons: firstly, as the Group had not operated the chartered vessel business since the beginning of 2017, no revenue and costs relating to such business were incurred; secondly, the PRC National Development and Reform Commission (the "NDRC") issued the Measures for the Supervision and Review of Natural Gas Pipeline Transportation Pricing Costs (for Trial Implementation) (《天然氣管道運輸定價成本監審辦法(試行)》) (the "Cost Supervision and Review Measures") on 9 October 2016 and implemented a new natural gas transmission tariff on 1 September 2017; thirdly, with reference to the Cost Supervision and Review Measures, Yu Ji Pipeline Company adjusted the depreciation durations for fixed assets accordingly since 1 January 2017, and in particular, the useful life of natural

gas pipeline was adjusted from 20 years to 30 years, which led to a substantial decrease in the depreciation charges of Yu Ji Pipeline Company for 2017; and fourthly, following the spirit of the Cost Supervision and Review Measures, the useful life of gas storage facilities leased by Yu Ji Pipeline Company from Natural Gas Branch Company of Sinopec Corp. ("**Sinopec Natural Gas Branch Company**") was adjusted from 14 years to 30 years since 1 January 2017, which led to a substantial drop in the rental of gas storage facilities paid in accordance with the actual incurred cost of gas storage facilities for 2017.

Segmental Information

Segmental information of the Group for the year ended 31 December 2017 is set out in note 5 to the financial statements.

Gross Profit and Operating Profit

For the year ended 31 December 2017, the Group's gross profit was approximately HK\$864,468,000 (2016: HK\$630,389,000), representing an increase of approximately 37.13% as compared with the same period last year; the operating profit was approximately HK\$747,638,000 (2016: HK\$553,961,000), representing an increase of approximately 34.96% as compared with the same period last year. Increases in both gross profit and operating profit were mainly due to the substantial increase in the operating results of Yu Ji Pipeline Company brought by the sharp growth in its natural gas transmission volume in 2017.



Administrative Expenses

For the year ended 31 December 2017, the Group's administrative expenses were approximately HK\$214,657,000 (2016: HK\$162,997,000), representing an increase of approximately 31.69% as compared with the same period last year. The increase in administrative expenses was mainly due to higher maintenance expenses resulting from Yu Ji Pipeline Company's increased efforts in this regard to eliminate safety hazards and ensure the safety of natural gas pipeline transmission in 2017. Besides, higher legal costs arising from arbitration for the construction of 2.60 million m³ oil storage and terminal facilities in Indonesia (the "**Batam Project**") was incurred in 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance Income

For the year ended 31 December 2017, the Group's finance income was approximately HK\$3,833,000 (2016: HK\$10,421,000), representing a decrease of approximately 63.22% as compared with the same period last year, which was mainly due to a decrease in bank interest income on lower average deposits of the Group in 2017.

Finance Costs

For the year ended 31 December 2017, the Group's finance costs were approximately HK\$166,279,000 (2016: HK\$203,756,000), representing a decrease of approximately 18.39% as compared with the same period last year, which was mainly due to a decrease in interest expenses on lower borrowings of the Group in 2017.

Income Tax Expenses

For the year ended 31 December 2017, the Group's income tax expenses were approximately HK\$221,045,000 (2016: HK\$135,317,000), representing a substantial increase of approximately 63.35% as compared with the same period last year, which was mainly due to the substantial increase in taxable profit of Yu Ji Pipeline Company, a wholly-owned subsidiary of the Company, in 2017.

Profit Before Income Tax and Profit for the Year

For the year ended 31 December 2017, the Group's profit before income tax was approximately HK\$1,427,701,000 (2016: HK\$1,140,303,000), representing a significant increase of approximately 25.20% as compared with the same period last year; profit for the Year was approximately HK\$1,206,656,000 (2016: HK\$1,004,986,000), representing an increase of approximately 20.07% as compared with the same period last year. The substantial increases in profit before income tax and profit for the Year were mainly due to the substantially improved operating results of the natural gas pipeline transmission business of the Group in 2017, and the steady growth in investment return from oil terminal associates and joint ventures of the Group in China.

Prepayment and Other Receivables

As at 31 December 2017, the Group's prepayment and other receivables were approximately HK\$50,082,000 (as at 31 December 2016: HK\$0), which was mainly dredging expenses for channel maintenance incurred by Huade Petrochemical in 2017 and classified as long-term prepayment assets.

Interests in Associates and Interests in Joint Ventures

As at 31 December 2017, the Group's interests in associates amounted to approximately HK\$838,256,000 (as at 31 December 2016: HK\$710,784,000), representing an increase of approximately 17.93% as compared with the end of last year, whereas the Group's interests in joint ventures amounted to approximately HK\$7,118,721,000 (as at 31 December 2016: HK\$6,460,197,000), representing an increase of approximately 10.19% as compared with the end of last year. The increases in interests in associates and interests in joint ventures were mainly due to better operating results of oil terminal associates and joint ventures of the Group in China for 2017 and the appreciation of RMB versus HK\$ as at the end of 2017 over the end of 2016.

Trade and Other Receivables

As at 31 December 2017, the Group's trade and other receivables were approximately HK\$1,005,725,000 (as at 31 December 2016: HK\$1,173,286,000), representing a decrease of approximately 14.28% as compared with the end of last year, which was mainly due to enhanced management and increased efforts in calling up of trade receivables by the Group in 2017.

Liquidity and Source of Finance

As at 31 December 2017, the Group's cash and cash equivalents amounted to approximately HK\$409,855,000 (as at 31 December 2016: HK\$323,206,000), representing an increase of approximately 26.81% as compared with the end of last year, which was mainly due to increased efforts in calling up and settlement of trade receivables by the Group.

Reserves and Equity Attributable to Equity Holders of the Company

As at 31 December 2017, the Group's reserves were approximately HK\$11,084,169,000 (as at 31 December 2016: HK\$9,313,764,000), representing an increase of approximately 19.01% as compared with the end of last year, whereas equity attributable to equity holders of the Company were approximately HK\$11,332,785,000 (as at 31 December 2016: HK\$9,562,380,000), representing an increase of approximately 18.51% as compared with the end of last year. The increases in reserves and equity attributable to equity holders of the Company were mainly due to the substantial increase in the operating results of the Group for 2017.

Gearing Ratio

As at 31 December 2017, the Group's current ratio (current assets to current liabilities) was approximately 0.51 (as at 31 December 2016: 0.47); and gearing ratio (total liabilities to total assets) was approximately 33.47% (as at 31 December 2016: 41.10%).

MANAGEMENT DISCUSSION AND ANALYSIS

Deferred Income Tax Liabilities

As at 31 December 2017, the Group's deferred income tax liabilities were approximately HK\$109,993,000 (as at 31 December 2016: HK\$99,800,000), representing an increase of approximately 10.21% as compared with the end of last year, which was mainly due to an increase in deferred income tax liabilities incurred resulting from higher profits of companies under the Group in China and the appreciation of RMB in 2017.

Borrowings

As at 31 December 2017, the Group's borrowings amounted to approximately HK\$5,163,110,000 (as at 31 December 2016: HK\$5,627,603,000) in aggregate, including non-current and current borrowings of approximately HK\$2,775,452,000 (as at 31 December 2016: HK\$3,353,791,000) and approximately HK\$2,387,658,000 (as at 31 December 2016: HK\$2,273,812,000) respectively, representing a decrease of approximately 8.25% as compared with the end of last year, which was mainly due to increased debt repayment of the Group in 2017.

Government Grants

As at 31 December 2017, the Group had government grants of approximately HK\$21,491,000 (as at 31 December 2016: HK\$13,178,000), representing an increase of approximately 63.08% as compared with the end of last year, mainly from local government grants for commencing the safety risk rectification works in crude oil pipelines of Huade Petrochemical during 2017.

Trade and Other Payables

As at 31 December 2017, the Group's trade and other payables were approximately HK\$363,399,000 (as at 31 December 2016: HK\$943,577,000), representing a decrease of approximately 61.49% as compared with the end of last year, which was mainly because of the settlement of certain payables by the Group to its holding company Sinopec Corp. in 2017, the details of which are set forth in note 26 to the financial statements herein.

Income Tax Payable

As at 31 December 2017, the income tax payable of the Group was approximately HK\$60,852,000 (as at 31 December 2016: HK\$14,876,000), representing an increase of approximately 309.06% as compared with the end of last year, which was mainly due to higher taxable profit of Yu Ji Pipeline Company and increased income tax payables on dividends receivable by the Company from the joint ventures of the Company according to their dividend distribution proposals in 2017.

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 2017.

Exchange Risk

The Company is engaged in oil storage, oil terminal and logistics businesses in the PRC, Europe and 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, 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 Terminal (“PT. West Point”) and entered into the shareholders’ agreement for the Batam Project. In accordance with the shareholders’ agreement, as at 31 December 2017, the Group committed to a contribution obligation not exceeding the balance of US\$144,685,000. 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 2017, the Group undertook a contribution obligation not exceeding the balance of US\$30,118,034 in relation to the necessary shareholder’s loan and cost overrun for vessel construction. Along with the progress of those projects and schedules, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Contingent Liabilities of and Assets Pledged by the Group

As at 31 December 2017, the contingent liabilities of and assets pledged by 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 2017
The Company	Sinomart KTS Development Limited (" 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 ^{Note}	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	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\$30.12 million

Note: To support the project financing of FOT, Sinomart Development signed the Sponsor Support Agreement to make sponsor support loan to FOT under certain conditions according to the terms set out in this agreement. The sponsor support loan is guaranteed by the Company. Sinomart Development also entered into an equity pledge agreement on 6 August 2015, pursuant to which Sinomart Development pledged its 50% equity interest in FOT to the bank which offered loan in respect of the project of FOT until the full repayment of the loan.

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 2017.

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 the Batam Project in Indonesia via PT. West Point. Due to the minority shareholder from Indonesia, 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 arbitration proceedings. As at the date of this report, the arbitral tribunal has been established and the relevant parties are undergoing arbitration according to the schedule stipulated by the tribunal. It is hard to precisely predict the results of the arbitration at the current stage; therefore, investors are reminded to pay attention to the corresponding risk that may be arising from such uncertainties.

For details please refer to the announcements dated 15 November 2016 and 21 March 2017 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 2017, the Group had a total of 248 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 2017.

Principal Place of Business

The Company is 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 to pages 4 to 9 of this report under the section "Chairman's Statement" and pages 10 to 17 of this report under the section "Management Discussion and Analysis".

Compliance with Laws and Regulations

For the year ended 31 December 2017, 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 2017 is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	62%	
Five largest customers in aggregate	97%	
The largest supplier		25%
Five largest suppliers in aggregate		65%

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 four of the five largest customers and two 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 interests in any of the aforementioned suppliers or customers.

Financial Statements

The profit of the Group for the year ended 31 December 2017 and the financial positions of the Group and the Company as at that date are set out in the financial statements on pages 64 to 146 of this report.

Transfer to Reserves

For the year ended 31 December 2017, profit attributable to equity holders of the Company, before dividends, of HK\$1,207,928,000 (2016: HK\$1,005,259,000) have been transferred to reserves. Details of changes in other reserves are set out in the Consolidated Statement of Changes in Equity on pages 68 to 69 of this report.

REPORT OF THE DIRECTORS

Final Dividend

The Board recommended a dividend of HK12 cents per share payable in cash for the whole year of 2017 (2016: HK7 cents per share), excluding the interim dividend of HK5 cents per share in cash for 2017 (2016: HK3.5 cents per share) paid on 18 October 2017, the final dividend of HK7 cents per share in cash for 2017 (2016: HK3.5 cents per share) will be paid to all the shareholders whose names appear in the register of the members of the Company on 13 July 2018 (Friday).

The register of members of the Company will be closed from 9 July 2018 (Monday) to 13 July 2018 (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 6 July 2018 (Friday). The cheques for dividend payment will be sent to shareholders on or about 23 July 2018 (Monday).

2017 Annual General Meeting

The Company will convene the 2017 annual general meeting on 27 June 2018 (Wednesday), and the register of members of the Company will be closed from 21 June 2018 (Thursday) to 27 June 2018 (Wednesday) (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for attending the 2017 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 20 June 2018 (Wednesday).

Principal Risks and Uncertainties

In the course of its production and operation, the Company will actively take various measures to avoid and mitigate various types of operational risks. However, in practice, it may not be possible to completely prevent, including but not limited to, the following risks and uncertainties.

Variation risks in macroeconomic situation: The operating results of the Company are closely related to the economic situation of China. As China's economic development entered into a new norm, uncertainties remain although its economy had a better recovery trend in 2017.

Macroeconomic policy and government regulation risks: The macroeconomic policies, industrial policies and regulatory policies of the Chinese government and new changes which may happen in the future, such as the natural gas pipeline transmission pricing, cost supervision and review of gas pipeline, opening up of third party access of gas pipeline on a fair basis, and expansion of crude oil import rights, would affect the production, operation and efficiency of the Company's natural gas pipeline transmission business and crude oil jetty and storage business.

Operational risks and natural disasters: Petroleum and chemical storage and logistics sector is exposed to risks of inflammation, explosion, environmental pollution and natural disasters. Such contingencies may cause serious impact to the society, major financial losses to the Company and grievous injuries to people. The Company has put much emphasis on safety production and implemented a strict health, safety and environmental protection (“**HSSE**”) management system, so as to avoid such risks as much as possible in full effort. However, such measures may not shield the Company from financial losses or adverse impact resulting from such contingencies.

Investment risk: Petroleum and chemical storage and logistics sector is a capital-intensive industry. Although the Company adopted a prudent investment strategy and conducted rigorous feasibility studies on each investment project, uncertainties relating to market environment, geopolitics and legal disputes may still exist and expected returns may not be achieved, with certain risks of investment impairment.

Exchange risk: The Company is engaged in oil storage, oil terminal and logistics businesses in the PRC, Europe and 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. For details please refer to the paragraph headed “Exchange Risk” as set out in the section “Management Discussion and Analysis” of this report.

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

Fixed Assets

For the year ended 31 December 2017, the Group spent approximately HK\$50,674,000 (2016: HK\$281,206,000) 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 2017 are set out in note 22 to the financial statements.

REPORT OF THE DIRECTORS

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

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

The Board of Directors and Members of Each Professional Committee

For the year ended 31 December 2017 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 (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		

In accordance with Bye-law 111 of the Company's Bye-laws (the "**Bye-laws**"), Mr. Xiang Xiwen and Mr. Dai Liqi will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

In addition, as announced by the Company on 21 March 2018, Ms. Wong Pui Sze, Priscilla was appointed by the Board as an independent non-executive Director and a member of each of the audit committee (the “**Audit Committee**”), remuneration committee (the “**Remuneration Committee**”) and nomination committee (the “**Nomination Committee**”) of the Company with effect from 22 March 2018. In accordance with Bye-law 115 of the Bye-laws, the tenure of Ms. Wong as an independent non-executive Director of the Company will end as at the date of 2017 annual general meeting of the Company, and she, being eligible, will offer herself 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 2017, none of the Directors and chief executive 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 (Cap. 571 of the Laws of Hong Kong) (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 2017, the Company has not established and implemented any share option scheme.

Directors’ Rights to Acquire Shares or Debentures

For the year ended 31 December 2017, 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.

REPORT OF THE DIRECTORS

Interests and Short Positions of Substantial Shareholders and Other Persons Discloseable under the SFO

As at 31 December 2017, 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 China International United Petroleum & Chemicals Co., Ltd. (“**UNIPEC**”). The controlling interest in the registered capital of UNIPEC is ultimately held by Sinopec Group Company.

Save as disclosed above, the Company has not been notified by any person (other than the Directors 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 2017 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 29 to 35 of this report. Save as mentioned therein, no contracts of significance were entered into between the Company or its subsidiaries and the controlling shareholder or its subsidiaries.

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 2017 nor at any time during the Year did there subsist any arrangement whose object was 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 10 to 17 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 147 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.

REPORT OF THE DIRECTORS

Permitted Indemnity Provision

As permitted by the Bye-laws, 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 or she may incur or sustain in or about the execution of the duties of his or 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, please refer to the Corporate Governance Report on pages 42 to 55 of this report.

Compliance with the Corporate Governance Code

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 2017.

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 2017 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. The Audit Committee comprised three independent non-executive Directors for the year ended 31 December 2017. Upon the appointment of Ms. Wong Pui Sze, Priscilla as a member of the Audit Committee on 22 March 2018, the Audit Committee would comprise four 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.

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 2017, 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 minimize the impact on the environment and natural resources. In 2017, the Group has not violated any relevant laws and regulations that have a significant impact on its business.

For further details of the Group's environmental policies and performance, please refer to the section "Environmental, Social and Governance Report" on pages 148 to 179 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 10 to 17 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 operations as far as they are feasible and in the best interest of the Group and the shareholders as a whole.

REPORT OF THE DIRECTORS

Donations

No charitable and other donations were made by the Group during the year ended 31 December 2017.

By order of the Board of

Sinopec Kantons Holdings Limited

Chen Bo

Chairman

Hong Kong, 21 March 2018

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, the Group entered into the framework agreements for continuing connected transactions/connected transactions with Sinopec Group Company and its subsidiaries for businesses relating to crude oil jetties, natural gas pipeline transmission and financial services. The details are as follows:

1. On 11 November 2016, 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 to Guangzhou Petrochemical with a term of three financial years ending on 31 December 2019. Guangzhou Petrochemical is a branch company of Sinopec Corp., which indirectly wholly owns Kantons International, the controlling shareholder of the Company;
2. On 11 November 2016, Huade Petrochemical, a wholly-owned subsidiary of the Company, renewed and 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 to Huade Petrochemical and its subsidiaries by Sinopec Finance with a term of three financial years ending on 31 December 2019. 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;
3. On 11 November 2016, the Company renewed and entered into the Century Bright Financial Services Framework Master Agreement with Sinopec Century Bright Capital Investment Limited ("**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. Century Bright is a wholly-owned subsidiary of Sinopec Group Company, which indirectly controls Kantons International, the controlling shareholder of the Company;

CONNECTED TRANSACTIONS

4. On 30 December 2014 and 11 November 2016, Yu Ji Pipeline Company, a wholly-owned subsidiary of the Company, entered into two Natural Gas Transmission Services Framework Master Agreements 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 three financial years ended 31 December 2017 and a term of two financial years ending on 31 December 2019 respectively. Sinopec Natural Gas Branch Company is a branch company of Sinopec Corp., which indirectly wholly owns Kantons International, the controlling shareholder of the Company;
5. On 30 December 2014 and 11 November 2016, Yu Ji Pipeline Company, a wholly-owned subsidiary of the Company, entered into two Yu Ji Pipeline Financial Services Framework Master Agreements with Sinopec Finance for the provision of financial services within the PRC by Sinopec Finance to Yu Ji Pipeline Company with a term of three financial years ended 31 December 2017 and a term of two financial years ending on 31 December 2019 respectively;
6. On 11 November 2016, 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. On 11 November 2016, 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;
8. On 11 November 2016, Yu Ji Pipeline Company, a wholly-owned subsidiary of the Company, entered into the Yu Ji Compression Project Framework Master Agreement with Sinopec Petroleum Engineering Corporation 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 above agreements and continuing connected transactions/connected transactions obtained approval at the special general meetings of the Company held on 10 February 2015 and 22 December 2016 respectively.

In addition, in order to meet its needs of production, operation and business development, the Group entered into a number of continuing connected transaction/connected transaction framework agreements accordingly. The details are as follows:

1. 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 Sales Company Limited (“**Sinopec Fuel Oil**”) for the provision of fuel oil jetty and storage services to Sinopec Fuel Oil for three financial years ending on 31 December 2019. Sinopec Fuel Oil is a wholly owned subsidiary of Sinopec Corp., which indirectly wholly owns Kantons International, the controlling shareholder of the Company;
2. On 11 November 2016, 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 project design services for the relocation and risk management in relation to oil storage tank area and pipelines. Luoyang Petrochemical Engineering Corporation Limited is a wholly owned subsidiary of Sinopec Engineering (Group) Company Limited (“**Sinopec Engineering**”). Sinopec Group Company is the controlling shareholder of Sinopec Engineering, and indirectly controls Kantons International, the controlling shareholder of the Company;
3. On 30 December 2014, 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 ended 31 December 2017;
4. On 30 December 2014, 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 services outsourcing to Yu Ji Pipeline Company by Sinopec Natural Gas Branch Company with a term of three financial years ended 31 December 2017;

CONNECTED TRANSACTIONS

5. On 11 November 2016, 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;
6. On 11 November 2016, 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., which indirectly wholly owns Kantons International, the controlling shareholder of the Company;
7. On 11 November 2016, Sinomart Development, a wholly-owned subsidiary of the Company, entered into the Six Oil Terminal Companies Entrusted Management Framework Master Agreement with Sinopec Pipeline Storage and Transportation Company for entrusting and managing the Six Domestic Terminal Companies of the Group 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., which indirectly wholly owns Kantons International, the controlling shareholder of the Company;
8. On 11 November 2016, 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 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 are required to comply with the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

In addition, on 30 December 2014, Yu Ji Pipeline Company, a wholly-owned subsidiary of the 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 from Sinopec Natural Gas Branch Company with a term of three financial years ended 31 December 2017. As the applicable percentage ratios for the caps of the continuing connected transactions contemplated under such agreement are less than 0.1%, they were fully exempted continuing connected transactions.

For details of the above continuing connected transactions/connected transactions, please refer to the announcements published on 30 December 2014 and 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 Agreement Entered into by the Company**

To improve the asset utilization rate, on 18 May 2017, Yu Ji Pipeline Company and Shandong Natural Gas Pipeline Company Limited ("**Shandong Natural Gas Pipeline Company**") entered into the Office Building Framework Master Lease Agreement for the leasing of certain office building to Shandong Natural Gas Pipeline Company with a term of three financial years ending on 31 December 2019. Shandong Natural Gas Pipeline Company is a non-wholly owned subsidiary of Sinopec Corp., which indirectly wholly owns Kantons International, the controlling shareholder of the Company.

As the applicable percentage ratios for the caps of the above continuing connected transactions are more than 0.1% but less than 5%, the continuing connected transactions contemplated under this agreement are required to comply with the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

For details of the above new continuing connected transactions, please refer to the announcement published on 18 May 2017 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 2017, continuing connected transactions/connected transactions entered into by the Group are as follows:

	For the year ended 31 December 2017	Annual caps for the year 2017
	HK\$ million	HK\$ million
Crude oil jetty services income	510	812
Fuel oil jetty and storage services income	36	93
Natural gas transmission services income	1,083	1,798
Service outsourcing fees	96	487
Gas storage facilities lease expenses	51	113
Buildings lease income	4.7	6.4
Internal labour technical services expenses	6.0	6.8
Power technical services expenses	6.7	9.3
Terminal entrustment and management expenses	9.2	9.3
Maximum balance of deposits placed by Huade Petrochemical in Sinopec Finance during the year	73	580
Maximum balance of deposits placed by Yu Ji Pipeline Company in Sinopec Finance during the year	656	928
Maximum balance of deposits placed by the Group in Century Bright during the year	7	500

Save as the above, continuing connected transactions/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 are 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 agreements governing the transactions; and
- (4) have exceeded the annual caps.

In addition, the Company 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 2017, our directors and senior management are as follows:

Executive Directors

Mr. Chen Bo, aged 55, 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 52, 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. He also 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; from May 2014 to June 2017, he was Deputy Head of Finance Department of Sinopec Corp.; since June 2017, he has been Deputy Head and Chief Accountant of Exploration & Production Department of Sinopec Corp.. Mr. Xiang has been the Deputy Chairman and Executive Director of the Company since December 2015.

Mr. Dai Liqi, aged 50, 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 Head of the Foreign Cooperation Office of Sinopec Corp.; and since January 2017, he has been Head of the Foreign Cooperation Office and Deputy Head of Planning & Development Department of Sinopec Corp.. Mr. Dai has been an Executive Director of the Company since December 2015.

Mr. Li Jianxin, aged 50, 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 August 1996 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 Officer, Deputy Section Chief and Section Chief of Finance Department of Yangzi Petrochemical Company; from July 2000 to April 2002, he was Deputy Head of 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 both 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.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wang Guotao, aged 52, 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 Head of Huangdao Oil Tanks of Pipeline Storage & Transportation Company; from August 2001 to December 2004, he was Deputy Head of Huangdao Oil Tanks of Pipeline Storage & Transportation Branch Company; from December 2004 to May 2012, he was Head 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; from September 2014 to July 2017, he was Deputy General Manager and the Standing Committee Member of the Communist Party Committee of Sinopec Pipeline Storage & Transportation Company; since July 2017, he has been General Manager and Deputy Secretary to the Communist Party Committee of Sinopec Pipeline Storage and Transportation Company; since October 2017, he has been General Manager of Sinopec Pipeline Storage and Transportation Asset Management Company. Mr. Wang has been an Executive Director of the Company since December 2015.

Mr. Ye Zhijun, aged 52, 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. From June 1995 to July 1997, he was Deputy Head and Head of Operations Department of Guangzhou Yinzhu Polypropylene Ltd. of Guangzhou Petroleum and Chemical Plant of Sinopec Corp.; from July 1997 to September 1999, he was Deputy General Manager of Guangzhou Yinzhu Polypropylene Ltd.; from September 1999 to December 2001, he was Deputy Manager of Sales Centre of Guangzhou Branch Company of Sinopec Corp.. 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 72, Independent Non-Executive Director of the Company. Ms. Tam graduated from London University. She obtained the qualification 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 Minmetals Land Limited, Nine Dragons Paper (Holdings) Limited, Sa Sa International Holdings Limited, Tong Ren Tang Technologies Co. Ltd., Wing On Company International Limited, Macau Legend Development Limited and China Shenhua Energy Company 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 Operations Review Committee and the Panel of the Witness Protection Review Board under Independent Commission Against Corruption (“ICAC”) of Hong Kong from January 2010 to December 2014. She was the Chairman of Operations Review Committee, a member of the Panel of the Witness Protection Review Board, and an Ex-Officio of the Advisory Committee on Corruption under ICAC from January 2015 to December 2017. She is a Deputy to the 12th 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 66, Independent Non-Executive Director of the Company. Mr. Fong was the President of the Hong Kong Institute of Certified Public Accountants, and has over 40 years of experience in the accounting profession. He is a Council Member of the Institute of Chartered Accountants in England and Wales since June 2016 and the Chairman of Audit Committee of the Hong Kong Institute of Certified Public Accountants since February 2016. Mr. Fong is currently an Independent Non-Executive Director of Macau Legend Development Limited and China Oilfield Services Limited, all of which are listed companies on the Hong Kong Stock Exchange. He is also a Non-Executive Director of Worldsec Limited, a company listed on the London Stock Exchange. Mr. Fong has been an Independent Non-Executive Director of the Company since September 2004.

DIRECTORS AND SENIOR MANAGEMENT

Dr. Wong Yau Kar, David, GBS, JP, aged 60, 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 participates actively in public services. He is a Hong Kong Deputy to the 12th National People's Congress of the PRC. He is also the 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, Huayi Tencent Entertainment Company Limited, Shenzhen Investment Limited, Redco Properties Group Limited and Guangnan (Holdings) 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.

Other Senior Management

Mr. Li Wenping, aged 54, 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 of Sinopec Corp. from January 1994 to September 1994, and Project Manager of Joint Venture and Cooperation Division of Yangzi Petrochemical Company of Sinopec Corp. from January 1999 to January 2002, and 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 42, 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 Head of Transportation Department from October 2007 to July 2011. Mr. Zhu has served as a Deputy General Manager of the Company since July 2011.

Mr. Chen Hong, aged 45, 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 with professional qualification of senior accountant and held a Master of Economics. He worked in 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 Deputy Head 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.

Particular of Changes in Directors Subsequent to the Date of 2016 Annual Report

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

Ms. Tam Wai Chu, Maria has been an Independent Non-Executive Director, Chairlady of the Remuneration Committee, and a member of the Audit Committee and the Safety, Health and Environmental Committee of China Shenhua Energy Company Limited since 23 June 2017; she resigned as an Independent Non-Executive Director, member of the Audit Committee, the Nomination Committee and the Remuneration Committee of Guangnan (Holdings) Limited on 1 November 2017.

Mr. Fong Chung, Mark resigned as an Independent Non-Executive Director, member of the Audit Committee and the Nomination and Remuneration Committee of New China Life Insurance Company Ltd. on 2 September 2017.

Dr. Wong Yau Kar, David has been an Independent Non-Executive Director, member of the Audit Committee, the Nomination Committee and the Remuneration Committee of Guangnan (Holdings) Limited since 1 November 2017; he resigned as an Independent Non-Executive Director and member of the Audit Committee of Yunfeng Financial Group Limited on 3 November 2017.

Particular of Changes in the Board Subsequent to 31 December 2017

Ms. Wong Pui Sze, Priscilla, BBS, JP, aged 57, a practising barrister in Hong Kong, has been appointed as an independent non-executive Director and a member of the audit committee, the nomination committee and the remuneration committee of the Company with effect from 22 March 2018. Ms. Wong obtained a Bachelor of Laws (Hons) degree from the University of Hong Kong and a Master of Laws degree from The London School of Economics and Political Science of The University of London. She is qualified as a barrister in Hong Kong, an advocate and solicitor in Singapore, a mediator of Centre for Effective Dispute Resolution (CEDR) and an arbitrator of China International Economic and Trade Arbitration Commission (CIETAC). Ms. Wong holds a number of public positions in Mainland China and the Hong Kong Special Administrative Region. She is currently a member of Shanghai Committee of the Chinese People's Political Consultative Conference, the chairman of the Minimum Wage Commission, Hong Kong, the chairman of Employees Compensation Assistance Fund Board, a member of the Hospital Authority Board, a trustee of the Board of Trustees of the Hospital Authority Charitable Foundation, a member of Kowloon Hospital Governing Committee, a member of Hong Kong Eye Hospital Governing Committee, a member of the Council and the Court of the University of Hong Kong, a member of the Financial Reporting Review Panel of the Hong Kong Special Administrative Region and a lay member of the Joint Committee on Student Finance. Ms. Wong is currently an independent non-executive director of Fantasia Holdings Group Co., Limited, a company listed on the Hong Kong Stock Exchange. The Company would like to express its warmest welcome of Ms. Wong's joining.

CORPORATE GOVERNANCE REPORT

Annual General Meeting

On 13 June 2017, the Company convened the 2016 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, presided over the annual general meeting, and Mr. Fong Chung, Mark (Chairperson of the Audit Committee), Ms. Tam Wai Chu, Maria (Chairlady of the Remuneration Committee), Dr. Wong Yau Kar, David (Chairperson of the Nomination Committee) and PricewaterhouseCoopers, the auditor, also attended the meeting upon invitation. 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 13 June 2017.

Directors' attendance of the general meeting in 2017 is as follows:

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

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 2017, 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 the date of this report, the Board comprised six executive Directors and three independent non-executive Directors. Upon the appointment of Ms. Wong Pui Sze, Priscilla as an independent non-executive Director of the Company on 22 March 2018, the Board would comprise six executive Directors and four 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	Ms. Wong Pui Sze, Priscilla (appointment effective from 22 March 2018)	Dr. Wong Yau Kar, David	Mr. Fong Chung, Mark
Mr. Wang Guotao		Ms. Wong Pui Sze, Priscilla (appointment effective from 22 March 2018)	Ms. Wong Pui Sze, Priscilla (appointment effective from 22 March 2018)
Mr. Ye Zhijun (Managing Director)		Mr. Ye Zhijun	Mr. Ye Zhijun
Independent Non-executive Directors			
Ms. Tam Wai Chu, Maria			
Mr. Fong Chung, Mark			
Dr. Wong Yau Kar, David			
Ms. Wong Pui Sze, Priscilla (appointment effective from 22 March 2018)			

CORPORATE GOVERNANCE REPORT

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 five Board meetings in 2017. Directors' attendance of the Board meetings are as follows:

Attendance	No. of meetings attended	Attendance %
Mr. Chen Bo (Chairman)	5	100
Mr. Xiang Xiwen (Deputy Chairman)	5	100
Mr. Dai Liqi	3	60
Mr. Li Jianxin	5	100
Mr. Wang Guotao	4	80
Mr. Ye Zhijun (Managing Director)	5	100
Ms. Tam Wai Chu, Maria	5	100
Mr. Fong Chung, Mark	5	100
Dr. Wong Yau Kar, David	4	80

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

As at the date of this report, the Audit Committee comprised three independent non-executive Directors. Upon the appointment of Ms. Wong Pui Sze, Priscilla as a member of the Audit Committee on 22 March 2018, the Audit Committee will comprise four independent non-executive Directors. The Audit Committee 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 has unrestricted access to the Company's auditor to this end. The Audit Committee is chaired by Mr. Fong Chung, Mark, a qualified accountant with extensive experience in financial reporting and control. In 2017, the Audit Committee held two meetings to review the annual results of the Group for the year ended 31 December 2016 and the interim results of the Group for the six months ended 30 June 2017, reviewed the accounting principles and practices adopted by the Group with the management and external auditor, and discussed and reviewed the risk management and internal control matters and financial reports. In 2017, 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)	2	100
Ms. Tam Wai Chu, Maria	2	100
Dr. Wong Yau Kar, David	2	100

The Company's annual results for the year ended 31 December 2017 have been reviewed by the Audit Committee.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

As at the date of this report, the Remuneration Committee comprised three independent non-executive Directors and two executive Directors. Upon the appointment of Ms. Wong Pui Sze, Priscilla as a member of the Remuneration Committee on 22 March 2018, the Remuneration Committee will comprise six members, 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 element 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 work, positions, duties, and level of responsibilities of the individual.

In 2017, the Remuneration Committee convened one meeting, during which the performance of the Company's staff was evaluated, and rewards were offered in accordance with the relevant assessment and incentive mechanisms. In 2017, the attendance of members of the Remuneration Committee at the Remuneration Committee meeting is 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

As at the date of this report, the Nomination Committee comprised three independent non-executive Directors and two executive Directors. Upon the appointment of Ms. Wong Pui Sze, Priscilla as a member of the Nomination Committee on 22 March 2018, the Nomination Committee will comprise six members, 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.

In 2017, the Nomination Committee convened one meeting, during which the structure and composition of the Board were reviewed, and rotation of Directors was discussed. In 2017, the attendance of members of the Nomination Committee at the Nomination Committee meeting is 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 2017, 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 deputy general managers and the 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 the 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 2017.

Directors' Responsibility for the Financial Statements

Directors recognized their responsibilities for the preparation of financial statements for the year ended 31 December 2017 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 56 to 63 of this report.

CORPORATE GOVERNANCE 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 2017, the following fees were paid/payable by the Group to its auditor, PricewaterhouseCoopers, and its network members:

	(in HK\$ million)	
	2017	2016
Audit services		
– the Company	3.07	2.70
– subsidiaries	2.90	3.51
Non-audit services	–	1.08
Total	5.97	7.29

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 2017.

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 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 after going through filtering, prioritising as well as consultation processes, 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: The 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 utilizes existing resources and optimizes their allocation, 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: The enterprise risk management should integrate with the existing management systems and complement and support each other.

CORPORATE GOVERNANCE REPORT

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 reviewed at least annually. The Board recognizes its responsibilities for the risk management and internal control systems of the Company and the review of the effectiveness of such systems. 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 on 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 deficiencies or weaknesses that have 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 experience 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 formulated the Information Disclosure Policy in accordance with the SFO and the Listing Rules, and has authorized and designated senior management and the Company's Listing Affairs Department to take responsibility for information disclosure after completing approval procedures. In 2017, the Company appointed a compliance officer who is responsible for supervising, coordinating and managing internal and external compliance matters. 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 2017, 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 2017. Mr. Lai Yang Chau, Eugene is a practising solicitor in Hong Kong and is responsible for assisting Mr. Li Wenping in performing 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.

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 2017, 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



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 64 to 146, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- 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 2017, 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.

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羅兵咸永道

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

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.

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:

- Arbitrations and impairment assessment of non-current assets of PT. West Point Terminal
- Impairment assessment of interests in associates and joint ventures

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

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

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Arbitrations and impairment assessment of non-current assets of PT. West Point Terminal</p> <p>Refer to note 4.1 (a), note 16 – Prepaid land lease payments, note 17 – Property, plant and equipment and note 29 – Contingencies to the consolidated financial statements</p> <p>As at 31 December 2017, the carrying amounts of non-current assets (the “Assets”) of PT. West Point Terminal (“PT. West Point”) amounted to HK\$699 million, representing approximately 4% of the Group’s total assets.</p> <p>The Group owns 95% interest in PT. West Point for potential development of crude oil terminal and storage facilities in Indonesia.</p> <p>As disclosed in note 29 – Contingencies of the consolidated financial statements, the arbitrations with PT MAS Capital Trust and PT Batam Sentralindo (the “Arbitrations”) are still on-going.</p>	<p>In addressing this matter, we had performed the following procedures:</p> <ul style="list-style-type: none"> – We discussed with management to understand the PT. West Point project, including latest status and development plan of the project, status of the Arbitrations, and the approach of assessing the outcome of the Arbitrations, and assets impairment assessment. – We obtained and reviewed relevant agreements and documents, including articles of association, shareholders’ agreement and documents relating to Arbitrations. – Arbitrations: <ol style="list-style-type: none"> (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 Group’s internal and external legal counsels to understand the latest status of the project, arbitration proceedings 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 Arbitrations. (4) We evaluated the disclosure prepared by management relating to contingencies on the Arbitrations.



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

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>In addition, in light of different views among the shareholders in the project development of the PT. West Point's 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 project life span, forecasted revenue, forecasted gross margin and discount rate.</p> <p>The Company, after taking considerations of the advice from external legal counsel, concluded that the Arbitrations have no adverse financial impact to the consolidated financial statements of the Group as at 31 December 2017.</p> <p>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 Arbitrations, we had identified this matter as a key audit matter.</p>	<p>– Impairment assessment of the Assets:</p> <ol style="list-style-type: none">(1) We understood the key bases and assumptions adopted by management in the discounted cash flow model.(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:<ol style="list-style-type: none">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; andiii. 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. <p>We found the key assumptions and estimates adopted by management and judgment made were supported by the available evidence.</p>

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

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

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Impairment assessment of interests in associates and joint ventures</p> <p>Refer to note 4.1 (b), note 12 – Interests in associates, and note 13 – Interests in joint ventures to the consolidated financial statements</p> <p>As at 31 December 2017, 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\$838 million and HK\$7,119 million respectively, in aggregate representing approximately 47% of the Group's total assets.</p> <p>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 2017 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.</p> <p>Because of the significance of the carrying amounts of investments in associates and joint ventures as at 31 December 2017, 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.</p>	<p>In addressing this matter, we had performed the following procedures:</p> <ul style="list-style-type: none"> – 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: <ul style="list-style-type: none"> i. forecasted revenue and forecasted gross margin, by comparing against actual historical financial data and approved budget for 2018, 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. <p>We found the key assumptions adopted by management were supported by the available evidence.</p>



羅兵咸永道

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

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 is responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

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

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 HKSA's 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.

As part of an audit in accordance with HKSA's, 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.



羅兵咸永道

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- 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.

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, 21 March 2018

(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 2017

	Note	2017 HK\$'000	2016 HK\$'000
Revenue	5, 6	1,729,239	1,766,590
Cost of sales	8	(864,771)	(1,136,201)
Gross profit		864,468	630,389
Other income and other gains, net	7	117,637	107,329
Distribution costs	8	(19,810)	(20,760)
Administrative expenses	8	(214,657)	(162,997)
Operating profit		747,638	553,961
Finance income	10	3,833	10,421
Finance costs	10	(166,279)	(203,756)
Finance costs, net		(162,446)	(193,335)
Share of results of:			
– Associates	12	143,331	135,549
– Joint ventures	13	699,178	644,128
		842,509	779,677
Profit before income tax		1,427,701	1,140,303
Income tax expenses	14	(221,045)	(135,317)
Profit for the year		1,206,656	1,004,986
Profit attributable to:			
Equity holders of the Company		1,207,928	1,005,259
Non-controlling interests		(1,272)	(273)
		1,206,656	1,004,986
Basic and diluted earnings per share for profit attributable to equity holders of the Company (expressed in HK cents per share)	15	48.59	40.43

The notes on pages 71 to 146 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017 HK\$'000	2016 HK\$'000
Profit for the year	1,206,656	1,004,986
Other comprehensive income for the year:		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on currency translation		
–Subsidiaries	320,793	(283,744)
–Associates	47,449	(45,648)
–Joint ventures	465,875	(307,326)
Cash flow hedges		
–Associates	(3,980)	(6,688)
–Joint ventures	(56,336)	(23,732)
Other comprehensive income for the year, net of tax	773,801	(667,138)
Total comprehensive income for the year	1,980,457	337,848
Total comprehensive income attributable to:		
Equity holders of the Company	1,981,729	338,121
Non-controlling interests	(1,272)	(273)
Total comprehensive income for the year	1,980,457	337,848

The notes on pages 71 to 146 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 HK\$'000	2016 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	6,915,064	6,872,274
Investment properties	18	61,988	62,555
Prepaid land lease payments	16	673,759	681,920
Prepayment and other receivables		50,082	–
Interests in associates	12	838,256	710,784
Interests in joint ventures	13	7,118,721	6,460,197
Total non-current assets		15,657,870	14,787,730
Current assets			
Inventories	20	15,300	15,584
Trade and other receivables	19	1,005,725	1,173,286
Cash and cash equivalents	21	409,855	323,206
Total current assets		1,430,880	1,512,076
Total assets		17,088,750	16,299,806
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	22	248,616	248,616
Reserves		11,084,169	9,313,764
Equity attributable to equity holders of the Company		11,332,785	9,562,380
Non-controlling interests		37,120	38,392
Total equity		11,369,905	9,600,772

	Note	2017 HK\$'000	2016 HK\$'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	28	109,993	99,800
Borrowings	27	2,775,452	3,353,791
Government grants		21,491	13,178
Total non-current liabilities		2,906,936	3,466,769
Current liabilities			
Trade and other payables	26	363,399	943,577
Borrowings	27	2,387,658	2,273,812
Income tax payable		60,852	14,876
Total current liabilities		2,811,909	3,232,265
Total liabilities		5,718,845	6,699,034
Total equity and liabilities		17,088,750	16,299,806

The financial statements on pages 64 to 146 were approved by the board of directors on 21 March 2018 and were signed on its behalf.

Chen Bo
Chairman

Ye Zhijun
Managing Director

The notes on pages 71 to 146 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to equity holders of the Company										Non-controlling interests	Total equity
	Note	Share capital	Share premium	Specific reserve	Merger reserve	General reserves	Hedging reserve	Exchange reserve	Retained earnings	Subtotal		
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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 71 to 146 are an integral part of these consolidated financial statements.

Attributable to equity holders of the Company											
Note	Share	Share	Specific	Merger	General	Hedging	Exchange	Retained	Subtotal	Non-	Total
	capital	premium	reserve	reserve	reserves	reserve	reserve	earnings		controlling	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2017	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
Comprehensive income:											
Profit for the year	-	-	-	-	-	-	-	1,207,928	1,207,928	(1,272)	1,206,656
Other comprehensive income											
Exchange differences on currency translation:											
- Subsidiaries	-	-	-	-	-	-	320,793	-	320,793	-	320,793
- Associates	-	-	-	-	-	-	47,449	-	47,449	-	47,449
- Joint ventures	-	-	-	-	-	-	465,875	-	465,875	-	465,875
Net loss on cash flow hedges:											
- Associates	-	-	-	-	-	(3,980)	-	-	(3,980)	-	(3,980)
- Joint ventures	-	-	-	-	-	(56,336)	-	-	(56,336)	-	(56,336)
Other comprehensive income for the year, net of tax	-	-	-	-	-	(60,316)	834,117	1,207,928	1,981,729	(1,272)	1,980,457
Total comprehensive income for the year	248,616	6,300,684	805	(962,326)	320,371	(90,736)	256,449	5,470,246	11,544,109	37,120	11,581,229
Transaction with owners											
Appropriation of reserves	-	-	22,868	-	51,625	-	-	(74,493)	-	-	-
Utilisation of specific reserve for the year	23	-	(22,463)	-	-	-	-	22,463	-	-	-
Dividends	24	-	-	-	-	-	-	(211,324)	(211,324)	-	(211,324)
Total transaction with owners			405		51,625			(263,354)	(211,324)		(211,324)
Balance at 31 December 2017	248,616	6,300,684	1,210	(962,326)	371,996	(90,736)	256,449	5,206,892	11,332,785	37,120	11,369,905

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 HK\$'000	2016 HK\$'000
Cash flows generated from operations			
Cash generated from operations	25a	1,297,545	723,686
Hong Kong profits tax (paid)/refund		(2,536)	523
People's Republic of China (the "PRC") current income tax paid		(148,851)	(114,126)
Withholding tax paid		(29,106)	(19,505)
Net cash generated from operating activities		1,117,052	590,578
Cash flows from investing activities			
Purchase of property, plant and equipment		(50,674)	(143,850)
Loans repayment from an associate		127	1,651
Loans granted to joint ventures		(24,520)	(85,658)
Dividend received from an associate	12	63,286	53,114
Dividend received from joint ventures	13	414,168	106,224
Interest income received	10	3,833	10,421
Government grants received		12,027	10,061
Proceeds from disposal of property, plant and equipment		6,114	2,493
Decrease in amounts due from an immediate holding company and fellow subsidiaries		258,399	412,996
Decrease in amounts due to immediate, intermediate holding company and fellow subsidiaries		(460,097)	(62,673)
Net cash generated from investing activities		222,663	304,779
Cash flows from financing activities			
Proceeds from borrowings	25b	27,250,435	8,812,091
Repayments of borrowings		(27,925,600)	(6,957,461)
Dividends paid to owners of the Company		(211,323)	(149,170)
Dividends paid to former owners of a subsidiary under common control		(207,636)	-
Finance costs paid	10	(167,332)	(203,756)
Payment for consideration payable to acquire equity interests in a subsidiary under common control		-	(3,064,723)
Net cash used in financing activities		(1,261,456)	(1,563,019)
Net increase/(decrease) in cash and cash equivalents		78,259	(667,662)
Cash and cash equivalents at 1 January	21	323,206	1,057,732
Effect of foreign exchange rate changes		8,390	(66,864)
Cash and cash equivalents at 31 December	21	409,855	323,206

The notes on pages 71 to 146 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 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 21 March 2018.

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 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 judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Going concern

As at 31 December 2017, the Group had net current liabilities of approximately HK\$1,381 million, which was primarily due to the drawn down of approximately HK\$2,388 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 2017, 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 31 December 2018. 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Change in accounting estimates of the useful life of natural gas pipeline

Starting from 1 January 2017, the useful life of natural gas pipeline of the Group has been changed from 20 years to 30 years, so as to reflect the physical conditions of the pipeline and to provide more reliable and relevant information of the Group. The change has been applied prospectively from 1 January 2017.

Accordingly, the adoption of the change in the estimated useful life of the natural gas pipeline has no effect on prior years. The effects of the above change are summarised below:

Consolidated statement of comprehensive income for the year ended 31 December 2017

	HK\$'000
Decrease in depreciation	109,277
Increase in income tax expenses	27,319
Increase in profit for the year and profit attributable to owners of the Company	81,958

2.1.3 Changes in accounting policy and disclosures

(a) Amended standards adopted by the Group

HKAS 12 (Amendments)	Income taxes
HKAS 7 (Amendments)	Statement of cash flows
Annual improvement to HKFRSs 2014-2016 cycle:	Disclosure in other entities
HKFRS 12 Amendments	

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

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.3 Changes in accounting policy and disclosures (Continued)

(b) *New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2017 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 2018 or later periods, but the Group has not early adopted them:

		Effective for accounting periods beginning on or after
Amendments to HKAS 40	Transfer of investment properties	1 January 2018
Amendments to HKFRS 1 and HKAS 28	Annual Improvements to HKFRS 2014-2016 Cycle	1 January 2018
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to HKFRS 4	Insurance Contracts applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	1 January 2018
HK(IFRIC) 22	Foreign currency transactions and advance consideration	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
HK(IFRIC) 23	Uncertainty over income tax treatments	1 January 2019
HKFRS 17	Insurance Contracts	1 January 2022
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be announced

HKFRS 9, 'Financial instruments'

The new standard addresses and introduces new requirements for the classification, measurement and derecognition of financial instruments, hedge accounting, and a new impairment model for financial assets.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.3 Changes in accounting policy and disclosures (Continued)

(b) *New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted (Continued)*

HKFRS 9, 'Financial instruments' (Continued)

The Group has assessed that its financial assets currently measured at amortised cost or fair value through profit or loss will continue with their respective classification and measurements upon the adoption of HKFRS 9.

The Group has also assessed on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The impairment provision is determined based on the 12-month expected credit losses which are not material to the Group.

HKFRS 15, 'Revenue from contracts with customers'

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

The Group has assessed the effects of the applying the new standard on the consolidated financial statements and has not identified any material impact to the Group.

HKFRS 16, 'Leases'

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. At 31 December 2017, the Group had operating lease commitments of HK\$41,087,000. Upon adoption of HKFRS 16 the majority of operating lease commitments will be recognised in the consolidated balance sheet as lease liabilities and right-of-use assets. The lease liabilities would subsequently be measured at amortised cost and the right-of-use asset will be depreciated on a straight-line basis during the lease term.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.3 Changes in accounting policy and disclosures (Continued)

- (b) *New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted (Continued)*

HKFRS 16, 'Leases' (Continued)

The Group has not early adopted the above standards, amendments and interpretations on the Group's accounting policies and financial statements.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

(i) Merger accounting for common control combinations (Continued)

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.

(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 for non-common control 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

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

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.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Joint arrangements

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

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. 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 its 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.

NOTES TO THE FINANCIAL STATEMENTS

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

2.9 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 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 the 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 impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 recognized 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Cash flow hedges (Continued)

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Impairment of financial assets (Continued)

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.

2.16 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

2.21 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Current and deferred income tax (Continued)

(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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Provisions (Continued)

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) Natural gas transmission service income

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

(c) Rental income

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

(d) 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 statement 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.

NOTES TO THE FINANCIAL STATEMENTS

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 and 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.

	2017 HK\$'000	2016 HK\$'000
RMB	6,987	5,536
USD	851	1,211
SGD	2,271	845

(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 2017, 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\$53,785,000 (2016: decrease/increase by approximately HK\$46,729,000). 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 accounts receivable relate to the provision of crude oil jetty service and natural gas pipeline transmission service substantially to related parties.

As at 31 December 2017, no single customer accounted for greater than 10% of total accounts receivable, 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 receivable. 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 2017, the maximum credit risk exposure in respect of the financial guarantee is approximately HK\$352 million (2016: approximately HK\$340 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.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(d) Liquidity risk (Continued)

At 31 December 2017, the Group has standby credit facilities with Century Bright, amounting to US\$500 million, equivalent to approximately HK\$3,878 million (2016: US\$500 million, equivalent to approximately HK\$3,878 million) on an unsecured basis, at a weighted average interest rate of 1.75% per annum (2016: 1.89%). At 31 December 2017, the Group's outstanding borrowings under these facilities were US\$305.5 million, equivalent to approximately HK\$2,388 million (2016: US\$293 million, equivalent to approximately HK\$2,274 million) and were included in short-term borrowings.

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 2017		
Trade payables	113,157	-
Other payables	174,439	-
Amounts due to the immediate company, an intermediate holding company and fellow subsidiaries	75,803	-
Borrowings	2,558,613	2,834,777
Financial guarantee against bank loans of joint ventures	352,000	-
At 31 December 2016		
Trade payables	51,325	-
Other payables	148,716	-
Amounts due to the immediate company, an intermediate holding company and fellow subsidiaries	743,536	-
Borrowings	2,455,645	3,568,853
Financial guarantee against bank loans of joint ventures	340,000	-

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.

	2017 HK\$'000	2016 HK\$'000
Current ratio	0.51	0.47
Gearing ratio	33%	41%
Current liabilities		
Trade and other payables (Note 26)	363,399	943,577
Borrowings (Note 27)	2,387,658	2,273,812
Less: Cash and cash equivalents (Note 21)	(409,855)	(323,206)
Net debt	2,341,202	2,894,183
Total equity	11,369,905	9,600,772
Net debt-to-capital ratio	21%	30%

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

4.1 Critical accounting estimates and assumptions

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

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

(a) Impairment of 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, the arbitrations of PT. West Point Terminal ("PT. West Point") and the Group are still on-going 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\$612 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 15.5% per annum.

With all other variables held constant, if the annual revenue is 1% less than management expectation, the value in use would have been decreased by HK\$52 million. Similarly, with all other variable held constant, if the post-tax discount rate increased by 0.5%, the value in use would have been decreased by HK\$168 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 JUDGEMENTS (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 than management expectation, the value in use would have been decreased by HK\$56 million. Similarly, with all other variable held constant, if the post-tax discount rate increased by 0.5%, the value in use would have been decreased by HK\$158 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 judgement 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.

NOTES TO THE FINANCIAL STATEMENTS

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 PRC, Europe and the Middle East.
- Vessel chartering and logistics services: this segment provides vessel chartering services for liquefied natural gas and crude oil transportation for oil tankers. Currently, the Group's activities are mainly carried out in the PRC, Australia and Papua New Guinea.
- 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, property, plant and equipment 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 2017:

Year ended 31 December 2017

	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	592,354	-	1,136,885	1,729,239
Segment results				
- Company and subsidiaries	231,206	-	475,167	706,373
- Associates	136,271	7,060	-	143,331
- Joint ventures	642,903	56,275	-	699,178
	1,010,380	63,335	475,167	1,548,882
Unallocated other corporate expenses				(121,181)
Profit before income tax				1,427,701
Income tax expenses				(221,045)
Profit for the year				1,206,656
Other segment items				
Bank interest income	569	-	3,248	3,817
Depreciation and amortisation	(171,928)	-	(263,887)	(435,815)
Capital expenditures	(30,550)	-	(20,124)	(50,674)

**NOTES TO THE
FINANCIAL STATEMENTS**

5 SEGMENT REPORTING (Continued)

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

(i) As at and for the year ended 31 December 2017: (Continued)

As at 31 December 2017

	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	2,298,904	–	5,296,817	7,595,721
– Associates	760,702	77,554	–	838,256
– Joint ventures	6,266,868	851,853	–	7,118,721
	9,326,474	929,407	5,296,817	15,552,698
Unallocated assets				
– Cash and cash equivalents				409,855
– Trade and other receivables				25,110
– Investment properties				61,988
– Property, plant and equipment				86,345
– Dividend receivable from joint ventures				340,946
– Prepaid land lease payments				611,808
				1,536,052
Total assets				17,088,750
Segment liabilities	116,011	–	2,937,496	3,053,507
Unallocated liabilities				
– Trade and other payables				167,687
– Borrowings				2,387,658
– Deferred income tax liabilities				109,993
				2,665,338
Total liabilities				5,718,845

5 SEGMENT REPORTING (Continued)

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

(ii) 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
	1,012,613	68,781	191,156	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)

**NOTES TO THE
FINANCIAL STATEMENTS**

5 SEGMENT REPORTING (Continued)

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

(ii) 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	-	5,512,290	7,756,518
- Associates	640,463	70,321	-	710,784
- Joint ventures	5,735,727	724,470	-	6,460,197
	8,620,418	794,791	5,512,290	14,927,499
Unallocated assets				
- Cash and cash equivalents				323,206
- Trade and other receivables				44,286
- Investment properties				62,555
- Property, plant and equipment				85,928
- Dividend receivable from joint ventures				236,053
- Prepaid land lease payments				620,279
				1,372,307
Total assets				16,299,806
Segment liabilities				
	122,304	-	3,429,529	3,551,833
Unallocated liabilities				
- Trade and other payables				773,589
- Borrowings				2,273,812
- Deferred income tax liabilities				99,800
				3,147,201
Total liabilities				6,699,034

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

	2017 HK\$'000	2016 HK\$'000
The PRC	1,729,239	1,626,117
Hong Kong	-	140,473
	1,729,239	1,766,590

Non-current assets

	2017 HK\$'000	2016 HK\$'000
The PRC	12,025,062	11,426,023
Europe	1,429,214	1,250,990
Indonesia	698,406	706,480
Hong Kong	954,703	821,368
United Arab Emirates	549,697	582,032
Other	788	837
	15,657,870	14,787,730

**NOTES TO THE
FINANCIAL STATEMENTS**

5 SEGMENT REPORTING (Continued)

(b) Analysis of information by geographical regions (Continued)

Total assets

	2017 HK\$'000	2016 HK\$'000
The PRC	12,984,877	12,557,960
Europe	1,429,214	1,250,990
Indonesia	805,641	813,589
Hong Kong	1,318,533	1,094,398
United Arab Emirates	549,697	582,032
Other	788	837
	17,088,750	16,299,806

(c) Major customers

For the purpose of disclosure under segment reporting, one customer (including China Petroleum & Chemical Corporation Guangzhou Branch and Sinopec Gas Company) (2016: one customer, including China Petroleum & Chemical Corporation Guangzhou Branch and Sinopec Gas Company) from crude oil jetty services and natural gas pipeline transmission services has transactions that exceeded 94% of the Group's revenue, amounting to HK\$1,624,098,000 (2016: HK\$1,697,415,000). This customer mainly operates in the PRC.

(d) Capital expenditures

	2017 HK\$'000	2016 HK\$'000
Hong Kong	-	44
The PRC	50,674	281,162
	50,674	281,206

6 REVENUE

	2017 HK\$'000	2016 HK\$'000
Provision of services:		
– Crude oil jetty and storage services	592,354	586,512
– Vessel chartering and logistics services	–	140,473
– Natural gas pipeline transmission services	1,136,885	1,039,605
	1,729,239	1,766,590

7 OTHER INCOME AND OTHER GAINS, NET

	2017 HK\$'000	2016 HK\$'000
Other income:		
– Rental income from investment properties	8,070	8,593
– Sale of fuel oil for vessels	–	13,551
– Government grants	56,083	54,391
– Interest income from loan to:		
– An associate	4,085	3,750
– A joint venture	36,244	18,880
– Management fee income from a joint venture	3,249	3,420
	107,731	102,585
Other gains:		
– Net foreign exchange gain	10,001	5,067
– Net loss on disposal of property, plant and equipment	(113)	(840)
– Others	18	517
	9,906	4,744
	117,637	107,329

**NOTES TO THE
FINANCIAL STATEMENTS**

8 EXPENSES BY NATURE

	2017 HK\$'000	2016 HK\$'000
Cost of inventories sold		
– Fuel oil for vessels (Note 20)	–	36,514
Depreciation		
– properties, plant and equipment (Note 17)	441,313	516,061
– investment properties (Note 18)	3,020	3,043
Amortisation of prepaid land lease payments (Note 16)	18,425	19,086
Employee benefit expenses, including directors' remuneration (Note 9)	96,815	100,978
Auditor's remuneration		
– PricewaterhouseCoopers		
– the Company	3,065	2,700
– subsidiaries	2,900	3,510
– non-audit services	–	1,080
– Other auditors	539	98
Expenses relating to investment properties	601	998
Operating lease charges: minimum lease payments		
– hire of vessels	–	62,293
– hire of natural gas storage (Note 31(a))	51,335	112,507
– hire of a property	12,278	12,205

9 EMPLOYEE BENEFIT EXPENSES

	2017 HK\$'000	2016 HK\$'000
Wages, salaries and other benefits (Note)	89,440	93,834
Retirement benefit scheme contributions	7,375	7,144
	96,815	100,978

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 2017, 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 2017 and 2016 are as follows:

	Number of individuals	
	2017	2016
Directors	1	–
Non-director individuals	4	5
	5	5

**NOTES TO THE
FINANCIAL STATEMENTS**

9 EMPLOYEE BENEFIT EXPENSES (Continued)

(a) Five highest paid individuals (Continued)

Details of emoluments to non-director individuals:

	2017 HK\$'000	2016 HK\$'000
Salaries and other benefits in kind	5,090	7,226
Bonuses	4,196	6,847
	9,286	14,073

	Number of individuals	
	2017	2016
Emolument bands		
HK\$ 2,000,001 – HK\$ 3,000,000	4	5
	4	5

10 FINANCE COSTS, NET

	2017 HK\$'000	2016 HK\$'000
Interest income:		
– Deposits at bank and related financial institutions	3,833	10,421
Interest expenses:		
– Borrowings	(166,279)	(203,756)

11 SUBSIDIARIES

The following is a list of subsidiaries as at 31 December 2017 and 2016:

	Place of incorporation/ establishment and kind of legal entity	Principal activities	Particulars of issued and paid up capital/ registered capital	Proportion of ordinary shares and voting powers at 31 December			
				% held by the Group in 2017	% held by the Group in 2016	% held by non-controlling interests in 2017	% held by non-controlling interests in 2016
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 (中石化輸油管道有限責任公司)	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.

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.

NOTES TO THE FINANCIAL STATEMENTS

12 INTERESTS IN ASSOCIATES

	2017 HK\$'000	2016 HK\$'000
Cost of unlisted investments	419,030	419,030
Share of:		
– post-acquisition results	701,037	557,706
– other comprehensive income	(31,204)	(74,673)
Dividend received	(311,808)	(248,522)
Share of net assets	777,055	653,541
Loan granted to an associate	61,201	57,243
	838,256	710,784

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 2017	% held by the Group in 2016
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%

12 INTERESTS IN ASSOCIATES (Continued)

- (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.

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	
	2017 HK\$'000	2016 HK\$'000
Current		
Cash and cash equivalents	46,202	34,309
Other current assets (excluding cash)	35,371	36,141
Total current assets	81,573	70,450
Financial liabilities (excluding trade payables)	(157,326)	(219,191)
Other current liabilities (including trade payables)	(98,071)	(79,577)
Total current liabilities	(255,397)	(298,768)
Non-current		
Assets	1,830,536	1,594,260
Financial liabilities	(135,308)	(85,018)
Total non-current assets	1,695,228	1,509,242
Net assets	1,521,404	1,280,924

**NOTES TO THE
FINANCIAL STATEMENTS**

12 INTERESTS IN ASSOCIATES (Continued)

Summarised statement of comprehensive income

	Zhan Jiang Port Petrochemical Terminal	
	2017	2016
	HK\$'000	HK\$'000
Revenue	649,482	627,354
Depreciation and amortisation	(46,254)	(44,599)
Interest income	832	438
Interest expense	(9,154)	(11,106)
Other expenses	(229,190)	(223,903)
Profit before income tax	365,716	348,184
Income tax expense	(91,655)	(86,888)
Post-tax profit	274,061	261,296
Other comprehensive income	94,510	(91,101)
Total comprehensive income	368,571	170,195
Dividends received from an associate	63,286	53,114

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	
	2017	2016
	HK\$'000	HK\$'000
Net assets	1,521,404	1,280,924
Interest in an associate (%)	50%	50%
Group's share of net assets in an associate	760,702	640,462
Carrying value	760,702	640,462

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.

	2017	2016
	HK\$'000	HK\$'000
Share of profit	7,060	4,901
Share of other comprehensive income	(3,786)	(6,786)
Share of total comprehensive income	3,274	(1,885)
Carrying amount of interest in the associate	16,353	13,079

**NOTES TO THE
FINANCIAL STATEMENTS**

13 INTERESTS IN JOINT VENTURES

	2017 HK\$'000	2016 HK\$'000
Cost of unlisted investments	4,468,763	4,468,763
Share of:		
– post-acquisition results	2,903,882	2,204,704
– other comprehensive income	(290,611)	(700,150)
Dividend received	(1,120,200)	(605,823)
Share of net assets	5,961,834	5,367,494
Loans granted to joint ventures	1,156,887	1,092,703
	7,118,721	6,460,197

Certain loans granted to joint ventures are unsecured and interest bearing at an average rate of 5.3% 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 2017	% held by the Group in 2016
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 ("FOT")	(c)	Provision of oil storage services	Fujairah	100,000 shares of US\$1 each	Equity	50%	50%
Vesta Terminals B.V. ("Vesta")	(d)	Transit, transhipment and storage of petrochemical products, oil shale derived products, and other cargo and provision of associated services	Netherlands	18,002 shares have been issued and fully paid	Equity	50%	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	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Current								
Cash and cash equivalents	153,916	178,893	458,140	264,926	496,964	241,989	128,017	185,540
Other current assets (excluding cash)	27,977	19,027	110,186	28,427	24,296	5,332	4,624	9,165
Total current assets	181,893	197,920	568,326	293,353	521,260	247,321	132,641	194,705
Financial liabilities (excluding trade payables)	(21,184)	(35,625)	(375,829)	(284,976)	(6,055)	(5,725)	(6,926)	(131,318)
Other current liabilities (including trade payables)	(1,894)	(24,113)	(179,314)	(160,859)	(85,173)	(58,430)	(62,211)	(1,971)
Total current liabilities	(23,078)	(59,738)	(555,143)	(445,835)	(91,228)	(64,155)	(69,137)	(133,289)
Non-current								
Assets	1,925,902	1,633,612	3,467,508	3,355,302	1,970,798	1,883,155	563,144	559,845
Financial liabilities	(126,387)	(246,277)	-	-	-	-	-	-
Other liabilities	(86,700)	(10,337)	-	-	-	-	-	-
Total non-current net assets	1,712,815	1,376,998	3,467,508	3,355,302	1,970,798	1,883,155	563,144	559,845
Net assets	1,871,630	1,515,180	3,480,691	3,202,820	2,400,830	2,066,321	626,648	621,261

**NOTES TO THE
FINANCIAL STATEMENTS**

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	
	2017	2016	2017	2016	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	435,386	470,550	1,895,159	1,194,618	540,068	458,395	187,470	194,377
Depreciation and amortisation	120,897	(146,992)	131,997	(185,002)	40,495	(48,229)	34,681	(31,428)
Interest income	1,687	198	4,539	1,314	2,561	–	387	434
Interest expense	(9,348)	(9,677)	–	(2,638)	–	(2,159)	–	–
Other expense	(505,067)	(238,037)	(1,235,168)	(388,505)	(217,895)	(69,029)	(119,068)	(50,688)
Profit before income tax	43,555	76,042	796,527	619,787	365,229	338,978	103,470	112,695
Income tax expense	(30,710)	(21,511)	(194,824)	(159,044)	(68,922)	(21,272)	(25,821)	(13,778)
Post-tax profit	12,845	54,531	601,703	460,743	296,307	317,706	77,649	98,917
Other comprehensive income	352,902	(83,284)	250,392	(224,754)	156,437	(142,089)	41,277	(35,198)
Total comprehensive income	365,747	(28,753)	852,095	235,989	452,744	175,617	118,926	63,719

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

Reconciliation of summarised financial information – material joint ventures

	Vesta		Qingdao Shihua		Rizhao Shihua		Caofeidian Shihua	
	2017	2016	2017	2016	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Opening net assets	1,515,180	1,556,908	3,202,820	3,200,831	2,066,321	1,960,904	621,261	709,642
Profit for the year	12,845	54,531	601,703	460,743	296,307	317,706	77,649	98,917
Other comprehensive income	352,902	(83,284)	250,392	(224,754)	156,437	(142,089)	41,277	(35,198)
Dividend paid	(9,297)	(12,975)	(574,224)	(234,000)	(118,235)	(70,200)	(113,539)	(152,100)
Closing net assets	1,871,630	1,515,180	3,480,691	3,202,820	2,400,830	2,066,321	626,648	621,261
Interests in Joint Ventures (%)	50%	50%	50%	50%	50%	50%	90%	90%
Group's share of net assets								
in joint ventures	935,815	757,590	1,740,346	1,601,410	1,200,415	1,033,160	563,983	559,135
Goodwill	493,400	493,400	7,609	7,609	4,237	4,237	8,829	8,830
Carrying value	1,429,215	1,250,990	1,747,955	1,609,019	1,204,652	1,037,397	572,812	567,965

13 INTERESTS IN JOINT VENTURES (Continued)

Summarised financial information (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.

	2017 HK\$'000	2016 HK\$'000
Share of profit	173,866	138,613
Share of other comprehensive income	(7,476)	(74,317)
Share of total comprehensive income	166,390	64,296
Carrying amount of interests in these joint ventures	1,007,200	902,123

Commitments and contingent liabilities in respect of joint ventures

The Group has the following commitments relating to its joint ventures as at 31 December 2017 and 2016:

	2017 HK\$'000	2016 HK\$'000
Share of joint ventures' capital commitments		
– Contracted for	66,112	229,910

As at 31 December 2017, the Group provided a guarantee of US\$30 million (equivalent to approximately HK\$235 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 2017, the Group provided a guarantee of Euro 13 million (equivalent to approximately HK\$117 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 2017 (2016: Nil).

**NOTES TO THE
FINANCIAL STATEMENTS**

14 INCOME TAX EXPENSES

	Note	2017 HK\$'000	2016 HK\$'000
Current income tax:			
– Hong Kong profits tax	(b)	3,402	1,398
– PRC current income tax	(c)	174,870	104,527
– Withholding tax		40,473	19,291
		218,745	125,216
Deferred income tax charged	(d),28	2,300	10,101
		221,045	135,317

- (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% (2016: 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 (2016: 25%).
- (d) Dividend distribution out of profit of foreign-invested enterprises earned in the PRC subsequent to 1 January 2008 is subject to withholding tax at tax rate of 5% or 10%. During the year, withholding 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 rate of 5% (2016: 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 joint ventures and associates differs from the theoretical amount that would arise using the principal applicable tax rate as follows:

	2017 HK\$'000	2016 HK\$'000
Profit before income tax	1,427,701	1,140,303
Less: Share of results of associates	(143,331)	(135,549)
Share of results of joint ventures	(699,178)	(644,128)
	585,192	360,626
Tax calculated at domestic tax rates applicable to profits in the respective countries	154,437	95,905
Income not subject to tax	(1,198)	(27,780)
Expenses not deductible for tax purposes	14,545	28,244
Withholding tax	40,473	19,291
(Over)/under-provision in prior years	(187)	1,354
Tax losses for which no deferred income tax asset was recognised	15,282	11,834
Deferred income tax on undistributed profits	(2,307)	6,469
Income tax expenses	221,045	135,317

15 EARNINGS PER SHARE

	2017	2016
Profit attributable to equity holders of the Company (HK\$'000)	1,207,928	1,005,259
Weighted average number of ordinary shares in issue (shares '000)	2,486,160	2,486,160
Basic earnings per share (HK cents per share)	48.59	40.43

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.

NOTES TO THE FINANCIAL STATEMENTS

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:

	2017 HK\$'000	2016 HK\$'000
At 1 January	681,920	708,797
Amortisation charge for the year	(18,425)	(19,086)
Currency translation difference	10,264	(7,791)
At 31 December	673,759	681,920

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 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

17 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings held for own use	Leasehold improvements	Jetty structures	Jetty facilities	Pipeline transmission equipment	Plant and machinery	Furniture, fixture and equipment	Motor vehicle and vessels	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2017										
Opening net book amount	34,602	-	754,249	694,575	3,756,149	1,066,679	28,092	40,277	497,651	6,872,274
Currency translation differences	2,627	-	50,186	46,356	262,232	66,031	1,612	2,493	8,119	439,656
Additions	-	-	-	-	-	-	267	7,169	43,238	50,674
Disposals	-	-	-	-	-	(547)	(2,767)	(2,913)	-	(6,227)
Transfers	-	-	3,828	6,084	4,187	6,793	1,220	-	(22,112)	-
Depreciation charge	(1,962)	-	(70,134)	(76,399)	(154,117)	(122,524)	(6,892)	(9,285)	-	(441,313)
Closing net book amount	35,267	-	738,129	670,616	3,868,451	1,016,432	21,532	37,741	526,896	6,915,064
At 31 December 2017										
Cost	73,857	477	1,784,845	1,599,382	5,636,552	1,676,692	162,259	167,505	526,896	11,628,465
Accumulated depreciation	(38,590)	(477)	(1,046,716)	(928,766)	(1,768,101)	(660,260)	(140,727)	(129,764)	-	(4,713,401)
Net book amount	35,267	-	738,129	670,616	3,868,451	1,016,432	21,532	37,741	526,896	6,915,064

18 INVESTMENT PROPERTIES

	2017 HK\$'000	2016 HK\$'000
At 1 January	62,555	68,062
Depreciation charge for the year	(3,020)	(3,043)
Currency translation difference	2,453	(2,464)
At 31 December	61,988	62,555

As at 31 December 2017, the Group had no contractual obligations for future repairs and maintenance (2016: Nil).

NOTES TO THE FINANCIAL STATEMENTS

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 2017. 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 2017 is estimated to be HK\$180,559,000 (2016: HK\$166,534,000). 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 2017 and 2016. The following table analyses the investment properties measured at fair value, by valuation method.

Fair value hierarchy

Description	Fair value measurements As at 31 December 2017 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	
	Fair value measurements			
	Investment properties:			
– Residential (HK and Macau)	–	–	108,900	
– Commercial (PRC)	–	–	71,659	
	–	–	180,559	

Description	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	
	Fair value measurements			
	Investment properties:			
– Residential (HK and Macau)	–	–	105,830	
– Commercial (PRC)	–	–	60,704	
	–	–	166,534	

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

	2017 HK\$'000	2016 HK\$'000
Rental income	8,070	8,593
Direct operating expenses from property that generated rental income	(601)	(998)
	7,469	7,595

**NOTES TO THE
FINANCIAL STATEMENTS**

19 TRADE AND OTHER RECEIVABLES

	2017 HK\$'000	2016 HK\$'000
Trade receivables		
– An intermediate holding company and a fellow subsidiary	567,961	576,634
– Bills receivables	32,300	55,998
– Others	6,010	1,704
	606,271	634,336
Other receivables		
– Amounts due from an intermediate holding company and fellow subsidiaries	–	250,423
– Dividend receivables from joint ventures	340,946	236,053
– Management fee receivable from a joint venture	–	3,420
– Others	58,508	49,054
	399,454	538,950
	1,005,725	1,173,286

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:

	2017 HK\$'000	2016 HK\$'000
Within 1 month	173,321	64,092
1 to 2 months	82,050	213,372
2 to 3 months	–	16,769
Over 3 months but less than 12 months	350,900	340,103
	606,271	634,336

19 TRADE AND OTHER RECEIVABLES (Continued)

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

	2017 HK\$'000	2016 HK\$'000
HK\$	4,322	3,009
RMB	980,931	1,145,103
US\$	20,472	25,174
	1,005,725	1,173,286

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

	2017 HK\$'000	2016 HK\$'000
Current	255,371	294,233
Less than 1 month past due	48,303	70,176
1 to 3 months past due	139,793	147,729
More than 3 months but less than 12 months past due	162,804	122,198
Amounts past due	350,900	340,103
	606,271	634,336

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.

NOTES TO THE FINANCIAL STATEMENTS

20 INVENTORIES

	2017 HK\$'000	2016 HK\$'000
Spare parts	15,300	15,584

21 CASH AND CASH EQUIVALENTS

	2017 HK\$'000	2016 HK\$'000
Cash at bank and on hand	98,168	96,147
Deposits at related financial institutions at call	311,687	227,059
	409,855	323,206

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:

	2017 HK\$'000	2016 HK\$'000
US\$	96,238	98,661
Euro	346	373
RMB	306,915	223,443
HK\$	6,321	694
Others	35	35
	409,855	323,206

22 SHARE CAPITAL

	2017		2016	
	Number of Shares '000	Amounts HK\$'000	Number of Shares '000	Amounts HK\$'000
Authorised:				
Ordinary shares of HK\$0.1 each	10,000,000	1,000,000	10,000,000	1,000,000
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:

	2017 HK\$'000	2016 HK\$'000
At 1 January	805	110
Provision for the year	22,868	24,424
Utilisation for the year	(22,463)	(23,729)
At 31 December	1,210	805

24 DIVIDENDS

	2017 HK\$'000	2016 HK\$'000
Interim dividend declared and paid of HK5 cents (2016: HK3.5 cents) per ordinary share	124,308	87,016
Final dividend proposed HK7 cents (2016: HK3.5 cents) per ordinary share	174,031	87,016
	298,339	174,032

A final dividend in respect of the year ended 31 December 2017 of HK7 cents per share, amounting to a total dividend of HK\$174,031,000 is to be proposed at the annual general meeting on 27 June 2018. These financial statements do not reflect this dividend payable.

**NOTES TO THE
FINANCIAL STATEMENTS**

25 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from operations

	Note	2017 HK\$'000	2016 HK\$'000
Profit before income tax		1,427,701	1,140,303
Adjustments for:			
Depreciation			
– Property, plant and equipment	17	441,313	516,061
– Investment properties	18	3,020	3,043
Amortisation of prepaid land lease payments		18,425	19,086
Finance costs	10	166,279	203,756
Interest income	10	(3,833)	(10,421)
Net loss on disposal of property, plant and equipment	7	113	840
Share of results of associates	12	(143,331)	(135,549)
Share of results of joint ventures	13	(699,178)	(644,128)
Changes in working capital:			
Decrease in inventories		284	5,677
Decrease/(increase) in trade and other receivables		15,850	(322,844)
Increase/(decrease) in trade and other payables		70,902	(52,138)
Cash generated from operations		1,297,545	723,686

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

	2017 HK\$'000	2016 HK\$'000
Net book amount (Note 17)	6,227	3,333
Loss on disposal of property, plant and equipment	(113)	(840)
Proceeds from disposal of property, plant and equipment	6,114	2,493

25 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Reconciliation of liabilities arising from financing activities

	Loans and borrowings HK\$'000	Finance cost payable HK\$'000	Dividend payable to former owners of a subsidiary under common control HK\$'000	Dividend payable HK\$'000	Total HK\$'000
Balance at 1 January 2017	5,627,603	4,877	201,230	24	5,833,734
Changes from financing cash flows					
Proceeds from borrowings	27,250,435	-	-	-	27,250,435
Repayments of borrowings	(27,925,600)	-	-	-	(27,925,600)
Finance cost paid	-	(167,332)	-	-	(167,332)
Settlement of dividend payable	-	-	(207,636)	-	(207,636)
Dividend paid	-	-	-	(211,323)	(211,323)
Total changes from financing cash flows	(675,165)	(167,332)	(207,636)	(211,323)	(1,261,456)
Non-cash changes					
Net exchange and translation difference	210,672	223	6,406	-	217,301
Finance cost charged to profit or loss	-	166,279	-	-	166,279
Dividend declared	-	-	-	211,324	211,324
Balance at 31 December 2017	5,163,110	4,047	-	25	5,167,182

**NOTES TO THE
FINANCIAL STATEMENTS**

26 TRADE AND OTHER PAYABLES

	2017 HK\$'000	2016 HK\$'000
Trade payables		
– Fellow subsidiaries	42,586	14,873
– Others	70,571	36,452
	113,157	51,325
Other payables		
– Amounts due to the immediate company, an intermediate holding company and fellow subsidiaries	75,803	743,536
– Accrued charges	174,439	148,716
	250,242	892,252
	363,399	943,577

The amounts due to the immediate company, an intermediate holding company 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:

	2017 HK\$'000	2016 HK\$'000
Due within 1 month or on demand	113,091	51,259
Due after 1 month but within 3 months	66	66
	113,157	51,325

26 TRADE AND OTHER PAYABLES (Continued)

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

	2017 HK\$'000	2016 HK\$'000
HK\$	71,961	506,439
RMB	222,053	393,881
US\$	41,003	15,098
SG\$	28,382	28,159
	363,399	943,577

27 BORROWINGS

	Note	2017 HK\$'000	2016 HK\$'000
Non-current			
- Entrusted loan	(a)	2,775,452	3,353,791
		2,775,452	3,353,791
Current			
- A related financial institution	(b)	2,387,658	2,273,812
		5,163,110	5,627,603

At 31 December 2017, the borrowings were repayable as follows:

	2017 HK\$'000	2016 HK\$'000
Within 1 year	2,387,658	2,273,812
Between 2 and 5 years	2,775,452	3,353,791
	5,163,110	5,627,603

NOTES TO THE FINANCIAL STATEMENTS

27 BORROWINGS (Continued)

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

	2017 HK\$'000	2016 HK\$'000
HK\$	2,270,000	2,195,659
RMB	2,775,452	3,353,791
US\$	117,658	78,153
	5,163,110	5,627,603

Notes:

- (a) In June 2016, the Group entered into an entrusted loan agreement with China International United Petroleum & Chemicals Co., Ltd ("**Unipet**") and Bank of Communication ("**BOCOM**"), whereby Unipet has agreed to provide a loan of RMB 3,000,000,000 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.
- (b) As at 31 December 2017, the undrawn borrowing facilities provided by a related financial institution was US\$194,500,000, equivalent to approximately HK\$1,490,000,000 (2016: US\$207,079,000, equivalent to approximately HK\$1,604,000,000). 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 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
At 1 January 2017 (Credited)/charged to income statement (Note 14)	48,372	18,213	4,976	28,239	99,800
Exchange differences	(7,331)	4,823	201	4,607	2,300
	3,247	2,239	350	2,057	7,893
At 31 December 2017	44,288	25,275	5,527	34,903	109,993

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\$349,415,000 (2016: HK\$263,938,000), 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 KTS 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.

Since then, the arbitration tribunal has been established and certain filings have been presented by relevant parties. As at the date of this report, an important part of arguments and evidence has yet to be submitted by relevant parties. After taking into consideration of the advice by the Group’s legal counsel, the Directors are of the opinion that no provision is presently required with respect to the arbitrations.

NOTES TO THE FINANCIAL STATEMENTS

30 COMMITMENTS

- (a) As at 31 December 2017, the outstanding capital commitments not provided for in the financial statements were as follows:

	2017 HK\$'000	2016 HK\$'000
Contracted for but not provided for	372,136	340,448

- (b) As at 31 December 2017, the total future minimum lease payments under non-cancellable, operating leases were payable as follows:

	2017 HK\$'000	2016 HK\$'000
Within 1 year	8,494	71,943
After 1 year but within 5 years	20,220	7,208
After 5 years	12,373	13,214
	41,087	92,365

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 2017, the total future minimum lease payments under non-cancellable operating leases were receivable as follows:

	2017 HK\$'000	2016 HK\$'000
Within 1 year	1,536	128
After 1 year but within 5 years	952	-
	2,488	128

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:

	2017 HK\$'000	2016 HK\$'000
Sinomart Development		
Vessel chartering service fee from a fellow subsidiary (Note (i)(a))	-	140,473
Fuel oil purchased from a fellow subsidiary and related charges (Note (i)(b))	-	(36,514)
Fees for oil terminals entrusted management to a fellow subsidiary ((Note (i)(c))	(9,228)	(9,010)
Interest expenses to a fellow subsidiary	(31,376)	(27,763)
Interest income from a fellow subsidiary	16	845
KII		
Interest expenses to a fellow subsidiary	(2,607)	(352)
Huade Petrochemical		
Jetty service fees from an intermediate holding company (Note (ii)(a))	509,780	552,519
Fuel oil jetty service fees from an intermediate holding company (Note (ii)(b))	35,645	-
Insurance premium paid to a fellow subsidiary (Note (ii)(c))	(2,330)	(4,208)
Interest income from a fellow subsidiary	521	116
Yu Ji Pipeline Company		
Natural gas transmission income from an intermediate holding company and a related company (Note (iii)(a))	1,083,378	1,000,069
Natural gas storage fees to an intermediate holding company (Note (iii)(b))	(51,335)	(112,507)
Outsourcing fees to the ultimate holding company, an intermediate holding company and related companies (Note (iii)(c))	(95,525)	(127,798)
Rental income from leasing of land and building to an intermediate holding company (Note (iii)(d))	4,708	6,272
Technical service fees to fellow subsidiaries (Note (iii)(e))	(12,715)	-
Interest expenses paid to an intermediate holding company	-	(107,579)
Interest income from a fellow subsidiary	3,239	6,221
Joint ventures and associates		
Interest income from:		
- An associate	4,085	3,750
- A joint venture	36,244	18,880
Management fees income from a joint venture	3,249	3,420

NOTES TO THE FINANCIAL STATEMENTS

31 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

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 or in accordance with the agreements governing such transactions.

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.
- (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 fuel oil 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.
 - (c) 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 at the basis of costs and taxes, and will be adjusted subject to the State policy in accordance with the Gas Storage Framework Master Lease Agreement.

31 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

(iii) Yu Ji Pipeline Company Limited (Continued)

- (c) Outsourcing fees were charged at the basis of 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.
- (e) Technical services fees were charged at the basis of costs of the provision of services and products, and taxes in accordance with the Technical Services Framework Master Agreement.

(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:

	2017 HK\$'000	2016 HK\$'000
Compensations to key management		
Directors' fees (Note 32(a))	1,080	960
Salaries, allowances and benefits-in-kind (Note 32(a))	1,452	1,135
Bonus (Note 32(a))	1,554	1,066
Total	4,086	3,161
	2017 HK\$'000	2016 HK\$'000
Rental income from a director	114	114

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

**NOTES TO THE
FINANCIAL STATEMENTS**

31 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

The Group operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government through its government authorities, agencies, affiliations and other organisations (collectively referred to as “state-controlled entities”).

Apart from transactions with the Group’s intermediate holding company and fellow subsidiaries as set out in Note 31(a), the Group has entered into transactions with other state-controlled entities including but not limited to the following:

- sales and purchases of crude oil;
- construction work;
- rendering and receiving services; and
- use of public utilities

(i) Transactions with other state-controlled entities

	2017 HK\$'000	2016 HK\$'000
Jetty service fees by the Group	21,586	26,086
	2017 HK\$'000	2016 HK\$'000
Prepayment to/amounts due from other state-controlled entities	11,855	399,202
Amounts due to other state-controlled entities	37,125	283,288

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:

	2017 HK\$'000	2016 HK\$'000
Interest income	58	3,391

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

	2017 HK\$'000	2016 HK\$'000
Cash and cash equivalents	2,820	14,347

**NOTES TO THE
FINANCIAL STATEMENTS**

32 BENEFITS ON INTERESTS OF DIRECTORS

(a) Directors' and chief executives emoluments

The remuneration of the directors for the years ended 31 December 2017 and 2016 are set out below:

2017	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)	-	972	1,554	480	-	3,006
Independent non-executive directors						
Tam Wai Chu, Maria	360	-	-	-	-	360
Fong Chung, Mark	360	-	-	-	-	360
Wong Yau Kar, David	360	-	-	-	-	360
	1,080	972	1,554	480	-	4,086

32 BENEFITS ON INTERESTS OF DIRECTORS (Continued)

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

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

(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 (2016: nil).

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

During the years ended 31 December 2017 and 2016, 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.

**NOTES TO THE
FINANCIAL STATEMENTS**

33 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December 2017 HK\$'000	2016 HK\$'000
Assets			
Non-current assets			
Investments in subsidiaries		7,408,571	7,638,758
Current assets			
Cash and cash equivalents		30	31
Total assets		7,408,601	7,638,789
Equity and liabilities			
Equity attributable to owners of the company			
Share capital		248,616	248,616
Reserves	(a)	7,151,679	7,382,217
Total equity		7,400,295	7,630,833
Liabilities			
Current liabilities			
Trade and other payables		8,306	7,956
Total liabilities		8,306	7,956
Total equity and liabilities		7,408,601	7,638,789

The balance sheet of the Company was approved by the Board of Directors on 21 March 2018 and was signed on its behalf.

Chen Bo
Chairman

Ye Zhijun
Managing Director

33 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 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 loss 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
At 1 January 2017	6,300,684	242,397	839,136	7,382,217
Interim dividends declared in respect of the current year	-	-	(124,308)	(124,308)
Total comprehensive loss for the year	-	-	(19,214)	(19,214)
Final dividends declared in respect of the current year	-	-	(87,016)	(87,016)
At 31 December 2017	6,300,684	242,397	608,598	7,151,679

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.

NOTES TO THE FINANCIAL STATEMENTS

33 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 2017, 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\$850,995,000 (2016: HK\$1,081,533,000). After the end of the reporting period the directors proposed a final dividend of HK7.0 cents (2016: HK3.5 cents) per ordinary share, amounting to HK\$174,031,000 (2016: HK\$87,016,000). The dividend has not been recognised as a liability at the end of the reporting period.

FIVE YEAR FINANCIAL SUMMARY

	2013 HK\$'000 (Unrestated) (Note b)	2014 HK\$'000 (Restated) (Note a)	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Results					
Revenue	23,355,579	20,669,579	2,043,630	1,766,590	1,729,239
Operating profit	97,403	812,898	730,373	553,961	747,638
Finance income	2,702	21,470	14,649	10,421	3,833
Finance costs	(3,807)	(219,469)	(198,140)	(203,756)	(166,279)
Share of results of associates	108,780	103,506	117,865	135,549	143,331
Share of results of joint ventures	456,966	489,948	553,901	644,128	699,178
Profit before income tax	662,044	1,208,353	1,218,648	1,140,303	1,427,701
Income tax expenses	(170,637)	(190,270)	(191,730)	(135,317)	(221,045)
Profit for the year	491,407	1,018,083	1,026,918	1,004,986	1,206,656
Assets and liabilities					
Fixed assets	2,697,139	9,187,939	8,489,723	7,616,749	7,700,893
Interests in associates	617,864	686,650	678,586	710,784	838,256
Interests in joint ventures	5,475,680	6,124,978	6,378,616	6,460,197	7,118,721
Net current assets/(liabilities)	1,163,120	795,862	(2,095,487)	(1,720,189)	(1,381,029)
Deferred income tax liabilities	(97,582)	(103,340)	(95,695)	(99,800)	(109,993)
Borrowings	-	(4,183,199)	(3,938,982)	(3,353,791)	(2,775,452)
Government grants	-	(4,956)	(4,667)	(13,178)	(21,491)
Net assets	9,856,221	12,503,934	9,412,094	9,600,772	11,369,905
Equity					
Share capital	248,616	248,616	248,616	248,616	248,616
Reserves	9,597,975	12,216,719	9,124,813	9,313,764	11,084,169
Non-controlling interests	9,630	38,599	38,665	38,392	37,120
Total equity	9,856,221	12,503,934	9,412,094	9,600,772	11,369,905
Basic earnings per share for profit attributable to equity holders of the Company					
	HK21.00 cents	HK40.96 cents	HK41.30 cents	HK40.43 cents	HK48.59 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 operations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

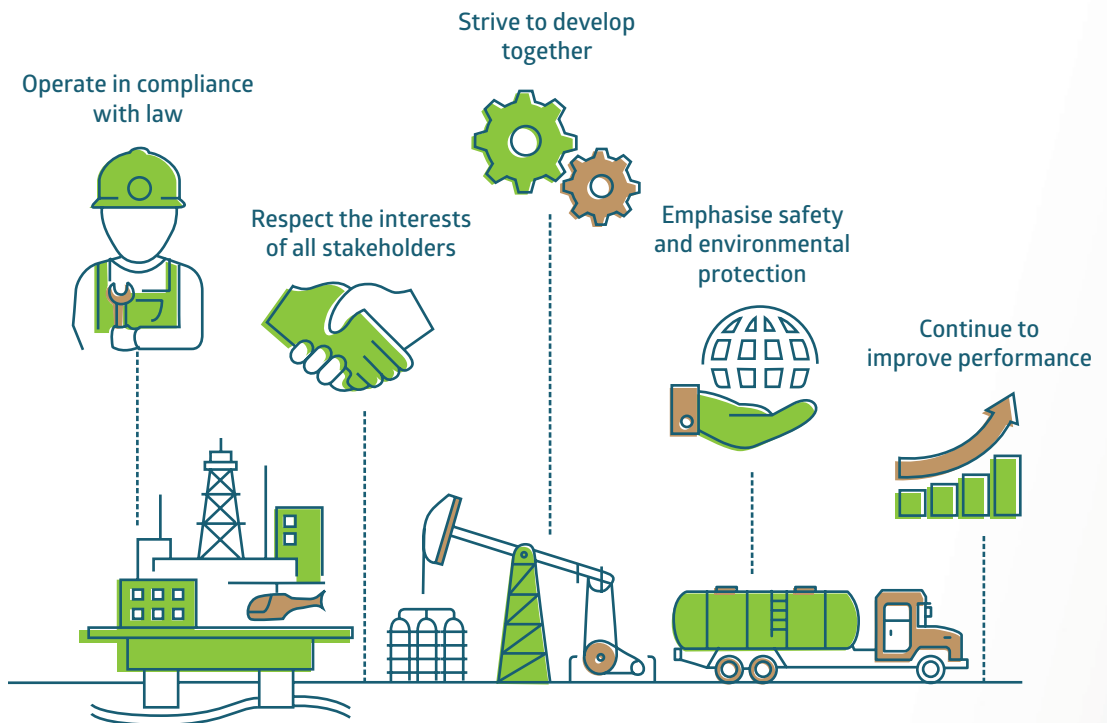
Reporting Period

This Report covers the year ended 31 December 2017, in line with the Company's 2017 Annual Report.

Reporting Scope

This Report covers the Company and its wholly-owned subsidiaries and controlled subsidiaries, but does not include its associates and joint ventures. As the Batam Project of PT. West Point, a controlled subsidiary of the Company, has not yet initiated construction and commercial operations, PT. West Point is excluded from this Report for the time being.

OUR COMMITMENTS



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Overview

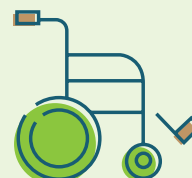
The Company and its subsidiaries (collectively, the “Group” or “we”, and excluding PT. West Point) adhere to the highest standards for safety, environmental protection and compliance to pursue sustainable development together with the community. In 2017, the Group continued to actively undertake social responsibilities according to the “Working Guidelines for Social Responsibilities” formulated by the Board. We implemented safety and environmental protection measures, focused on team building and staff caring, and supported community development activities.

HIGHLIGHTS

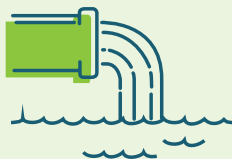
Work related serious injuries and deaths 0



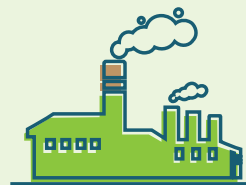
Days lost due to work injuries 0



Pollution incidents 0



Hazardous waste reduced by 48%



Gas consumption reduced by 62%



Service complaint rate 0



Corruption cases 0



In 2017, we continued to raise the awareness of corporate social responsibility among our staff. We encouraged them to comprehensively practise corporate social responsibility through participating in training and social responsibility activities, practising safety and environmental protection measures in their job positions, maintaining a high standard of professional ethics, and demonstrating a caring spirit towards the community in their daily lives.

By seeking the opinions and suggestions of employees, customers, suppliers, investors and regulators, the Group maintained continuous communication with stakeholders and incorporated their opinions into the Group's production and operational policies and practices to further improve our social responsibility works.

Total training hours for employees

Nearly **13,000** hrs



Percentage of employees trained

100%



Total hours for volunteer works

Over **360** hrs

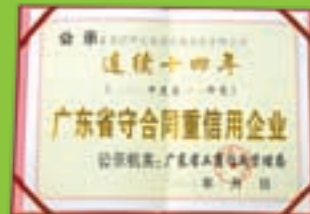


Participating volunteers

128 men-times



Huade Petrochemical was awarded the “Guangdong Province Enterprise of Credit” for 14 consecutive years by Guangdong Province Administration for Industry and Commerce.





Environmental Protection

The Group operates its crude oil terminal and natural gas transmission businesses through Huizhou Daya Bay Huade Petrochemical Company Ltd. (“**Huade Petrochemical**”) and Sinopec Yu Ji Pipeline Company Limited (“**Yu Ji Pipeline Company**”) respectively. Accidents connected with these activities will have immeasurable impacts on the environment. Therefore, we have formulated a comprehensive set of environmental protection measures which have been incorporated into our overall work plan and are strictly implemented during operations. The Group has also formulated responsive measures for production incidents to minimise the impact on the environment and natural resources whenever they happen. In addition, the Group has formulated detailed emission treatment policies for waste gas, sewage and waste, and recycles waste whenever possible. All waste gas and sewage must undergo treatment before discharge. These measures ensure the disposed waste and emissions are controlled at reasonable levels. In 2017, the Group had 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, without compromising safety, achieved reduction in energy consumption and emission by continuous equipment upgrade, technical and technological advancement, and operational process optimisation. In 2017, the Group further optimised its workflows in oil transmission and oil tank operations, improved the operation of compressors in the natural gas transmission process to achieve reduction in energy consumption. Besides, the Group refined the workflow and eliminated the gas flaring procedure, thus reducing gas consumption significantly in the natural gas transmission business. As a result, the gas consumption of the Group in 2017 reduced by 62% year-on-year.

On the other hand, we replaced the original hot water boiler at the oil terminal with a more efficient steam boiler with less exhaust gas emission. We also strictly controlled the use of vehicles to reduce fuel consumption.



Cancelling the Cryogenic Alarm in Oil Tanks

During fuel oil unloading at Huade Petrochemical, the temperature of the fuel oil filling the oil tank is lower than 45°C, making the tank's 45°C cryogenic alarm setting meaningless from a production safety standpoint. Hence, Huade Petrochemical decided to cancel the cryogenic alarm. Subsequently, the fuel oil was warmed up only according to its viscosity prior to shipment, and no heating was required during the storage process. This reduced the running time of boilers and saved approximately 300 tonnes of fuel in 2017.



Optimising Crude Oil Transmission Operation

Huade Petrochemical optimised the transmission plans for the three types of oil products on Mabianzhou Island in accordance with the crude oil transmission plan of Guangzhou Petrochemical, its downstream client. Repeated testing was done to enhance the plan and mixed transmission method was adopted for transmitting the three types of oil. By controlling the valve in front of the tanks, fewer oil pumps were utilised. As a result, power consumption was reduced by 275kWh per hour, saving 24,750kWh of electricity, and about RMB20,000 in cost.



Yu Ji Pipeline Company Quality Control Conference

In April 2017, Yu Ji Pipeline Company held a quality control (QC) conference to review the achievement of 24 QC studies. Two studies, namely, "Reducing energy cost of compressors in standby mode" and "Developing specific anti-splash sewage disposal tools for Cameroon Ball Valve" were awarded First Prize. This review improved the motivation of staff members in technology innovation, promoted management efficiency enhancement and resources consumption reduction, and helped resolving persistent production and operating problems.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2017, the Group strengthened the quality of oil tank repairing works in oil storage business, and promoted the utilisation of dehydration and de-alkylation facilities in gas fields of the upstream enterprise in natural gas pipeline transmission business. As a result, the amount of hazardous waste was reduced by 48% year-on-year. Moreover, the Group continued to dispose solid waste properly by appointing third parties to treat all the wastes before discharge. In 2017, 100% of waste and household garbage disposed met relevant standards.

In 2017, the Group mobilised staff members to reduce energy consumption and emission through both assessments and education. We set annual budget for oil, electricity and water consumption and emission targets according to scientific and stringent calculation. This budget was further broken down and assigned to each business unit for which staff members were held responsible. In this way, we strictly controlled consumption and let staff members share their responsibilities in overall emission reduction. On the other hand, the Group, through promotions and recycling activities, raised the awareness of staff members towards environmental protection, and to adopt a low-carbon living style, reduce resource consumption and waste production.



Yu Ji Pipeline Company's "Energy Savings Promotion Week" Education Campaign

In 2017, Yu Ji Pipeline Company organised an "Energy Savings Promotion Week" which aimed at changing the daily habits of its staff members to achieve energy and electricity consumption reduction. Actions include:

- switching off and unplugging computers when not in use to reduce standby power consumption, and removing dust from computers regularly to improve their cooling efficiency. These measures saved 21,900kWh of electricity and RMB13,000 in cost.
- setting the temperature of air conditioners at about 25°C, and switching off air conditioners 20 minutes before leaving the office. These measures saved 20,498kWh of electricity and approximately RMB18,000 in cost.
- switching off lights before leaving the office, maximising the use of natural light instead of artificial lighting whenever possible, switching off and unplugging printers when not in use for a prolonged period to reduce standby power consumption, sharing of printer among nearby work stations to reduce idling, promoting the use of draft mode printing and smaller font size to save resources like ink, paper and electricity. Through the above measures, electricity cost was reduced by around RMB56,000.



Hong Kong Green Organisation Certification's "Wastewise Certificate"

In 2017, the Group's Hong Kong headquarters' (the "Hong Kong Office") multifaceted effort to "go green" led to the award of "Wastewise Certificate" from the Hong Kong Green Organisation Certification. Our Hong Kong Office continued to implement resource saving measures including the recycling of paper, plastic bottles and festive consumables such as Lunar New Year red packets and mooncake tins. It also participated in consumption reduction activities organised by community groups in Hong Kong such as "No Incandescent Light Bulbs (ILB) Energy Saving Charter", Earth Hour and Hong Kong No Air Con Night.



Environmental Performance Indicators

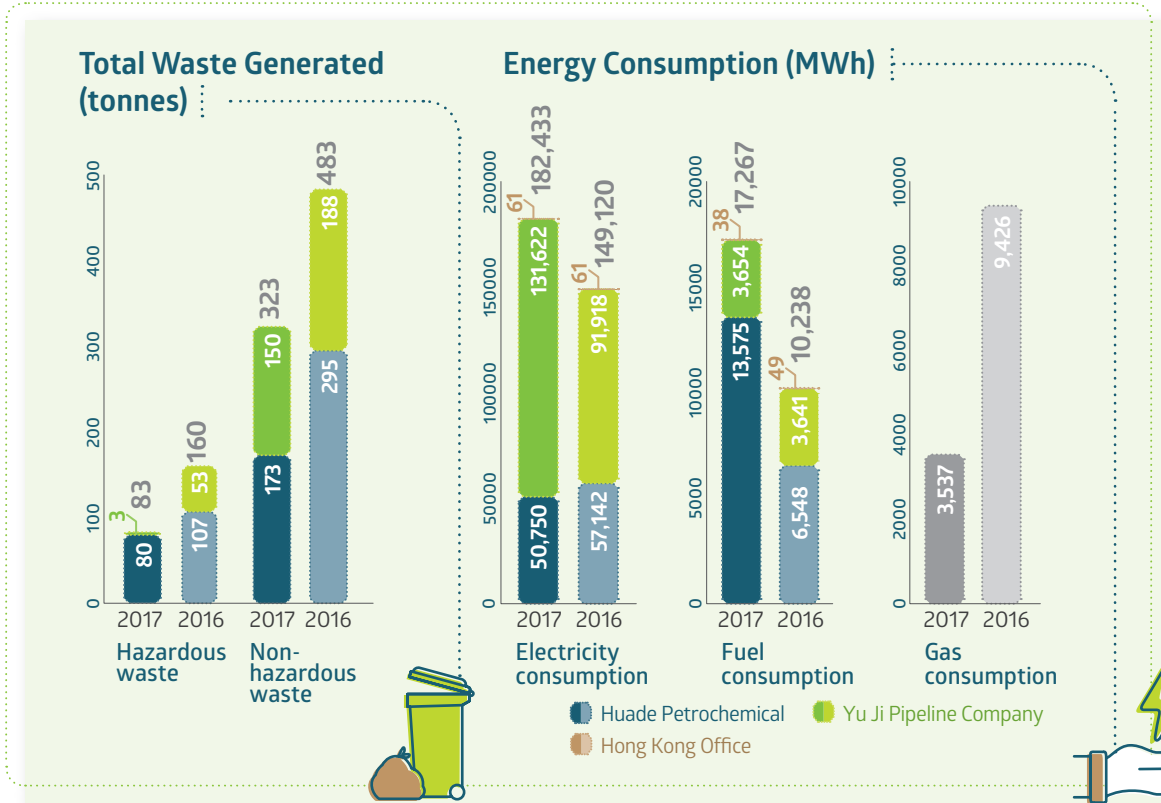
In 2017, the fuel oil tanks of the Group completed construction and were put into trial run. Together with significant growth in business volume of its natural gas pipeline transmission, there was a commensurate increase in overall electricity usage, fuel consumption and carbon dioxide equivalent emission. However, due to the Group's adherence to a variety of measures to reduce energy and resource consumption, there were various degrees of improvement in the total amounts of hazardous and non-hazardous waste generated, gas and water consumptions.

Waste Gas and Pollutant Emissions (including gaseous fuel consumption and vehicle emissions)

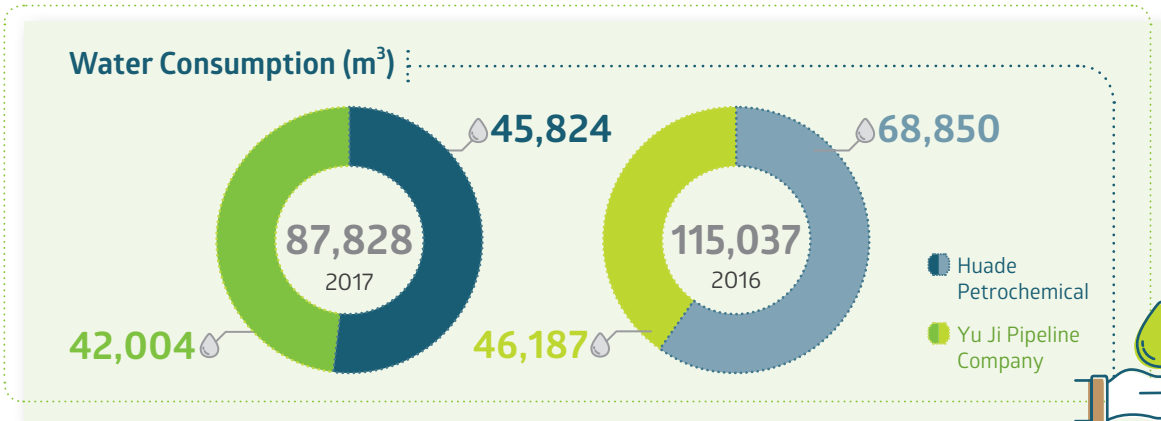
	NO _x	SO _x	Particulate matter (PM)
2017	272kg	6kg	20kg
2016	271kg	7kg	20kg



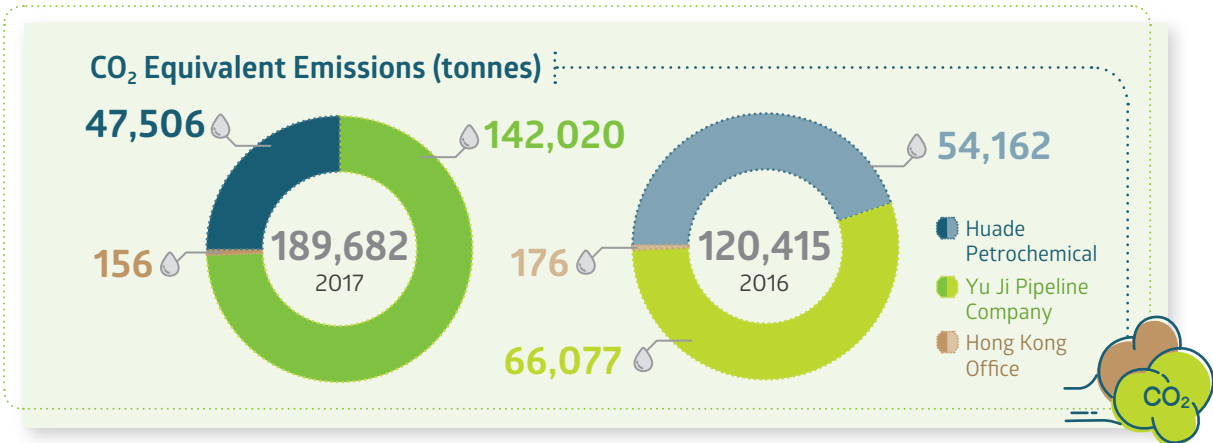
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



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.



Note: As the Hong Kong Office had little water consumption and the building in which it is located applied certain allocation method to calculate water consumption (that is not reflective on actual consumption) for individual premises, the Hong Kong Office was not included in the above statistics on water consumption.



Protection of the Environment and Natural Resources

In 2017, the Group conducted risk identification based on the unique characteristics of its oil terminal and natural gas pipeline transmission businesses, and updated preventive measures and contingency plans on environmental and natural resource protection according to the risk identification. The Group has implemented hierarchical control and established well-equipped emergency teams in accordance with its proposed plan.

To enhance the responsiveness and the ability of business units to cooperate when handling incidents, we continued to conduct regular emergency drills in 2017, and refined the plan in accordance to problems revealed during drills.



On-site Supervision and Examination of the Environmental Management System

On 31 May and 1 June 2017, Huade Petrochemical carried out an on-site supervision and examination of its environmental management system (EMS). The project was undertaken by three teams which executed an in-depth examination for EMS control and improvement on long pipelines and working sites on Mabianzhou Island, at oil tanks and Yuanzhou Intermediate Station. It was confirmed that the EMS of Huade Petrochemical satisfied certification requirements, thus successfully passed the certification examination.

In 2017, we continued to conduct routine inspections and maintenance of operational production facilities. Field inspections of crude oil and natural gas pipelines were carried out daily. Comprehensive testing on the pipelines was carried out in adherence to the principle of “early prevention, early monitoring and early treatment”, thus minimising the occurrence of risk incidents.



Conducting Inspections and Maintenance to Lower Environmental Risks

In 2017, Yu Ji Pipeline Company minimised the risk of environmental damage caused by equipment malfunction by carrying out a regime of regular inspection, repairment and maintenance of environmental safety equipment and facilities. Specifically, the regime included:

- two rounds of inspection of valve chamber fire and gas systems at substations along the pipeline. Six faults were found and rectified.
- inspections on 29 sets of fixed combustible gas detectors, of which six sets were repaired. Inspections on 36 sets of portable detectors, of which two were repaired.
- inspections on 243 sets of safety valves, of which five were repaired.
- testing on lightning-proof grounding at 2,590 spots, all of which were passed.



The Group implemented comprehensive measures for protecting water resources. In 2017, we utilised water purification equipment at substations to treat sewage generated during operations. The treated water was then reused in greening and irrigation. We also paid attention to the maintenance of environmental protection facilities such as sewage treatment plant. In 2017, 100% of domestic and externally discharged industrial sewage met the criteria after treatment.

Moreover, the Group implemented preventive measures for soil contamination risk and noise. Effective prevention of soil contamination was boosted by the full enclosure of operations. Noise levels were controlled and the impact on the surrounding environment was minimised to meet relevant national standards.



Employee Policies and Occupational Safety

Employees are the foundation of all enterprises. Therefore, the Group places a high value on formulating and implementing its human resource policies. Guided by the idea of “people-oriented”, the Group strives to recruit staff in a fair and just manner. We guarantee our staff welfare through providing diversified training, offering opportunities for promotion, maintaining a healthy work-life balance, creating safe working conditions and assuring occupational safety to achieve mutual growth for both the Group and its employees. In practical terms, our “people-oriented” approach manifests itself in such things as organising staff activities to promote physical and mental wellness and aid team-building. Our management team are also encouraged to use their initiative to understand staff conditions and help employees overcome their difficulties, therefore increasing their sense of belonging to the Group.

Employee Policies and Welfare

The Group considers objective factors such as skills and experience of candidates for its employee recruitment. Candidates of different regions, nationalities, races, religions and cultural backgrounds are treated equally. The Group firmly opposes all forms of discrimination, and promotes workforce diversification as a means of enhancing creativity and innovative spirit. The same rule of non-discriminatory fairness also applies when deciding the candidate to be hired and setting their initial salary, with consideration resting entirely on such objective factors as the nature of the post, the ability and experience of the candidate, and the prevailing market rate of salary.

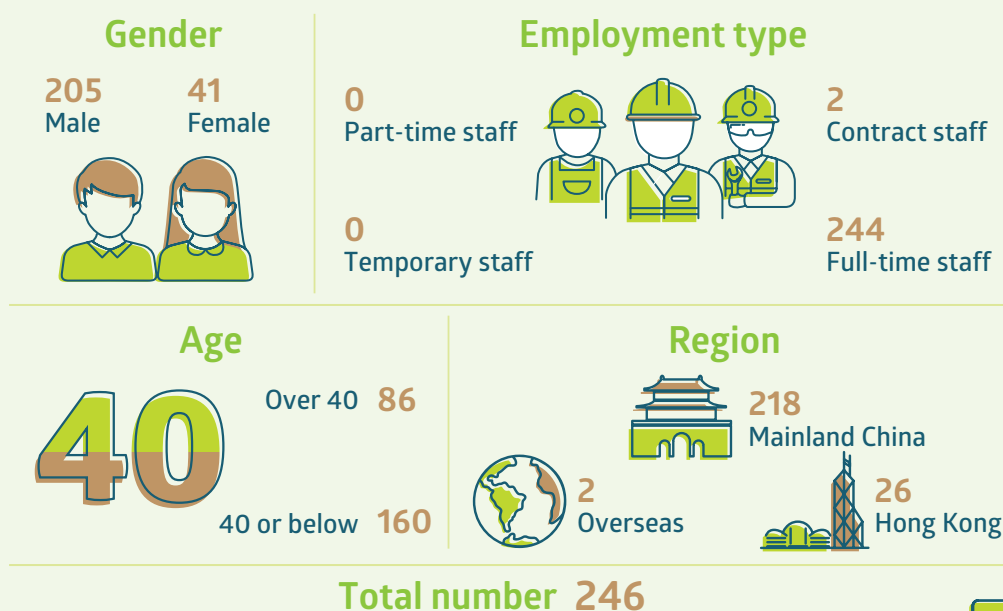
In addition, the Group strictly complies with the relevant laws and regulations of the locations in which it operates – such as the Labour Law of the People’s Republic of China and the Employment Ordinance of Hong Kong – when carrying out procedures for staff employment and dismissal. The Group prohibits the employment of child and forced labours.

The Group recruits employees via the centralised Sinopec Group Company platform, of which the recruitment process is fair, open and transparent. Its diverse recruitment channels, through both school campuses and the community, help attract talents from different levels. For the Hong Kong Office, we deploy staff through both internal selections within the Sinopec Group Company and

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

local external recruitment. In this way, the Group is making full use of its own professional talent reserves while attracting domestic and overseas talents with professional skills and international prospects. Ultimately, the goal is to develop an excellent team to support the Group's vision of becoming "a world-class international petrochemical storage and logistics company".

Breakdown of the Group's Employees by Gender, Employment Type, Age and Region (As at the end of 2017)



The Group has a sound remuneration and promotion mechanism. It carries out annual appraisals on employees' daily work performance, ability and attitude, with the results forming the key basis of determining basic salary adjustment, bonus, promotion, adjustment of job position, and selection for training of the employees. As such, employees are encouraged to make a greater contribution to the Group. Furthermore, the Group sets basic salary levels and ranking specification in respect to the employee's job position and duties, with the intention of building a "talent gateway" for staff members to develop through rank advancement, and to achieve sustainable development together with the Group.

In addition to basic remuneration and bonus, the Group provides staff with a package of welfare and subsidies. In Mainland China, we strictly comply with the “Labour Law of the People’s Republic of China” and make contributions for all employees to social insurance for pensions, medical, unemployment, work-related injuries, maternity, and to housing provident funds. The Group also runs a corporate pension plan. In Hong Kong, the Group makes Mandatory Provident Fund (MPF) contributions for all employees in accordance with the Mandatory Provident Fund Schemes Ordinance, and provides medical expense subsidies.

The Group fully safeguards and guarantees the rights of its employees to take leaves and holidays. In compliance with the relevant laws and regulations of locations in which the Group operates (including the Labour Law of the People’s Republic of China and the Employment Ordinance of Hong Kong), it ensures that staff enjoy public holidays, paid leaves, sick leaves, private affair leaves, marital leaves, compassionate leaves, maternity leaves and breastfeeding leaves. To encourage employees to make long-term commitment to the Group, their number of annual paid leave days ascends according to their years of services.

Mental and physical health of staff members is a matter of great importance to the Group. In particular, we believe that employees should enjoy a reasonable work-life balance and harmonious family and social life. To this end, the Group strictly implements the standard working hours system of the locations in which it operates, and tries not to arrange staff to work overtime. If it is necessary to arrange staff to extend working hours on working days or work on statutory holidays, depending on the situations, either compensation leaves or overtime allowance will be granted according to relevant policies. To promote healthy eating habits among employees and lessen their burdens, the Group continued to provide free and healthy lunch to staff in 2017.

In 2017, the Group organised a number of activities to promote communication among the staff and enhance their physical and mental health.



Mango Harvesting Activity of Huade Petrochemical

Huade Petrochemical utilised the vacant land for tree-planting. On 12 July 2017, Huade Petrochemical organised “Farming and enjoy the great harvest together” mango picking activity at Yuanzhou Intermediate Station’s pastoral style pumping station to let staff members experience the fun of farming and to enjoy the great harvest together.

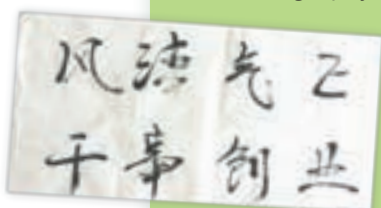




Calligraphy and Photography Competition of Yu Ji Pipeline Company

From May to June 2017, Yu Ji Pipeline Company held a calligraphy and photography competition titled

“Recognise the Situation and Share the Responsibilities”. Employees from all business units enjoyed exerting their artistic skills and submitting their works into the contest.

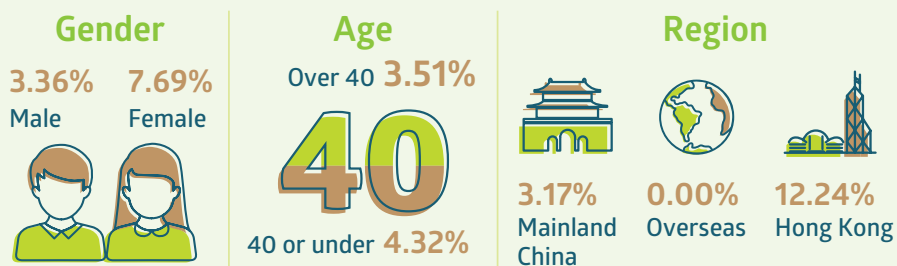


A Walk in Dr Sun Yat-sen Historical Trail for the Hong Kong Office

On 8 April 2017, the Hong Kong Office organised a walk in Dr Sun Yat-sen Historical Trail. The staff and their family members visited historical sites along the trail, learnt about the accomplishments of Dr Sun and gained a deeper understanding of modern history of China.



Staff Turnover Rate of the Group by Gender, Age and Region in 2017



Total turnover rate 4.04%



Note: 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





The Group believes that its development goes hand-in-hand with the progress and development of its staff members. To facilitate this, the Group has developed a comprehensive training plan to promote life-long learning for staff across a wide spectrum of skills and interests. Training courses are conceived and prepared for staff at different levels and positions according to its operation plan in the coming year. The courses cover a broad range of topics with extensive contents, and are designed based on actual needs to make the training as effective as possible. Course formats include interaction among internal business units and education by external professional tutors. Both theoretical discussion and simulated practical application are provided to enable staff to put the knowledge and skills learnt into their work.

In 2017, training courses of the Group ranged from production- and operation-based topics such as operational skills, equipment management, safety education, to management-based topics covering operations, administration, finance and information management to improve their all-round knowledge and skills. Due to the specific safety requirements of our businesses, the Group conducts safety education for all newly joined frontline staff. Only those who pass the tests are permitted to report duty. All employees are required to attend safety refreshment courses and technical trainings every year to consolidate their safety awareness and skills. For positions requiring special qualifications, the Group organises professional trainings to help them obtain the corresponding qualifications.

To ensure the effectiveness and continual enhancement of the training programme, the Group requires staff to make prior application for receiving training, monitors them during training, and asks them to submit a report or share their achievement after training. For professional skill courses, assessments are to be made according to the circumstances. Besides, trainers are evaluated after completion of the courses.

The Group encourages staff members to actively participate in trainings, with an aim to enhance their personal skills and enrich themselves. In 2017, all 246 employees of the Group received training and their total training hours added up to nearly 13,000 hours.

The Percentage of Trained Employees of the Group, and Their Average Training Hours Completed by Gender and Employee Category in 2017

	Gender		Employee category			
	Male	Female	Senior management	Middle management	General staff	
 Percentage of trained employees	100%	100%	100%	100%	100%	
 Average training hours per employee	56hrs	35hrs	63hrs	61hrs	51hrs	
Total	 Percentage of trained employees		100%	 Average training hours per employee		52hrs
Total training hours 12,849hrs						



Training Course on News Correspondents

On 23 June 2017, Huade Petrochemical invited Lin Qingqing (林青青), editor of Sinopec News (《中國石化報》), to conduct a staff training session on news writing. The “outstanding correspondents” for 2016 were also honoured during the session.



Oil Terminal and Oil Tank Seminar for the Hong Kong Office

From 19 to 21 July 2017, the Hong Kong Office invited two experts in oil terminal and oil tank safety to conduct a safety management training. They shared basic oil terminal and oil tank safety management knowledge, accident case studies, safety management culture, risk identification and control, and their experience in internal audit of safety management systems.





Safety and Environmental Protection Awareness Training Series

In 2017, Yu Ji Pipeline Company organised a series of safety trainings:

- In February, 55 safety production management personnel completed training for replacement of safety certificates. All participating personnel passed the examination.
- In April, environmental protection and occupational health management personnel from all units received an annual training to enhance their job related management standard.
- In May, a training session was held on basic safety risk management. During the session, the importance and methods of risk identification were highlighted. Staff members participated in safety stimulations and practical operations, and a discussion on enterprise emergency management.



Occupational Health and Safety

The Group is engaged in oil and natural gas storage and transmission businesses and thus pays great attention to the safety and health of our staff. Strictly abided by all relevant policies and regulations relating to occupational health and disease prevention and control wherever it operates, the Group enforces stringent operational procedures. In 2017, the Group did not record any work-related fatality or loss of working days resulting from work injury.

At the beginning of 2017, the Group established the deployment plan for protective equipment according to the Administrative Measures for Protective Equipment of Labour of Sinopec Group Company, and delivered the equipment according to the plan. We required all staff members to wear protective equipment before entering the operation areas. Management conducted regular inspections to ensure that the staff adhere to such measures and use the equipment properly to safeguard their occupational health. In addition, occupational hazard warning signs were placed at all stations to raise the awareness of frontline staff.

We continued to closely monitor the health conditions of our staff members and require those who engaged in hazardous works to perform occupational health check-ups before reporting duties, during employment and upon leaving their positions. The related expenses were borne by the Group. In 2017, the Group continued to arrange all frontline operation personnel to perform occupational health check-ups at local qualified occupational disease prevention and control institutions according

to specific occupational hazards in different working positions. The results were provided timely and an occupational health monitoring file was set up for each employee. Follow-up actions were arranged immediately in case occupational health problems were discovered.

In 2017, the Group continued to raise the risk awareness among employees through organising occupational safety training and promotion. These activities were predicated on the motto: "Don't hurt yourself, don't hurt others, and don't get hurt by others".



Innovative Fire Safety Training

From 13 to 16 March 2017, Huade Petrochemical conducted a training on fire prevention knowledge. The training topics included an introduction on the features and the use of air breathing apparatus, the inspection and the use of hand-held fire extinguishers, basic fire theory training and brazier fire practice. Through the training, all the staff were strengthened with basic fire safety knowledge and practical operation, which further enhanced their emergency response capabilities on fire safety.



"Occupational Disease Prevention Law" Awareness Week

In 2017, Yu Ji Pipeline Company organised an "Occupational Disease Prevention Law Awareness Week" activity. Staff members studied the Occupational Disease Prevention Law, the relevant rules and regulations. The management rechecked the status of occupational health management at all stations. They inspected staff's deployment of protective equipment and educated those who did not wear the equipment properly. This enhanced the awareness on occupational disease prevention and safeguarded the health of all staff members.



The Group attaches great importance to the safety in workplace and employees' living quarters. Each staff member is provided with a smoke escape hood and a towel. Fire safety checks and drills are carried out. The Group also engages professional personnel to inspect water, electricity and town gas facilities in living quarters of employees stationed in Hong Kong.



Operating Practices

The Group is committed to improving its corporate governance and formulated various management policies for each process in supply chain. For upstream suppliers, we set up procurement procedures and supplier selection mechanism, post-procurement assessment and corresponding follow-up mechanism. As an oil and gas storage and transmission service provider, we formulated strict safety measures for downstream customers, as well as an effective mechanism of protecting the confidential information of customers, employees and other partners. In addition, we managed to eliminate the risk of corruption from supply chain and production operation through rigorous policies, education and training. In 2017, 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'S SUPPLIER MANAGEMENT PRINCIPLES



Legal compliance The Group strictly complies with the relevant laws and regulations where it operates. It adopts the supplier management system of Sinopec Group Company to carry out centralised management and keep records on its suppliers within the system.



Transparency The Group complies with the rule of “allowing open access to tender information and announcing non-tender information” to increase transparency in tender process and eliminate the risk of corruption and other non-compliances in procurement process.

THE GROUP'S SUPPLIER MANAGEMENT PRINCIPLES



Competitiveness The Group continuously refines its tender management practices. By promoting fair competition, it continues to enhance the quality of products and services from suppliers.



Selection for quality **The pre-procurement and post-procurement assessments** (see below) of the Group help to phase out suppliers with poor performance, optimise the supplier structure, cultivate its main supplier base and strategic supplier base, and streamline the supply chain to ensure its reliability and stability.



● **Pre-procurement** In selecting suppliers, the Group assesses their business scope, relevant qualifications, production capacity, service standards 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 legal compliance records when selecting suppliers to promote their continuous improvement in these aspects. If candidate suppliers had bad records or improper competitive behaviour in the past three years, such suppliers will be disqualified immediately.



● **Post-procurement** The Group assesses the suppliers based on four aspects, namely, quality, delivery, price and service with its suppliers reward and punishment mechanism. For suppliers with higher assessment ranking, the Group will give them priority for share of order and demand information sharing. For suppliers with poor performance, the Group will impose penalties such as warning, condemnation, suspension, cancellation, and even blacklisting based on the results of assessment.



Win-win The Group encourages suppliers to increase transparency in tender quotation process and to unearth the potential problems of suppliers. Suppliers are guided to make rectification to ensure they can get reasonable profits without compromising the quality of products we procure.

With a view to guarantee smooth operation of business and reduce both the fluctuations in material prices and the risk of supply chain disruption, 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. Eventually, the Group can reduce difficulties in managing suppliers to ensure its supplier resources are well protected.



Huade Petrochemical Launches its Online Procurement Platform

On 8 April 2017, Huade Petrochemical officially launched the Enterprise Resource Planning (ERP) online platform, which integrates e-commerce system, Epec (an e-commerce platform established by Sinopec Corp. for industrial products), database, and supply resource management and standardisation system. This platform adopts the requirements for online procurement management and assessment criteria of Sinopec Corp..

The system enhanced online procurement management and standardised online procurement process, thus improved the quality of online procurement for Huade Petrochemical. The system also broadened the supplier resources and enhanced the flexibility in supplier selection. The number of suppliers chosen by Huade Petrochemical was hence increased.

Number of Suppliers of the Group by Region in 2017



525
Mainland China



4
Overseas



17
Hong Kong



Note: As there are a large number of suppliers, only those with transaction amounts reaching HK\$100,000 or above were included in the above statistics.

Service Safety and Privacy Protection

As the Group's business requires certain high-risk operations, exposure to risk during operation is a matter that cannot be overlooked. Our most important commitment is to provide safe and reliable services to customers. We insist on the safety management guideline "safety first, prevention crucial" and have established a comprehensive health, safety and environmental protection ("HSSE") management system to strictly manage safety in every detail to ensure relevant measures were implemented. Besides, the Group continues to comply with relevant laws and regulations pertaining to privacy and to protect the data privacy of its customers, employees and other stakeholders.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2017, risk management remained the core aspect of the safety system of the Group. To this end, the Group strengthened its risk control and fully implemented its HSSE management rules and regulations. We encouraged our subsidiaries to adopt these rules and regulations, while integrating them with the latest safety control standards of international oil terminal and storage companies to continuously improve safety risk management.

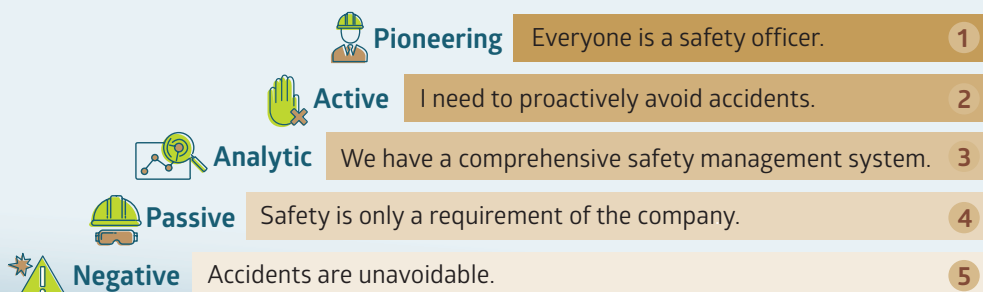
In 2017, the Group continued to hold monthly safety committee meetings chaired by the general manager to reinforce integrated safety management works. During the meetings, decisions on major safety issues and major safety principles were put forward and effectively implemented through its subsidiaries and entrusted management companies.

In accordance with the principle of “the person in charge takes responsibility”, all employees of the Group signed “2017 safety undertaking letters” to ensure they understood and accepted their responsibilities on safety in their working positions. The Group strongly insists that all high-risk operations must undergo professional work safety analysis beforehand, and that operators must process work permits for such operations. We strictly prohibit violations on operation requirements such as training, work permit, supervision or safety measures.

To reinforce its culture of safety and the sense of safety responsibilities, the Group revised the safety responsibility system in 2017 to ensure all staff members commit to the principle of “everyone has his or her own responsibility on safety”.

THE GROUP'S “SAFETY CULTURE LADDER”

The values of “responsibility, professionalism, harmony and grand vision” have constantly striven the Group to develop active safety culture and we continue to try our best to move the Group towards pioneering safety culture and believe in “everyone is a safety officer”.



In 2017, the Group actively carried out safety inspections, emergency drills and safety-related promotional activities to improve its safety management mechanism, raise safety awareness of the staff, and rectify potential hazards at early stage whenever possible.



Huade Petrochemical's "Lifeline" Emergency Drill

On 23 June 2017, Huade Petrochemical carried out an emergency drill at the "Ma-Guang" (Mabianzhou Island, Huizhou, to Guangzhou Petrochemical) Long Pipeline (Daya Bay Section). The exercise simulated a pipeline leakage accident. Once the emergency drill order was sent down, the emergency teams of Huade Petrochemical reacted promptly according to the emergency plan. Potential fire and explosive hazards were efficiently eliminated and the leak in the pipe was sealed. Throughout the drill, Huade Petrochemical performed a comprehensive assessment on the operability and practicality of its emergency plan for long pipeline leakage. The responsiveness and coordination of emergency teams also improved through the drill.



Yu Ji Pipeline Company Systematises Safety Information Management

In 2017, Yu Ji Pipeline Company fully utilised the Safety Management Information System to record safety management data and gauge the latest safety management trends. Currently, Yu Ji Pipeline Company stored over 600 entries containing information in education and training, risk identification and security inspection.

Yu Ji Pipeline Company also actively promoted the use of "Safety Diagnosis for All" mobile app developed by the Sinopec Group Company. The app enables staff members to take an active and constructive role in safety management by giving their feedback and suggestions on safety issues. Continuous improvement in safety management standard could be achieved through timely remediation of any risk factors in operations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 and handling of data. We devote ourselves 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 data to prevent illicit disclosure of information.



Full Implementation of Confidentiality in Huade Petrochemical

Huade Petrochemical implemented measures to protect confidential information according to its “Confidentiality Management Approach”. They cover a wide range of topics including confidentiality responsibilities, promotion and education, classification and level adjustment of confidentiality, management of important departments and positions for confidentiality, confidential personnel management, management and protection of trade secrets, medium management, management of confidentiality in information systems and information equipment, management of confidential meetings and external affairs, external publicity and information publication, and archive management of confidential projects.

Anti-corruption

In 2017 the Group continued to comply with stringent measures against corruption. We strictly abide by local laws and regulations and timely report corruption cases or possible corrupt behaviour by strengthening internal monitoring of business process and establishing whistleblowing channels. The Group also organised various activities to enhance understanding on anti-corruption regulations of staff members and requested them to sign commitment letters for self-discipline and honesty. No corruption complaints or lawsuit cases were made against the Group in 2017.

In 2017, the Company formulated and implemented an “Anti-corruption Management Approach” to strictly forbid staff members to participate in any actions that involve bribery, or that may be regarded or deemed as bribing. While acknowledging and respecting the cultures, traditions and customs of different countries, the Company does not view it as an endorsement of illegal or unethical behaviour. Even in cases where such behaviour is viewed as a social norm in accord with local custom or tradition, it does not supersede the relevant regulations in the “Anti-corruption Management Approach”.

FOUR KEY PRINCIPLES OF THE “ANTI-CORRUPTION MANAGEMENT APPROACH”



Separation

Not to constitute any inappropriate effect on business decisions made by business partners.



Transparency

Any remuneration and compensation given to business partners must remain highly transparent, and shall be clearly, accurately and completely recorded in the accounts of the Company.



Equality

Business must be conducted on a fair and equal basis. Compensation given to business partners must conform to reasonable market rates.



Recording

All relevant documents (including contracts entered into with business partners) should be recorded, and any transactions with business partners should be included in appropriate records (for example, commissions given to business partners should be recorded in written information).

Additionally, the Company has formulated and implemented a Whistleblowing Policy to encourage employees to confidentially express their concerns about any incidents of misconduct, fraud and irregularity related to corporate affairs. After investigation, anyone found to have breached the code of conduct will have internal processing, including administrative sanctions. In case of possible criminal offence, the Company will refer the matter to the relevant public institutions for their actions.

The Whistleblowing Policy provides fair treatment to staff with legitimate concerns or complaints. Even if the questions raised are ultimately unverifiable, the Company ensures that the staff members involved will not be subject to unfair dismissal, harm or improper disciplinary actions. The Company will strive to ensure that whistleblowers' identities are kept confidential. The Company also reserves the right to take appropriate actions against any party who retaliates or threatens to retaliate against the staff members who filed a petition under the Whistleblowing Policy.

In 2017, we continued to educate staff members and raise their anti-corruption awareness.



Huade Petrochemical

- On 15 March, an anti-corruption working conference was held. The programme included a review on the essence of the anti-corruption conference of the Sinopec Group Company and a viewing of an educational film *Dajia*.
- Anti-corruption and self-discipline reminders were sent to high-risk staff by WeChat platform during holidays. Key personnel were also reminded via conversation.

Yu Ji Pipeline Company

- Staff participated in a wide variety of anti-corruption education activities such as cultural corridor construction, clean comic collection, and viewings of feature films.
- Two volumes of promotional education materials were edited and distributed. A panel for learning from *Cautionary Tales of Typical Cases of Staff in Violation of Disciplines and Law* was held.
- The "Lowest fuel consumption per hundred kilometres" promotional activity was held to effectively eliminate "micro-corruption" phenomena such as private use of buses and illegal refueling.



Hong Kong Office

- On 19 October 2017, a speaker from the Independent Commission Against Corruption of Hong Kong was invited to conduct an anti-corruption education and training seminar to give an introduction to the Prevention of Bribery Ordinance, to discuss with the staff on corruption case through short films to strengthen their knowledge on the Prevention of Bribery Ordinance, and to enhance the awareness of anti-bribery and corruption among the staff in their daily work.



Community Participation and Investment

The Group wishes to build good relationship with the communities in which it operates and to promote harmonious development between the Group and the community. The Group puts emphasis on environmental protection, the physical and mental health of local residents, helping the underprivileged, and assumes its social responsibility on promoting a harmonious community.

Resources Employed by the Group in Community Activities in 2017



128
Participants



Over 360 hrs
Total activity hours



In 2017, the Group continued to bear the corporate social responsibility, to encourage staff members to actively participate in community activities and care the needs of local residents.



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

In 2017, Yu Ji Pipeline Company continued to launch the "Month of Volunteer Services" community activities along its pipelines to advocate unity and friendship, good manners, diligence, thrift and selfless sacrifice.



Community Services

Street-cleaning : In Shanxi, we set up free mobile charging and maintenance stations, and joined local residents in cleaning streets and raised the awareness of protecting natural gas pipelines.

Farmland management : In Henan, the Group held the “Integrating our Business with the Community, Cooperating with Each Other” campaign. We helped villagers with their farm works, conveyed the positive message of “dedication, fraternity, cooperation and progress”, and established good relationship with local residents.

Promoting knowledge : Under the “Join the Community, Beautify the Environment” campaign, volunteers in Dezhou, Shandong visited communities to undertake a number of activities, such as beautifying community environments and putting out wildfires with local residents. We also promoted knowledge such as the safe use of natural gas, emergency escape, production safety laws and pipeline protection. Through these activities, volunteers lived out the spirit of “helping others and serving people around”.



Caring and Giving

Visiting the elderly : Staff members from Shaanxi visited elderly living alone in Jialu Town, Jia County and helped the community to repair cave-dwellings. Through the activity, staff members felt for the hard life of local residents and were determined to stay unselfish and help others. In Shanxi, staff members participated in the “Giving Love to the Elderly Living Alone” programme and cheered up the elderly residents with their visits. They gave oil, rice and noodles, and took up an internal collection to raise funds for the welfare of the elderly. Part of the programme was devoted to visiting veterans in the area, helping them to tidy up their yards and listening to their sharing.

Aiding the poor : Staff members visited homes of poor villagers in Henan and helped villagers to install brick pavements. Again, staff members passed the spirit of “dedication, fraternity, cooperation and progress” to local residents and promoted the harmonious relationship between the Group and the community.





Environmental Protection

Caring for nature : In Shaanxi, our staff participated in nature-enhancing activities such as “Planting more Green for the Future”, “Watering the Trees”, “Protecting Mother River: Green and Harmony, Our Responsibilities”, and “Do a Small Thing Around you Well”. Volunteers watered the trees, planted the seedlings, and removed rubbish from waterways. They also encouraged local residents to sign a petition to protect the Mother River. Meanwhile in Henan, volunteers ran a “Serving Life, Serving Production, Serving the Nature” activity. Their efforts focused on cleaning up the green belt in front of their stations, removing rubbish, helping irrigate newly planted trees, and promoting environmental advocacy around the management office.

Beautifying the environment : In Shanxi, staff members got busy with enhancing the station site. They trimmed the grass in front of the site, brushed the site and cleaned their bedrooms, planted trees and set up a small vegetable garden, as they got a more comfortable and hygienic working environment in return. A similar activity in Henan saw staff members planting cherry trees, cleaning up the garden and beautifying the working environment. These activities promoted the sense of cooperation, responsibility and mission.

Water resource protection : In the “Caring Water Resources and Protecting Lake Reservoir” campaign, staff members in Shanxi did their part in promoting ecology to local residents around Zhangze Reservoir near Changzhi Station. Activities included giving talks on low-carbon, low-waste lifestyle, and cleaning up the lake area. Through the activities, staff members set an example to local residents for protecting water resources.





Huade Petrochemical's “Helping and Visiting the Poor” Activity

On 20 and 21 June 2017, the Huade Petrochemical management team travelled to Pengdong Village, Shuikou Town, Xingning City in Guangdong Province on a mission to visit and help the poor. While giving much-appreciated supplies to those in need, the team exchanged views with the village committee, learnt about villagers' living conditions and village management, as well as offered suggestions for improvement.



Hong Kong Office's Flag Day for Charity Fundraising

On 18 February 2017, staff from the Hong Kong Office sold flags on the street to raise proceeds for the Hong Kong Blind Union for the promotion of equality, opportunity and independence for the visually impaired and the fostering of social integration between the able-bodied and the disabled. Certificates of thanks from the Union were issued to all participating staff members and their relatives.





Hong Kong Office's Beach Cleaning Campaign

Staff members from the Hong Kong Office were among those pitching in to clean beaches at Lung Kwu Tan, Tuen Mun and Lung Ha Wan, Sai Kung in March and December 2017, respectively. They cleaned up the surroundings, created a livable environment for living creatures in the sea and a beautiful leisure destination for the public.



A "Bread Run" in Hong Kong

On 25 July 2017, five small teams of staff from the Hong Kong Office joined Feeding Hong Kong to collect bread from bakeries and deliver them to collection points. The food was subsequently distributed to the needy through seven volunteer groups working with Feeding Hong Kong. In total, we collected over 160 pieces of bread weighing 30kg during the activity.



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
Ms. Wong Pui Sze, Priscilla (*appointment effective from 22 March 2018*)

AUDIT COMMITTEE MEMBERS

Mr. Fong Chung, Mark (Chairperson)
Ms. Tam Wai Chu, Maria
Dr. Wong Yau Kar, David
Ms. Wong Pui Sze, Priscilla (*appointment effective from 22 March 2018*)

REMUNERATION COMMITTEE MEMBERS

Ms. Tam Wai Chu, Maria (Chairlady)
Mr. Chen Bo
Mr. Fong Chung, Mark
Dr. Wong Yau Kar, David
Ms. Wong Pui Sze, Priscilla (*appointment effective from 22 March 2018*)
Mr. Ye Zhijun

NOMINATION COMMITTEE MEMBERS

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Mr. Chen Bo
Ms. Tam Wai Chu, Maria
Mr. Fong Chung, Mark
Ms. Wong Pui Sze, Priscilla (*appointment effective from 22 March 2018*)
Mr. Ye Zhijun

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