



SINOPEC KANTONS HOLDINGS LIMITED

(Incorporated in Bermuda with Limited Liability)

(Stock Code: 934)



Interim Report **2011**

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CORPORATION INFORMATION

EXECUTIVE DIRECTORS

Mr. Dai Zhaoming (*Chairman*)
Mr. Zhu Zengqing (*Deputy Chairman*)
Mr. Zhu Jianmin
Mr. Tan Kefei
Mr. Zhou Feng
Mr. Ye Zhijun (*Managing Director*)

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE MEMBERS

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

REMUNERATION COMMITTEE MEMBERS

Ms. Tam Wai Chu, Maria
Mr. Wong Po Yan
Mr. Fong Chung, Mark
Mr. Dai Zhaoming
Mr. Ye Zhijun

COMPANY SECRETARY

Mr. Li Wenping
Mr. Lai Yang Chau, Eugene

AUDITORS

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

STATUTORY ADDRESS

Clarendon House
2 Church Street Hamilton HM 11
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Wanchai, Hong Kong

LISTING INFORMATION

The Stock Exchange of Hong Kong
Limited
Stock Code: 0934

BUSINESS REVIEW AND PROSPECTS

During the first half of 2011, amid the fluctuating global economy, the worldwide inflation pressure was further intensified under the subsisting influence of the quantitative easing monetary policies adopted by certain developed countries. Prices of significant commodities such as international crude oil experienced alternate rises with subsequent repetitious volatility. The average spot price of Brent crude oil was US\$111.25/barrel for the first half of 2011, representing an increase of 43.9% as compared with the same period of last year. Under the ever-changing market conditions, our entire staff overcame all difficulties with concerted efforts through strengthening our internal management processes and promoting efficient capital utilisation so as to enhance economic benefits. During the first half of 2011, despite a reduction in operating revenue upon the restructuring of our business, we attained a substantial growth in our operating results. While Sinopec Kantons Holdings Limited (the “Company”) and its subsidiaries (the “Group”) recorded a turnover amounting to HK\$9,882,456,000 which represented a decrease of 4.8% as compared with the same period of last year, a profit of HK\$130,785,000 was attained with a period-on-period increase of 36.6% during the period.

During the first half of 2011, our entire staff strictly pursued the goal of “becoming a first-class international oil, petroleum and petrochemical storage and logistics listed company” as decided by the board of directors of the Company (the “Board”). The Group has been focusing on the development of storage and logistics projects and achieved a satisfactory performance result. During the first half of 2011, the Group entered into an acquisition agreement with Zhanjiang Port (Group) Co., Ltd. to acquire a 50% equity interest in Zhanjiang Port Petrochemical Terminal Co. Ltd at a consideration of RMB331,986,000 (approximately HK\$399,213,000). Currently, owing to the smooth progress of approval procedures in respect of the establishment of the joint venture, Zhanjiang Port Petrochemical Terminal Co. Ltd is expected to formally become our joint venture in the coming year, bringing a positive effect on the rapid expansion of the Group’s storage business and further improvement of its profitability. In addition, as for the storage facility construction project in Indonesia, negotiations were still in progress with other parties during the first half of the year. As for the logistics project, after entering into a joint venture agreement with China Shipping Development Company Limited by the year end of 2010, the joint venture was formally established while the ship building preparation work for transportation of liquefied natural gas is progressing smoothly. Besides, in order to meet the needs of the business restructuring, we explored additional opportunities by expanding

MANAGEMENT DISCUSSION & ANALYSIS

our logistics business to achieve a higher operating revenue. During the first half of 2011, the Group commenced its vessel charter business by engaging in the transportation of imported crude oil. During the first half of the year, each of our two chartered vessels started its voyage, which was a breakthrough in the vessel charter business.

During the first half of 2011, China Petroleum & Chemical Corporation Guangzhou Branch, the major client of Huade Petrochemical Company Limited (“Huade”), carried out planned maintenance for its oil refinery facilities, the unloading volume and pipeline transportation volume of Huade experienced a slight reduction. During the first half of the year, Huade handled 40 oil vessels, with approximately 5.75 million tonnes of crude oil unloaded and approximately 5.73 million tonnes of crude oil transported, representing a decrease of approximately 1.9% and approximately 0.5% respectively as compared with the same period of last year. In light of the weakened business, Huade proactively reinforced its internal management and strived to reduce costs and expenses so as to achieve better results. During the first half of the year, it recorded an operating profit of HK\$144,855,000, representing an increase of 26.1% compared to last period and a significant contribution to the substantial growth of the Group’s operating results.

To focus on the development of the storage and logistics project, only the trading of crude oil and the newly established vessel charter business were remained in the Group’s current trading business division. During the first half of 2011, trading volume of our crude oil reached approximately 1.61 million tonnes, representing a decrease of 11.3% as compared with last period. The trading business recorded revenue of HK\$9,590,263,000, representing a decrease of 5.1% as compared with last period, among which the revenue derived from the vessel charter business amounted to HK\$61,078,000 with a gross profit of HK\$12,675,000.

With the joint efforts of our entire staff, in the first half of 2011, the Group strived to promote the development of the storage and logistics project and recorded a substantial growth in operating results, which was very remarkable. In the second half of the year, we should be in firm confidence and hold a positive attitude to further step up our pace in the storage and logistics project, so as to attain comprehensive fulfillment of our operation goal for the year and strive for the strategic goal for development formulated by the Board.

LIQUIDITY AND SOURCES OF FINANCE

As at 30 June 2011, cash on hand and bank balances of the Group totalled approximately HK\$752,166,000 (31 December 2010: HK\$724,711,000) and interest-bearing borrowings from a fellow subsidiary were approximately HK\$263,946,000 (31 December 2010: HK\$156,034,000), of which all were short-term borrowings. The significant increase in interest-bearing borrowings was due to the needs arising from the vessel charter business developed in the first half of the year. As at 30 June 2011, the Group had no bank borrowings.

INTEREST IN ASSOCIATE

As at 30 June 2011, the Group's interest in associate amounted to HK\$11,700,000 (31 December 2010: HK\$Nil). According to a joint venture agreement entered into by the Group and China Shipping Development Company Limited on 30 November 2010, the Group contributed HK\$11,700,000 to establish East China LNG Shipping Investment Co., Limited during the period. Please refer to the related announcement of the Group dated 30 November 2010 published on the website of The Stock Exchange of Hong Kong Limited for details.

GEARING RATIO

As at 30 June 2011, the Group's current ratio (current assets to current liabilities) was 1.38 (31 December 2010: 3.16) and gearing ratio (total liabilities to total assets) was 42.7% (31 December 2010: 10.2%). The substantial changes in current ratio and gearing ratio were due to the substantial increase in both trade receivables and trade payables resulting from the crude oil trading in June 2011 while no crude oil trading in December 2010.

TRADE AND OTHER RECEIVABLES

As at 30 June 2011, the Group's trade and other receivables totalled HK\$1,993,831,000 (31 December 2010: HK\$188,176,000). The significant increase in trade and other receivables was mainly due to the unsettled trade receivables arising from crude oil sales in June 2011, while no crude oil sales were made in December 2010. For detailed aging analysis of trade receivables, please refer to note 11 to the unaudited interim financial report.

TRADE AND OTHER PAYABLES

As at 30 June 2011, the Group's trade and other payables totalled HK\$1,728,540,000 (31 December 2010: HK\$125,122,000). The significant increase in trade and other payables was due to the unsettled trade payables arising from crude oil purchases in June 2011, while no crude oil purchases were made in December 2010.

PROFIT FOR THE PERIOD

For the six months ended 30 June 2011, the Group recorded a profit amounting to HK\$130,785,000 (six months ended 30 June 2010: HK\$95,748,000), representing an increase of 36.6% as compared to last period. The substantial increase in profit was due to the proactive cost cutting measures imposed by the Group which led to a reduction in operating cost during the period. In addition, the decrease in the finance costs also had a positive impact on the profit growth.

FINANCE COSTS

During the first half of 2011, the finance costs of the Group amounted to HK\$1,382,000 (six months ended 30 June 2010: HK\$10,697,000). The decrease in finance costs was due to decrease in average loan balance from HK\$1,123,173,000 for the six months ended 30 June 2010 to HK\$209,990,000 for the six months ended 30 June 2011.

FOREIGN CURRENCY RISK

The functional currency of the Group's subsidiary incorporated in British Virgin Islands, Kantons International Investment Limited ("KII"), is Hong Kong dollars. At 30 June 2011, KII held a Renminbi bank deposit amounted to RMB615,392,000 (equivalent to HK\$740,010,000). The Group is therefore exposed to foreign currency risk arising from holding such bank deposit. Save for the above, each entity within the Group was not exposed to significant foreign exchange risk.

EMPLOYEES AND EMOLUMENT POLICIES

As at 30 June 2011, the Group had a total of 187 employees. Remuneration packages, including basic salaries, bonuses and benefits-in-kind, are structured by reference to market terms, trends of human resources costs in various regions and employees' contributions based on performance appraisals. Subject to the profit of the Group and the performance of the employees, the Group may also provide discretionary bonuses to its employees as an incentive for their continuous contribution.



**REVIEW REPORT TO THE BOARD OF DIRECTORS OF
SINOPEC KANTONS HOLDINGS LIMITED**

(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 9 to 37 which comprises the consolidated statement of financial position of Sinopec Kantons Holdings Limited as of 30 June 2011, and the related consolidated income statement, consolidated statement of comprehensive income and consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The Directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW REPORT

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2011 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

18 August 2011

CONSOLIDATED INCOME STATEMENT (Unaudited)

*For the six months ended 30 June 2011
(Expressed in Hong Kong dollars)*

	Note	Six months ended 30 June	
		2011	2010
		\$'000	\$'000
Turnover	3	9,882,456	10,384,913
Cost of sales		(9,713,278)	(10,239,189)
Gross profit		169,178	145,724
Other revenue		6,983	789
Other net income		16,954	6,981
Distribution costs		(2,901)	(2,927)
Administrative expenses		(21,424)	(14,228)
Profit from operations		168,790	136,339
Finance costs		(1,382)	(10,697)
Profit before taxation	4	167,408	125,642
Income tax	5	(36,623)	(29,894)
Profit for the period		130,785	95,748
Basic and diluted earnings per share (cents)	7	12.61	9.23

The notes on pages 15 to 37 form part of this interim financial report. Details of dividends payable to equity shareholders of the company are set out in note 6.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

*For the six months ended 30 June 2011
(Expressed in Hong Kong dollars)*

	Six months ended 30 June	
	2011	2010
	\$'000	\$'000
Profit for the period	130,785	95,748
Other comprehensive income for the period		
(Note):		
Exchange differences on translation of financial statements of overseas subsidiaries	46,835	23,528
Total comprehensive income for the period	177,620	119,276

Note: The component of other comprehensive income does not have any tax effect for the six months ended 30 June 2011 and 2010.

The notes on pages 15 to 37 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Unaudited)

At 30 June 2011
(Expressed in Hong Kong dollars)

		At 30 June 2011 \$'000	At 31 December 2010 \$'000
Non-current assets			
Fixed assets	8		
– Investment properties		32,877	33,397
– Other property, plant and equipment		1,810,627	1,801,816
– Interests in leasehold land held for own use under operating leases		79,307	79,548
Interest in associate	9	11,700	–
Deferred tax assets		1,705	–
		1,936,216	1,914,761
Current assets			
Inventories	10	26,897	4,370
Trade and other receivables	11	1,993,831	188,176
Tax recoverable		2,072	2,072
Cash and cash equivalents	12	752,166	724,711
		2,774,966	919,329
Current liabilities			
Trade and other payables	13	1,728,540	125,122
Interest-bearing borrowings	14	263,946	156,034
Tax payable		18,217	9,338
		2,010,703	290,494
Net current assets		764,263	628,835
NET ASSETS		2,700,479	2,543,596

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Unaudited)

At 30 June 2011

(Expressed in Hong Kong dollars)

	At 30 June 2011 \$'000	At 31 December 2010 \$'000
Note		
<hr/>		
CAPITAL AND RESERVES		
Share capital	103,683	103,683
Reserves	2,596,796	2,439,913
<hr/>		
TOTAL EQUITY	2,700,479	2,543,596

Approved and authorised for issue by the board of directors on 18 August 2011.

Dai Zhaoming
Chairman

Ye Zhijun
Director

The notes on pages 15 to 37 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

For the six months ended 30 June 2011
(Expressed in Hong Kong dollars)

	Note	Attributable to equity shareholders of the company						Total equity \$'000
		Share capital \$'000	Share premium \$'000	Merger reserve \$'000	General reserves \$'000	Exchange reserve \$'000	Retained profits \$'000	
Balance at 1 January 2010		103,683	333,857	23,444	131,935	346,881	1,370,735	2,310,535
Changes in equity for the six months ended 30 June 2010:								
Profit for the period		-	-	-	-	-	95,748	95,748
Other comprehensive income		-	-	-	-	23,528	-	23,528
Total comprehensive income for the period		-	-	-	-	23,528	95,748	119,276
Dividends approved in respect of the previous year	6	-	-	-	-	-	(20,737)	(20,737)
Balance at 30 June 2010 and 1 July 2010		103,683	333,857	23,444	131,935	370,409	1,445,746	2,409,074
Changes in equity for the six months ended 31 December 2010:								
Profit for the period		-	-	-	-	-	99,939	99,939
Other comprehensive income		-	-	-	-	50,135	-	50,135
Total comprehensive income for the period		-	-	-	-	50,135	99,939	150,074
Appropriation of reserves		-	-	-	36,244	-	(36,244)	-
Dividends declared in respect of the current year	6	-	-	-	-	-	(15,552)	(15,552)
Balance at 31 December 2010 and 1 January 2011		103,683	333,857	23,444	168,179	420,544	1,493,889	2,543,596
Changes in equity for the six months ended 30 June 2011:								
Profit for the period		-	-	-	-	-	130,785	130,785
Other comprehensive income		-	-	-	-	46,835	-	46,835
Total comprehensive income for the period		-	-	-	-	46,835	130,785	177,620
Dividends approved in respect of the previous year	6	-	-	-	-	-	(20,737)	(20,737)
Balance at 30 June 2011		103,683	333,857	23,444	168,179	467,379	1,603,937	2,700,479

The notes on pages 15 to 37 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (Unaudited)

*For the six months ended 30 June 2011
(Expressed in Hong Kong dollars)*

	Six months ended 30 June	
	2011	2010
	\$'000	\$'000
Cash generated from operations	13,482	1,137,823
Tax paid	(29,685)	(27,072)
Net cash (used in)/generated from operating activities	(16,203)	1,110,751
Net cash used in investing activities	(61,331)	(4,005)
Net cash generated from/(used in) financing activities	86,351	(1,124,185)
Net increase/(decrease) in cash and cash equivalents	8,817	(17,439)
Cash and cash equivalents at 1 January	724,711	28,175
Effect of foreign exchange rate changes	18,638	297
Cash and cash equivalents at 30 June	752,166	11,033

The notes on pages 15 to 37 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 18 August 2011.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2011 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2010 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1 BASIS OF PREPARATION (continued)

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on pages 7 and 8.

The financial information relating to the financial year ended 31 December 2010 that is included in the interim financial report as being previously reported information does not constitute the company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2010 are available from the company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 22 March 2011.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the group and the company. Of these, the following developments are relevant to the group's financial statements:

- HKAS 24 (revised 2009), *Related party disclosures*
- Improvements to HKFRSs (2010)

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

These developments related primarily to certain disclosure requirements applicable to the group's financial statements. These developments have had no material impact on the contents of this interim financial report.

3 SEGMENT REPORTING

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

- Trading of crude oil, petroleum and petrochemical products: this segment trades crude oil, processes and trades petroleum and petrochemical products. Currently, the majority of the trading activities are carried out in Hong Kong and the People's Republic of China ("PRC").
- Crude oil jetty services: this segment provides crude oil transportation, unloading, storage and other jetty services for oil tankers. Currently, the group's activities in this regard are carried out in the PRC.
- Vessel charter services: this segment provides vessel chartering for crude oil transportation and floating oil storage facilities for oil traders. Currently, the group's activities in this regard are carried out in the Middle East and the PRC.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the group's senior executive management monitors the results, assets and liabilities attributable to each reporting segment on the following bases:

Segment assets include all tangible assets and current assets with the exception of investment properties, interest in associate, deferred tax assets, tax recoverable and other corporate assets. Segment liabilities include trade and other payables attributable to the activities of the individual segments and interest-bearing borrowings managed directly by the segments.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

3 SEGMENT REPORTING (continued)

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

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

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

The unallocated income, expenses, assets and liabilities are disclosed in the reconciliation of reportable segment revenues, profit or loss, assets and liabilities in note 3(b) to this interim financial report.

In addition to receiving segment information concerning segment operating profit, management is also provided with segment information concerning revenue, interest income, depreciation and amortisation and additions to non-current segment assets used by the segments in their operations.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

3 SEGMENT REPORTING (continued)

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

Information regarding the group's reportable segments as provided to the group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below:

For the six months ended 30 June	Trading of crude oil, petroleum and petrochemical products		Crude oil jetty services		Vessel charter services		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue								
Revenue from external customers	9,529,185	10,110,041	292,193	274,872	61,078	–	9,882,456	10,384,913
Inter-segment revenue	–	–	685	803	–	–	685	803
Reportable segment revenue	9,529,185	10,110,041	292,878	275,675	61,078	–	9,883,141	10,385,716
Reportable segment profit (segment operating profit)								
	493	7,898	144,855	114,910	3,316	–	148,664	122,808
Interest income	–	1	117	180	–	–	117	181
Finance costs	(27)	(6,816)	–	–	(198)	–	(225)	(6,816)
Depreciation and amortisation for the period	(74)	(649)	(89,029)	(86,225)	(538)	–	(89,641)	(86,874)
	At 30 June 2011 \$'000	At 31 December 2010 \$'000	At 30 June 2011 \$'000	At 31 December 2010 \$'000	At 30 June 2011 \$'000	At 31 December 2010 \$'000	At 30 June 2011 \$'000	At 31 December 2010 \$'000
Reportable segment assets	1,586,998	822	2,236,030	2,077,337	87,634	–	3,910,662	2,078,159
Additions to non-current segment assets during the period	3	139	54,070	25,757	22	–	54,095	25,896
Reportable segment liabilities	1,624,058	94,580	48,483	43,371	158,010	–	1,830,551	137,951

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

3 SEGMENT REPORTING (continued)

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

	Six months ended 30 June	
	2011	2010
	\$'000	\$'000
Revenue		
Reportable segment revenue	9,883,141	10,385,716
Elimination of inter-segment revenue	(685)	(803)
Consolidated turnover	9,882,456	10,384,913
Profit		
Reportable segment profit	148,664	122,808
Elimination of inter-segment profits	(356)	(385)
Reportable segment profit derived from the group's external customers	148,308	122,423
Unallocated other revenue and net income	23,820	7,770
Unallocated depreciation and amortisation	(104)	(104)
Unallocated finance costs	(1,157)	(3,881)
Unallocated other corporate expenses	(3,459)	(566)
Consolidated profit before taxation	167,408	125,642

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

3 SEGMENT REPORTING (continued)

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

	At 30 June 2011 \$'000	At 31 December 2010 \$'000
Assets		
Reportable segment assets	3,910,662	2,078,159
Elimination of inter-segment receivables	–	(4,249)
	3,910,662	2,073,910
Investment properties	32,877	33,397
Interest in associate	11,700	–
Deferred tax assets	1,705	–
Tax recoverable	2,072	2,072
Unallocated other corporate assets	752,166	724,711
Consolidated total assets	4,711,182	2,834,090
Liabilities		
Reportable segment liabilities	1,830,551	137,951
Elimination of inter-segment payables	–	(4,249)
	1,830,551	133,702
Interest-bearing borrowings	161,935	147,454
Tax payable	18,217	9,338
Consolidated total liabilities	2,010,703	290,494

(c) Geographic information

No geographic information is presented for both periods ended 30 June 2011 and 2010 as the majority of the group's revenue are generated from customers located in the PRC and most of the group's non-current assets are situated in the PRC.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

4 PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2011	2010
	\$'000	\$'000
Interest income	(4,510)	(181)
Interest on borrowings	1,382	10,697
Net foreign exchange gain	(17,067)	(41)
Depreciation and amortisation	89,745	86,978
Operating lease charges		
– property rentals	1,672	1,637
– hire of vessels	20,589	–
Reversal of impairment loss on doubtful other receivables	–	(6,854)

5 INCOME TAX

	Six months ended 30 June	
	2011	2010
	\$'000	\$'000
Current tax – Hong Kong Profits Tax		
Provision for the period	–	1,410
Current tax – PRC Corporate Income Tax		
Provision for the period	37,804	28,092
Under-provision in respect of prior years	524	392
	38,328	28,484
Deferred taxation		
Origination and reversal of temporary differences	(1,705)	–
	36,623	29,894

5 INCOME TAX (continued)

No provision has been made for Hong Kong Profits Tax as the group's subsidiaries in Hong Kong incurred a loss for taxation purposes during the six months ended 30 June 2011. The provision for Hong Kong Profits Tax for the six months ended 30 June 2010 is calculated at 16.5% of the estimated assessable profits for the period. Taxation for the PRC and overseas subsidiaries are charged at the appropriate current rates of taxation ruling in the relevant countries.

Pursuant to the notice on the Implementation Rules of the Grandfather Relief under the PRC Corporate Income Tax Law, Guofa (2007) No. 39, issued on 26 December 2007 by the State Council, the applicable income tax rate for the group's foreign-invested enterprise in the PRC (the "PRC subsidiary") is 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012, respectively.

The group is subject to withholding tax at a rate of 10% (unless reduced by treaty) on distribution of post-2007 profits by the PRC subsidiary. At 30 June 2011, temporary differences relating to the post-2007 undistributed profits of the group's PRC subsidiary amounted to \$607,361,000 (31 December 2010: \$489,692,000). Deferred tax liabilities of \$60,736,000 (31 December 2010: \$48,969,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the company controls the dividend policy of this PRC subsidiary and the company's directors have determined that the PRC subsidiary will not declare dividends out of its post-2007 profits in the foreseeable future.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

6 DIVIDENDS

- (a) Dividends payable to equity shareholders of the company attributable to the interim period

	Six months ended 30 June	
	2011	2010
	\$'000	\$'000
Interim dividend declared after the interim period, of 1.5 cents (2010: 1.5 cents) per ordinary share	15,552	15,552

The interim dividend has not been recognised as a liability at the end of the reporting period.

- (b) Dividends payable to equity shareholders of the company attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2011	2010
	\$'000	\$'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of 2.0 cents (six months ended 30 June 2010: 2.0 cents) per ordinary share	20,737	20,737

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

7 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the company of \$130,785,000 (six months ended 30 June 2010: \$95,748,000) and 1,036,830,000 (six months ended 30 June 2010: 1,036,830,000) ordinary shares in issue throughout the period. Diluted earnings per share is the same as the basic earnings per share as there were no dilutive potential ordinary shares in issue in the current and prior periods.

8 FIXED ASSETS

During the six months ended 30 June 2011, the group acquired items of plant and equipment, including construction in progress, with a cost of \$54,095,000 (six months ended 30 June 2010: \$4,187,000). There were no disposals of fixed assets during the six months ended 30 June 2011 and 2010.

9 INTEREST IN ASSOCIATE

During the six months ended 30 June 2011, the group set up in Hong Kong an associated company named East China LNG Shipping Investment Co., Limited (the “associate”) together with a PRC state-owned entity. The group paid capital of \$11,700,000, representing a 30% equity interest in the associate. The associate is engaged in the transportation of liquefied natural gas and is yet to report its first trade.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

10 INVENTORIES

	At 30 June 2011 \$'000	At 31 December 2010 \$'000
Fuel oil for vessels	22,221	–
Spare parts	4,676	4,370
	26,897	4,370

11 TRADE AND OTHER RECEIVABLES

	At 30 June 2011 \$'000	At 31 December 2010 \$'000
Trade receivables	3,379	2,028
Amounts due from intermediate holding company and fellow subsidiaries		
– Trade	1,986,994	184,280
– Non-trade	331	732
Other receivables	3,127	1,136
	1,993,831	188,176

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

The amounts due from intermediate holding company and fellow subsidiaries are unsecured and interest free. The amounts due from intermediate holding company and fellow subsidiaries arising from trade-related transactions and non-trade related transactions are repayable with a credit term of 30 to 90 days and repayable on demand respectively.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

11 TRADE AND OTHER RECEIVABLES (continued)

Ageing analysis

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

	At 30 June 2011 \$'000	At 31 December 2010 \$'000
Current	1,700,410	48,391
Less than 1 month past due	48,457	47,589
1 to 3 months past due	92,023	17,745
More than 3 months past due but less than 12 months past due	149,483	72,583
Amounts past due	289,963	137,917
	1,990,373	186,308

Trade debtors are due within 30 to 90 days from the date of billing.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

12 CASH AND CASH EQUIVALENTS

	At 30 June 2011 \$'000	At 31 December 2010 \$'000
Deposits with banks	739,942	419,016
Cash at bank and in hand	12,224	305,695
	752,166	724,711

13 TRADE AND OTHER PAYABLES

	At 30 June 2011 \$'000	At 31 December 2010 \$'000
Trade payables	1,586,621	–
Amounts due to immediate and intermediate holding companies and fellow subsidiaries		
– Trade	66	–
– Non-trade	83,777	69,448
Other creditors and accrued charges	58,076	55,674
	1,728,540	125,122

All of the trade and other payables are expected to be settled within one year.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

13 TRADE AND OTHER PAYABLES (continued)

The amounts due to immediate and intermediate holding companies and fellow subsidiaries are unsecured and interest free. The amounts due to immediate and intermediate holding companies and fellow subsidiaries arising from trade-related transactions and non-trade related transactions are repayable with a credit term of 30 days and repayable on demand respectively.

Included in trade and other payables are trade creditors and amounts due to immediate and intermediate holding companies and fellow subsidiaries arising from trade-related transactions with the following aging analysis as of the end of the reporting period:

	At	At
	30 June	31 December
	2011	2010
	\$'000	\$'000
Due within 1 month or on demand	1,586,687	–

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

14 INTEREST-BEARING BORROWINGS

	At	At
	30 June	31 December
	2011	2010
	\$'000	\$'000
Loans from a fellow subsidiary	263,946	156,034

The group obtained a loan in July 2008 from Sinopec Century Bright Capital Investment Limited (“Century Bright”), a fellow subsidiary of the company amounting to US\$87,000,000 (equivalent to \$677,854,000) to repay the consideration for the acquisition of the 30% equity interest in Huade in 2006. Pursuant to the loan agreement, the loan has a maturity of six months from the date of the loan agreement and it had been renewed semi-annually since July 2008. In July 2010, the group partially repaid the outstanding loan amounting to US\$68,000,000 (equivalent to \$530,400,000) upon renewal of the loan agreement. The outstanding loan amounting to US\$19,000,000 (equivalent to \$147,895,000) (31 December 2010: US\$19,000,000 (equivalent to \$147,454,000)) as at 30 June 2011 is unsecured and bears interest at 1.78% (31 December 2010: 2.1%) per annum, which is the London Interbank Offered Rate (“LIBOR”) at the time of renewal of the loan agreement plus an interest rate spread of 1.35% (31 December 2010: 1.15%).

In addition, the group also obtained short-term loans for its short-term liquidity requirements from Century Bright. As at 30 June 2011, the outstanding short-term loans amounting to US\$14,878,000 (equivalent to \$116,051,000) (31 December 2010: US\$1,100,000 (equivalent to \$8,580,000)) are unsecured and bear interest at 1.20% (31 December 2010: 1.21%) per annum, which is the LIBOR at the time of entering into the loan agreement plus an interest rate spread of 1.05% (31 December 2010: 0.95%).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

15 COMMITMENTS

- (a) Capital commitments outstanding at 30 June 2011 not provided for in the interim financial report were as follows:

	At 30 June 2011 \$'000	At 31 December 2010 \$'000
Contracted for	399,213	44,038
Authorised but not contracted for	77,220	11,610
	476,433	55,648

On 27 May 2011, the group entered into an acquisition agreement and a financial memorandum with Zhanjiang Port (Group) Co., Ltd. to purchase a 50% equity interest in Zhanjiang Port Petrochemical Terminal Co. Ltd (the "Acquisition") for a consideration of RMB331,986,000 (equivalent to \$399,213,000) (the "Consideration"). The Acquisition would be contemplated upon the grant of approval by relevant authorities in the PRC. In accordance with the acquisition agreement and the financial memorandum, 30% of the Consideration will be payable by the group within five business days after the Acquisition was approved and the remaining 70% of the Consideration will be payable on or before 1 February 2012.

At 30 June 2011, no Consideration was paid by the group as the Acquisition has not yet been approved by the relevant authorities in the PRC. The outstanding commitment for the Acquisition as at 30 June 2011 is RMB331,986,000 (equivalent to \$399,213,000).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

15 COMMITMENTS (continued)

- (b) At 30 June 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At	At
	30 June	31 December
	2011	2010
	\$'000	\$'000
Within 1 year	178,500	1,821
After 1 year but within 5 years	337,447	2,669
After 5 years	9,332	8,786
	525,279	13,276

The group leases a number of properties and vessels with an initial lease term of three to thirty-two years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

16 MATERIAL RELATED PARTY TRANSACTIONS

- (a) During the period, the group had the following significant transactions with its intermediate holding companies and fellow subsidiaries which were carried out in the ordinary course of business.

	Six months ended 30 June	
	2011	2010
	\$'000	\$'000
Crude oil sold to an intermediate holding company and a fellow subsidiary (note (i))	9,529,185	8,007,152
Crude oil purchased from a fellow subsidiary and related charges (note (i))	171,564	2,338,167
Fuel oil purchased from a fellow subsidiary (note (i))	24,749	–
Petroleum and petrochemical products sold to fellow subsidiaries (note (i))	–	1,831,331
Petroleum and petrochemical products purchased from a fellow subsidiary (note (i))	–	60,283
Insurance premium charged by a fellow subsidiary (note (ii))	2,740	1,002
Crude oil refining and processing fees charged by a fellow subsidiary (note (iii))	–	75,827
Jetty service fees charged to an intermediate holding company and a fellow subsidiary (note (iv))	280,337	265,327
Vessel charter service fees charged to a fellow subsidiary (note (v))	61,078	–
Interest expenses charged by a fellow subsidiary (note (vi))	1,382	10,697
Rental expenses charged by a fellow subsidiary (note (vii))	1,671	1,637

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

16 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Notes:

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

- (i) The crude oil, fuel oil, petroleum and petrochemical products trading transactions were carried out in accordance with the terms of the relevant sale and purchase agreements and on terms agreed between the parties having regard to commercial practice of the crude oil industry and international market conditions during the period the transactions were carried out.
- (ii) The insurance premium was calculated by reference to the provision of a document jointly issued by the company's ultimate holding company and the Ministry of Finance in the PRC in 1998 and at a predetermined percentage as revised by the company's ultimate holding company from time to time.
- (iii) The group engaged a fellow subsidiary to refine and process crude oil into various types of petroleum products on behalf of the group. The crude oil refining and processing fees were charged in accordance with the terms of the relevant refining and processing agreements.
- (iv) The jetty service fees were charged in accordance with the relevant service agreements and at rates based on the state-prescribed price regulated and standardised by the Ministry of Communications and Guangdong Price Bureau in the PRC.
- (v) The vessel charter fees were charged in accordance with the relevant vessel charter agreements and were determined by reference to the prevailing market rate on a transaction-by-transaction basis.
- (vi) The interest expense was charged by a fellow subsidiary at LIBOR plus a spread of 1.05-1.35% (six months ended 30 June 2010: 0.95-1.15%) per annum.
- (vii) The rental expenses were charged by a fellow subsidiary for leasing of office premises and a factory. The leases run for a period of three to thirty-two years and the monthly rent was determined at the market rate at the date when the lease agreement was entered.

16 MATERIAL RELATED PARTY TRANSACTIONS (continued)

- (b) 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 companies and fellow subsidiaries, the group has entered into transactions with other state-controlled entities including but not limited to the following:

- sales and purchases of crude oil, petroleum and petrochemical products;
- rendering and receiving services; and
- use of public utilities.

These transactions are conducted in the ordinary course of the group’s business on terms comparable to those with other entities that are not state-controlled. The group has established its procurement policies, pricing strategy and approval processes for purchases and sales of products and services which do not consider or depend on whether the counterparties are state-controlled entities or not.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

16 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) (continued)

Having considered the transactions potentially affected by related party relationships, the group's pricing strategy, procurement policies and approval processes, and the information that would be necessary for an understanding of the potential effect of the related party relationships on the interim financial report, the directors are of the opinion that the following related party transactions require disclosure of numeric details:

(i) Transactions with other state-controlled entities

	Six months ended 30 June	
	2011	2010
	\$'000	\$'000
Crude oil, petroleum and petrochemical products purchased by the group	7,771,433	6,877,680
Crude oil, petroleum and petrochemical products sold by the group	–	121,478
Jetty service fees charged by the group	11,759	8,704
	At	At
	30 June	31 December
	2011	2010
	\$'000	\$'000
Amounts due from other state-controlled entities	3,377	1,980
Amounts due to other state-controlled entities	8,585	8,967

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

16 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) (continued)

(ii) Transactions with state-controlled banks

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

	Six months ended 30 June	
	2011	2010
	\$'000	\$'000
Interest income	4,508	178

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

	At	At
	30 June	31 December
	2011	2010
	\$'000	\$'000
Cash and cash equivalents	740,753	723,342

INTERIM DIVIDEND

INTERIM DIVIDEND

The Board recommends the payment of an interim dividend of HK1.5 cents per share in respect of the six months ended 30 June 2011 to shareholders whose names appear on the register of members of the Company on 23 September 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 19 September 2011 (Monday) to 23 September 2011 (Friday) (both days inclusive) during which period no transfer of shares can be registered. In order to qualify for the proposed interim dividend, all share transfers, accompanied by relevant share certificates, must be lodged with Tricor Secretaries Limited, the branch share registrar of the Company, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 16 September 2011 (Friday). The cheques for dividend payment will be sent on 18 October 2011 (Tuesday).

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 30 June 2011, none of the Directors or chief executive of the Company had any interest or short position in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong) (“SFO”)), which is required to be recorded in the register kept under section 352 of the SFO or the otherwise required to be notified by Directors and the chief executive of the Company to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers set forth in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, the Directors are not aware of any person (other than Directors and chief executive of the Company) who, as at 30 June 2011, had interests or short positions in shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Nature of interest	Number of ordinary shares	Capacity	Percentage of the issued share capital of the Company
Sinopec Kantons International Limited	Corporate	750,000,000	Beneficial	72.34%

Note: The entire issued share capital of Sinopec Kantons International Limited is held by China International United Petroleum & Chemical Co., Ltd. (“Unipec”). The controlling interest in the registered capital of Unipec is held by China Petroleum & Chemical Corporation (“Sinopec”), a subsidiary of China Petrochemical Corporation.

CORPORATE GOVERNANCE

The Group has complied with the applicable provisions of the Code on Corporate Governance Practices (the “Code”) in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2011.

OTHER INFORMATION

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2011.

SHARE OPTION SCHEME

Currently, the Company has not adopted any share option scheme.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company has been established in accordance with the requirements of the Code. The Remuneration Committee comprises three independent non-executive Directors and two executive Directors, of which one of the independent non-executive Directors being appointed as the chairperson of the committee.

AUDIT COMMITTEE

The Audit Committee of the Company comprises three independent non-executive Directors. The Audit Committee has reviewed with the management and the external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial report for the six months ended 30 June 2011.

CODE FOR SECURITIES TRANSACTIONS

For the six months ended 30 June 2011, all the Directors confirmed that they have met with the standards of the Model Code on Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained the minimum amount of public float as required under the Listing Rules throughout the six months ended 30 June 2011.

By order of the Board
Dai Zhaoming
Chairman

Hong Kong, 18 August 2011