THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Sinopec Kantons Holdings Limited (the "Company"), you should at once hand this circular together with the accompanying form of proxy to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purposes only and does not constitute an offer or invitation to subscribe for or purchase any securities of the Company, nor is it calculated to invite any such offer or invitation.

SINOPEC KANTONS HOLDINGS LIMITED

(中石化冠德控股有限公司)*

(incorporated in Bermuda with limited liability)

(Stock Code: 934)

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION ACQUISITION OF FIVE JOINT VENTURES (2) PROPOSED RIGHTS ISSUE IN THE PROPORTION OF UP TO ONE RIGHTS SHARE FOR EVERY ONE EXISTING SHARE HELD ON THE RECORD DATE (3) REFRESHMENT OF GENERAL MANDATE TO ISSUE SHARES AND (4) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

Financial Adviser

BofA Merrill Lynch

Independent Financial Adviser
to the Independent Board Committee and the Independent Shareholder

SOMERLEY LIMITED

A letter from the Board is set out on pages 9 to 34 of this circular.

A letter from the Independent Board Committee is set out on pages 35 to 36 of this circular.

A letter from the Independent Financial Adviser containing the advice to the Independent Board Committee and the Independent Shareholders is set out on pages 37 to 87 of this circular.

A notice convening the SGM to be held at Boardroom 3-4, Mezzanine Floor, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on Saturday, 31 December 2011 at 10:00 a.m. and at any adjournment thereof is set out on pages N-1 to N-6 of this circular. Whether or not you are able to attend the SGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, as soon as possible and in any event, not later than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or at any adjourned meeting should you so wish.

* *For identification purpose only*

14 December 2011

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"2011 AGM"	:	the 2011 annual general meeting of the Shareholders held on 22 May 2011;
"Acquisition"	:	the acquisition of the equity interest in the Five Joint Ventures, namely Sinopec Corp.'s 50% equity interest in Ningbo Shihua, 50% equity interest in Qingdao Shihua, 50% equity interest in Tianjin Port Shihua, 50% equity interest in Rizhao Shihua and 90% equity interest in Tangshan Caofeidian Shihua, by Sinomart Development from Sinopec Corp. pursuant to the terms and conditions under the respective Acquisition Agreements and the transactions contemplated thereunder;
"Acquisition Agreements"	:	the Ningbo Shihua Acquisition Agreement, the Qingdao Shihua Acquisition Agreement, the Tianjin Port Shihua Acquisition Agreement, the Rizhao Shihua Acquisition Agreement and the Tangshan Caofeidian Shihua Acquisition Agreement;
"Announcement"	:	the announcement of the Company issued on 3 December 2011;
"Associate(s)"	:	the meaning ascribed to it in the Listing Rules;
"Board"	:	the board of Directors;
"CAGR"	:	Compound Annual Growth Rate;
"Company"	:	Sinopec Kantons Holdings Limited, a limited liability company incorporated in Bermuda, the Shares of which are listed on the Stock Exchange;
"Director(s)"	:	the directors of the Company;
"EAF(s)"	:	application form(s) for excess Rights Shares;
"EBITDA"	:	earnings before interest, taxes, depreciation and amortisation;
"Enlarged Group"	:	the Group, as enlarged by the Acquisition after completion of the Acquisition;
"Financial Adviser"	:	Merrill Lynch (Asia Pacific) Ltd;

"Five Joint Ventures"	:	collectively Ningbo Shihua, Qingdao Shihua, Tianjin Port Shihua, Rizhao Shihua and Tangshan Caofeidian Shihua;
"Five JV Partners"	:	collectively Ningbo Shihua JV Partner, Qingdao Shihua JV Partner, Tianjin Port Shihua JV Partner, Rizhao Shihua JV Partner and Tangshan Caofeidian Shihua JV Partner;
"Group"	:	the Company and its subsidiaries;
"HKFRS"	:	Hong Kong Financial Reporting Standards;
"Hong Kong"	:	the Hong Kong Special Administrative Region of the People's Republic of China;
"Huade"	:	Hua De Petrochemical Co., Ltd. (惠州市大亞灣華德石化有限公司), which is established under the laws of the PRC with limited liability, an indirect wholly owned subsidiary of the Company;
"Increase in Authorised Share Capital"	:	the proposed increase in the authorised share capital of the Company from HK$300,000,000 divided into 3,000,000,000 Shares to HK$1,000,000,000 divided into 10,000,000,000 Shares, by the creation of an additional 7,000,000,000 unissued Shares;
"Independent Board Committee"	:	an independent board committee of the Company constituted to consider the terms of the Acquisition and the proposed Rights Issue and to advise and make recommendations to the Independent Shareholders as to how to vote at the SGM on the ordinary resolutions regarding the Transactions. Mr. Wong Po Yan, Ms. Tam Wai Chu, Maria and Mr. Fong Chung, Mark have been appointed by the Board to serve as members of the Independent Board Committee;
"Independent Financial Adviser" or "Somerley"	:	Somerley Limited, a licensed corporation under the SFO for carrying out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the proposed Rights Issue;

"Independent Shareholders"	:	Shareholders other than the controlling shareholders of the Company, namely SKI, Sinopec Group Company, Sinopec Corp., Unipec and any of their respective Associates;
"Latest Practicable Date"	:	12 December 2011, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular;
"Listing Committee"	:	the listing committee of the Stock Exchange;
"Listing Rules"	:	the Rules Governing the Listing of Securities on the Stock Exchange;
"Macau"	:	Macau Special Administrative Region of the People's Republic of China;
"Ningbo Shihua"	:	寧波實華原油碼頭有限公司 (Ningbo Shihua Crude Oil Terminal Company Limited*), a limited liability company established under the laws of the PRC, of which Sinopec Corp. and Ningbo Shihua JV Partner held 50% and 50% equity interest respectively as at the Latest Practicable Date;
"Ningbo Shihua Acquisition Agreement"	:	the equity transfer agreement dated 3 December 2011 entered into between Sinomart Development and Sinopec Corp. in relation to the acquisition of 50% equity interest in Ningbo Shihua;
"Ningbo Shihua JV Partner"	:	寧波港股份有限公司 (Ningbo Port Company Limited*), a third party independent of and not connected with the Company or any of its connected persons (as defined in the Listing Rules);
"Non-Qualifying Shareholder(s)"	:	the Overseas Shareholder(s) in respect of whom the Directors, based on legal opinions provided by legal advisers, consider it necessary or expedient not to offer the Rights Shares to such Shareholder(s) on account either of legal restrictions under the laws of relevant place or the requirements of the relevant regulatory body or stock exchange in such place;
"Overseas Shareholder(s)"	:	Shareholder(s) whose name(s) appear on the register of members of the Company at the close of business on the Record Date and whose address(es) (as shown in the register of members of the Company on the Record Date) outside Hong Kong;

"PAL(s)"	:	provisional allotment letter(s) to be issued in connection with the proposed Rights Issue;
"PRC"	:	the People's Republic of China, but for the purposes of this circular only, excluding Hong Kong, Macau and Taiwan;
"Prospectus"	:	the prospectus in relation to the proposed Rights Issue to be issued by the Company and despatched to the Shareholders, which contains further details of the proposed Rights Issue;
"Qingdao Shihua"	:	青島實華原油碼頭有限公司 (Qingdao Shihua Crude Oil Terminal Company Limited*), a limited liability company established under the laws of the PRC, of which Sinopec Corp. and Qingdao Shihua JV Partner held 50% and 50% equity interest respectively as at the Latest Practicable Date;
"Qingdao Shihua Acquisition Agreement"	:	the equity transfer agreement dated 3 December 2011 entered into between Sinomart Development and Sinopec Corp. in relation to the acquisition of 50% equity interest in Qingdao Shihua;
"Qingdao Shihua JV Partner"	:	青島港(集團)有限公司 (Qingdao Port (Group) Company Limited*), a third party independent of and not connected with the Company or any of its connected persons (as defined in the Listing Rules);
"Qualifying Shareholder(s)"	:	Shareholder(s), other than the Non-Qualifying Shareholder(s), whose name(s) appear(s) on the register of members of the Company as at the close of business on the Record Date;
"Record Date"	:	a date to be determined by the Board or its authorised person(s) by reference to which entitlements to the proposed Rights Issue are to be determined;
"Rights Issue"	:	the proposed issue of the Rights Shares by the Company on the basis of up to one (1) Rights Share for every one (1) existing Share held on the Record Date;
"Rights Issue Documents"	:	the Prospectus, the PAL(s) and the EAF(s);
"Rights Share(s)"	:	the new Share(s) to be allotted and issued by the Company to the Qualifying Shareholders under the proposed Rights Issue;

"Rizhao Shihua"	:	日照實華原油碼頭有限公司 (Rizhao Shihua Crude Oil Terminal Company Limited*), a limited liability company established under the laws of the PRC, of which Sinopec Corp. and Rizhou Shihua JV Partner held 50% and 50% of the equity interest as at the Latest Practicable Date;
"Rizhao Shihua Acquisition Agreement"	:	the equity transfer agreement dated 3 December 2011 entered into between Sinomart Development and Sinopec Corp. in relation to the acquisition of 50% equity interest in Rizhao Shihua;
"Rizhao Shihua JV Partner"	:	日照港集團有限公司 (Rizhao Port Group Company Limited*) (formerly known as 日照港(集團)有限公司 (Rizhao Port (Group) Company Limited*)), a third party independent of and not connected with the Company or any of its connected persons (as defined in the Listing Rules);
"SGM"	:	the special general meeting of the Company to be convened and held for the Shareholders on 31 December 2011 to consider and approve (among other things), if thought fit, the Acquisition contemplated under the Transaction Agreements, the proposed Rights Issue, the refreshment of general mandate to issue Shares and proposed Increase in Authorised Share Capital;
"Share(s)"	:	the ordinary share(s) of HK$0.10 each in the share capital of the Company;
"Shareholder(s)"	:	person(s) whose name(s) appear on the register of members as registered holder(s) of Share(s);
"Sinomart Development"		Sinomart KTS Development Limited（經貿冠德發展有限公司）, a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of the Company;
"Sinopec Corp."	:	中國石油化工股份有限公司 (China Petroleum & Chemical Corporation), a joint-stock limited liability company incorporated in the PRC, the shares of which are listed on the stock exchanges of Hong Kong (stock code: 386), Shanghai (stock code: 600028), New York (stock code: SNP) and London (stock code: SNP);
"Sinopec Group"	:	Sinopec Group Company and its subsidiaries;
"Sinopec Group Company"	:	中國石油化工集團公司 (China Petrochemical Corporation), a state-owned enterprise established under the laws of the PRC;

"SKI"	:	Sinopec Kantons International Limited, a limited liability company incorporated in the British Virgin Islands and is the immediate controlling Shareholder of the Company;
"Stock Exchange"	:	The Stock Exchange of Hong Kong Limited;
"Subscription Price"	:	the final subscription price for the Rights Shares to be offered pursuant to the proposed Rights Issue;
"subsidiary(ies)"	:	shall have the meaning ascribed to that term in the Listing Rules;
"Tangshan Caofeidian Shihua"	:	唐山曹妃甸實華原油碼頭有限公司 (Tangshan Caofeidian Shihua Crude Oil Terminal Company Limited*), a limited liability company established under the laws of the PRC, of which Sinopec Corp. and Tangshan Caofeidian Shihua JV Partner held 90% and 10% equity interest respectively as at the Latest Practicable Date;
"Tangshan Caofeidian Shihua Acquisition Agreement"	:	the equity transfer agreement dated 3 December 2011 entered into between Sinomart Development and Sinopec Corp. in relation to the acquisition of 90% equity interest in Tangshan Caofeidian Shihua;
"Tangshan Caofeidian Shihua JV Partner"	:	唐山曹妃甸港口有限公司 (Tangshan Caofeidian Port Company Limited*), a third party independent of and not connected with the Company or any of its connected persons (as defined in the Listing Rules);
"Target Equity Interests"	:	at the Latest Practicable Date, 50% equity interest in Ningbo Shihua, 50% equity interest in Qingdao Shihua, 50% equity interest in Tianjin Port Shihua, 50% equity interest in Rizhao Shihua and 90% equity interest in Tangshan Caofeidian Shihua held by Sinopec Corp.;
"Tianjin Port Shihua"	:	天津港實華原油碼頭有限公司 (Tianjin Port Shihua Crude Oil Terminal Company Limited*), a limited liability company established under the laws of the PRC, of which Sinopec Corp. and Tianjin Port Shihua JV Partner held 50% and 50% equity interest respectively as at the Latest Practicable Date;
"Tianjin Port Shihua Acquisition Agreement"	:	the equity transfer agreement dated 3 December 2011 entered into between Sinomart Development and Sinopec Corp. in relation to the acquisition of 50% equity interest in Tianjin Port Shihua;

"Tianjin Port Shihua JV Partner"	:	天津港(集團)有限公司 (Tianjin Port (Group) Company Limited*), a limited liability company incorporated in the PRC, a third party independent of and not connected with the Company or any of its connected persons (as defined in the Listing Rules);
"Transaction Documents"	:	collectively, the Acquisition Agreements and any ancillary document(s) or agreement(s) in relation thereto (including but not limited to a new joint venture agreement and new articles of association to be entered into with each of the Five JV Partners);
"Transactions"	:	collectively, the Acquisition and the proposed Rights Issue;
"Underwriter"	:	the underwriter(s) to be appointed for the purposes of the underwriting arrangements for the proposed Rights Issue;
"Underwriting Agreement"	:	the underwriting agreement to be entered into between the Company and the Underwriter(s) in relation to the proposed Rights Issue;
"Unipec"	:	中國國際石油化工聯合有限公司 (China International United Petroleum and Chemicals Co. Ltd.), a company established under the laws of the PRC with limited liability and a wholly owned subsidiary of Sinopec Corp.;
"VLCC"	:	Very Large Crude Carrier, a large marine vessel designed to carry 200,000 deadweight tonnes or more;
"Zhan Jiang Port Petrochemical Terminal Co."	:	湛江港石化碼頭有限責任公司 (Zhan Jiang Port Petrochemical Terminal Co., Ltd.*) (formerly known as Zhan Jiang Port Petrochemical Jetty Co., Ltd.*), a limited liability company incorporated in the PRC, which is held as to 50% by Sinomart Development, and 50% by 湛江港集團股份有限公司 (Zhan Jiang Port (Group) Co., Ltd.*), a third party independent of and not connected with the Company or any of its connected persons (as defined in the Listing Rules);
"HK$" or "HKD"	:	Hong Kong dollar(s), the lawful currency of Hong Kong;
"RMB"	:	Renminbi, the lawful currency of the PRC; and
"%"	:	per cent.

In this circular, unless otherwise stated, amounts in Renminbi have been converted into Hong Kong dollars at the rate of HK$1 = RMB0.815 for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be converted.

The English names of the PRC entities referred to in this circular are translations from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese name shall prevail.

SINOPEC KANTONS HOLDINGS LIMITED
(中石化冠德控股有限公司)*

(incorporated in Bermuda with limited liability)

(Stock Code: 934)

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

Independent non-executive Directors:
Mr. Wong Po Yan
Ms. Tam Wai Chu, Maria
Mr. Fong Chung, Mark

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Place of business in Hong Kong:
20th Floor, Office Tower
Convention Plaza
1 Harbour Road, Wanchai
Hong Kong

14 December 2011

To the Shareholders,

Dear Sir or Madam,

1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION ACQUISITION OF FIVE JOINT VENTURES

(2) PROPOSED RIGHTS ISSUE IN THE PROPORTION OF UP TO ONE RIGHTS SHARE FOR EVERY ONE EXISTING SHARE HELD ON THE RECORD DATE

(3) REFRESHMENT OF GENERAL MANDATE TO ISSUE SHARES

AND

(4) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

I. INTRODUCTION

On 3 December 2011, the Board announced its proposed acquisition of the Five Joint Ventures from Sinopec Corp., the proposed Rights Issue of up to one Rights Share for every one existing Share held on the Record Date, and the Increase in Authorised Share Capital.

* *For identification purpose only*

The purpose of this circular is to provide you with further information regarding the Acquisition, the proposed Rights Issue, the refreshment of the general mandate to issue Shares, the Increase in Authorised Share Capital, and other information in accordance with the Listing Rules.

II. THE ACQUISITION

On 3 December 2011, Sinomart Development (as purchaser), a wholly owned subsidiary of the Company, and Sinopec Corp. (as vendor) entered into the Acquisition Agreements, pursuant to which Sinomart Development has conditionally agreed to acquire and Sinopec Corp. has conditionally agreed to sell the Target Equity Interests at an aggregate consideration of RMB1,809,807,300 (approximately HK$2,220,622,454).

A. THE ACQUISITION AGREEMENTS

(1) Ningbo Shihua Acquisition Agreement

Sinomart Development conditionally agreed to acquire, and Sinopec Corp. conditionally agreed to sell, 50% equity interest in Ningbo Shihua, free from encumbrances and together with all rights now or thereinafter attached thereto.

Details of Ningbo Shihua are set out in the paragraph headed "Information on the Five Joint Ventures" below.

(2) Qingdao Shihua Acquisition Agreement

Sinomart Development conditionally agreed to acquire, and Sinopec Corp. conditionally agreed to sell, 50% equity interest in Qingdao Shihua, free from encumbrances and together with all rights now or thereinafter attached thereto.

Details of Qingdao Shihua are set out in the paragraph headed "Information on the Five Joint Ventures" below.

(3) Tianjin Port Shihua Acquisition Agreement

Sinomart Development conditionally agreed to acquire, and Sinopec Corp. conditionally agreed to sell, 50% equity interest in Tianjin Port Shihua, free from encumbrances and together with all rights now or thereinafter attached thereto.

Details of Tianjin Port Shihua are set out in the paragraph headed "Information on the Five Joint Ventures" below.

(4) Rizhao Shihua Acquisition Agreement

Sinomart Development conditionally agreed to acquire, and Sinopec Corp. conditionally agreed to sell, 50% equity interest in Rizhao Shihua, free from encumbrances and together with all rights now or thereinafter attached thereto.

Details of Rizhao Shihua are set out in the paragraph headed “Information on the Five Joint Ventures” below.

(5) Tangshan Caofeidian Shihua Acquisition Agreement

Sinomart Development conditionally agreed to acquire, and Sinopec Corp. conditionally agreed to sell, 90% equity interest in Tangshan Caofeidian Shihua, free from encumbrances and together with all rights now or thereinafter attached thereto.

Details of Tangshan Caofeidian Shihua are set out in the paragraph headed “Information on the Five Joint Ventures” below.

Conditions precedent to the Acquisition

Each of the Acquisition Agreements will become effective upon the satisfaction of, among other things, the following conditions precedent:

(i) the due execution by Sinopec Corp. and Sinomart Development of the Acquisition Agreements;

(ii) the parties having completed their respective internal approval procedures in relation to the Acquisition and having obtained relevant written approvals, including but not limited to the approval of the Independent Shareholders in respect of the Acquisition, each of the Acquisition Agreements and the transactions contemplated thereunder at the SGM;

(iii) the Company having obtained the approval of the Independent Shareholders of the proposed Rights Issue and having completed the proposed Rights Issue;

(iv) the parties having obtained all necessary consents, approvals and authorisations required in connection with each of the Acquisition Agreements and the transactions contemplated thereunder; and

(v) with respect to the Tangshan Caofeidian Shihua Acquisition Agreement only, the registered capital of Tangshan Caofeidian Shihua having been fully paid up by Sinopec Corp., and Tangshan Caofeidian Shihua having obtained the updated business license issued by the relevant Administration for Industry and Commerce of the PRC.

If any of the conditions is not fulfilled within 12 months from the date on which such resolution in respect of the Acquisition is approved by the Independent Shareholders at the SGM, the Acquisition Agreements and the transactions contemplated thereunder will be terminated simultaneously. The Acquisition Agreements are inter-conditional as to approval by the Independent Shareholders. The Acquisition Agreements are not inter-conditional as to completion because the Five Joint Ventures are situated in different locations and will be subject to regulatory approvals from their respective local regulatory authorities which includes the Ministry of Commerce of the PRC (both the State and provincial levels). As such, it is likely that the process and timing for obtaining the requisite PRC approvals may differ for each of the Five Joint Ventures. After consultation with the Company's PRC legal counsel, the Company and Sinopec Corp. can only make finalised and formal application to the PRC regulatory authorities for obtaining the final approval for the Acquisition and the subscription of Rights Shares respectively, after the proposed Rights Issue mandate is approved by the Independent Shareholders at the SGM.

Consideration and payment terms

The total consideration payable by Sinomart Development for the Acquisition is RMB1,809,807,300 (equivalent to approximately HK$2,220,622,454), and the respective consideration for the acquisition of each of the Five Joint Ventures is as follows:

(a) RMB173,284,700 (equivalent to approximately HK$212,619,264) for acquiring 50% equity interest in Ningbo Shihua;

(b) RMB585,797,600 (equivalent to approximately HK$718,770,061) for acquiring 50% equity interest in Qingdao Shihua;

(c) RMB349,546,800 (equivalent to approximately HK$428,891,779) for acquiring 50% equity interest in Tianjin Port Shihua;

(d) RMB427,869,300 (equivalent to approximately HK$524,993,006) for acquiring 50% equity interest in Rizhao Shihua; and

(e) RMB273,308,900 (equivalent to approximately HK$335,348,344) for acquiring 90% equity interest in Tangshan Caofeidian Shihua.

Pursuant to each of the Acquisition Agreements, the consideration will be fully payable by Sinomart Development in cash in RMB to Sinopec Corp. within 6 months from the date of issue of the foreign-invested enterprise business license to each of the Five Joint Ventures.

The Directors are of the view that the consideration for the Acquisition is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Basis of consideration

The consideration for the Acquisition has been arrived at after arm's length negotiation between Sinopec Corp. and Sinomart Development, and was determined based on various factors, including the financial information of the Five Joint Ventures as set out in Appendix II of this circular, the property valuation report as set out in Appendix V of this circular, and the valuation of each of the Five Joint Ventures as at 30 September 2011, appraised by China United Assets Appraisal Co., Ltd., an independent firm of qualified PRC valuer (designated by the PRC government to conduct valuation of state-owned assets) by using the cost approach to valuation, including the replacement cost method. The Directors consider that it would be appropriate and beneficial to the Company to use the cost approach for valuation of the Target Equity Interests for the following reasons: (i) Tangshan Caofeidian Shihua was incorporated on 22 April 2011 and has a relatively short operating history. Rizhao Shihua has been incurring losses since its incorporation on 28 June 2010 due to its trial operation, which is expected to complete by the start of 2012. As such, it would be difficult to prepare an accurate business valuation for Tangshan Caofeidian Shihua and Rizhao Shihua using the income method. For consistency, the cost approach has been adopted for all five Target Equity Interests; (ii) by adopting the cost approach, the parties would be able to rely on more objective criteria such as the historical figures of the Five Joint Ventures instead of relying on operating assumptions to forecast the future financial performance of the Five Joint Ventures under the income approach; and (iii) the cost approach is in line with the applicable PRC laws and regulations in respect of valuation of PRC state owned assets. The independent valuation report prepared by China United Assets Appraisal Co. Ltd ("**CUAA Report**") is commissioned by Sinopec Corp. for the valuation of PRC state owned assets involved in this Acquisition, being the Target Equity Interests. To comply with relevant PRC laws, rules and regulations on the consideration payable under the Acquisition should not be lower than the valuation in the CUAA Report. In this regard, the CUAA Report is prepared for the State Administration of State-owned Asset Commission of the PRC government and other relevant PRC governmental and regulatory authorities, for their review, approval and records and not for other purposes. In this connection, the Directors note that the consideration has been fixed at the minimum value as disclosed in the CUAA Report and as required under PRC laws, rules and regulations. No premium has been added to the consideration and this has been agreed between the parties after considering factors above and using the minimum value in CUAA Report.

As at 30 September 2011, the valuation of the Target Equity Interests to be acquired by Sinomart Development was RMB1,809,807,300 (equivalent to approximately HK$2,220,622,454). As at the date of valuation, being 30 September 2011, the net assets value of the Target Equity Interests to be acquired by Sinomart Development prepared in accordance with HKFRS was RMB1,577,111,000 (equivalent to approximately HK$1,935,106,000). The Directors consider that the valuation of the Target Equity Interests to be acquired by Sinomart Development, as of the date of valuation, i.e. 30 September 2011, is fair and reasonable.

The valuation reports (including the property valuation report) have been reviewed by the Board to assist in the determination of the consideration of the Acquisition. The Directors are of the view that such business valuation of the Target Equity Interests has been prepared after due and careful enquiry.

Source of Funding

The Company proposes that the consideration be funded by way of the proposed Rights Issue. The completion of the Acquisition is conditional upon the completion of the proposed Rights Issue. Details of the proposed Rights Issue are set out under the section headed "The Proposed Rights Issue" below.

B. REASONS FOR AND BENEFITS OF THE ACQUISITION

In order to consolidate control of Sinopec Group's crude oil supply network and enhance the operations of the Group, the Company, through Sinomart Development, intends to acquire the Five Joint Ventures from Sinopec Corp.. The Board believes the Acquisition is consistent with the development strategy of the Group, and will bring long-term strategic benefits to the Group, including but not limited to the following:

(i) Creation of one of Asia's largest oil terminal businesses and attractive growth profile driven from China's long-term projected energy consumption growth

With the Acquisition, the Group will become a key player providing crude oil terminal and related logistics services in China, with a unique portfolio of strategic assets. The Acquisition will increase the Group's annual design capacity to a total of approximately 225 million tonnes, which will position the Company as the largest independent crude oil terminal business player in China and one of the largest in Asia.

The demand for crude oil terminal capacity and related logistics services is expected to grow significantly in the coming years, driven by China's growing demand for crude oil and its limited domestic demand and insufficient strategic oil reserves. Between 2000 and 2010, China's crude oil consumption grew at a CAGR of 6.6%. In 2010, China's total imported crude oil was approximately 239 million tonnes, representing approximately 17.5% growth in volume over the prior year. Moreover, the PRC government has set a target for China to increase its strategic crude oil reserves to 90 days, in accordance with the standards of the Organization for Economic Co-operation and Development (OECD). The strategic crude oil reserves in the country are currently estimated at 30 days, which is still well below the target. Sufficient crude oil storage, facilities and capacity are crucial for China's economic development particularly in times of high crude oil price volatility.

(ii) Increasing the scale and strengthening the competitive advantage of Company's core business

The Acquisition will significantly increase the scale of the Group's crude oil logistics business and will substantially enhance the Group's position to become the primary crude oil terminal platform in China.

Upon completion of the Acquisition, the number of crude oil terminal companies controlled or jointly owned by the Group will increase from two to seven, and the number of berths will increase from 14 to 24, of which nine berths will have the capacity to accommodate VLCC vessels. Annual design capacity will increase by approximately 165% from approximately 85 million tonnes to approximately 225 million tonnes of crude oil.

As a result of the Acquisition, the Group will have a jointly-controlled interest in each of China's top three coastal ports for crude oil loading and unloading as measured by volume. Moreover, there are only a limited number of deepwater terminals in China. This is a notable advantage and makes the Company a unique investment opportunity because, as the size of international oil carriers continues to increase, it will become increasingly important to own deepwater terminals that have the facilities to accommodate VLCC size vessels and larger.

In addition, the Acquisition will substantially increase the Group's market share in the crude oil logistics sector, thus enhancing its market position and broadening its experience and expertise in crude oil terminal operations. Combining the experience and expertise of the Group's existing management team with that of the Five Joint Ventures will strengthen the capabilities of the Group to operate and manage the portfolio of crude oil terminal assets and provides a larger platform for future expansion.

(iii) Increasing profitability and stability of earnings

Crude oil terminals are strategically planned and controlled by the PRC government, face limited availability of terminal sites and have high initial capital expenditure requirements, which together give crude oil terminals in China monopolistic characteristics. Consequently, tariffs are heavily regulated by the PRC government. In addition, crude oil terminals tend to have relatively low costs and high profit margins. In 2010, the average EBITDA margins and average net income margins were 88% and 50%, respectively for Qingdao Shihua, Tianjin Port Shihua and Ningbo Shihua. Crude oil terminal arrangements and contracts also tend to be long-term in nature, providing meaningful earnings visibility. These factors result in a business model that generates relatively stable revenues with high operating margins and profitability.

The Acquisition is expected to materially increase the Group's profit. In 2010, the Five Joint Ventures had revenues of approximately RMB682 million, total net profit of approximately RMB364 million and profit attributable to holders of equity interests proposed to be acquired of RMB 182 million. Moreover, as Ningbo Shihua's second phase terminal and Rizhao Shihua's terminal are currently still in trial operation stage and since Tangshan Caofeidian Shihua was only incorporated in 2011, the future revenue and profitability of the Five Joint Ventures is expected to benefit from the earnings contribution of these terminals once they become fully operational. Rizhao Shihua is expected to unload 13 million tonnes in 2012 but could potentially increase volume to 16 million tonnes as demand increases.

The Acquisition provides the Group with an ideal combination of fully operational terminals generating steady cash flow and newly operational terminals that will contribute to earnings from 2012 onwards. As the operating profit generated by the Five Joint Ventures is relatively stable, the Acquisition will also reduce the volatility of the Group's earnings, as a greater percentage of earnings will be derived from price regulated, cash flow producing assets as opposed to trading profits or vessel charter services.

(iv) Creation of a platform for future development of the Company with support from Sinopec Group

As a direct result of the Acquisition, the Group will increase its fixed assets as well as the scale and stability of its earnings and cash flows while still enjoying the continued support from its major shareholder and customer, Sinopec Group. The combination of these factors will make it easier for the Group to raise financing in order to invest in or fund acquisitions of oil shipping terminals or oil storage facilities, in line with the Company's strategy to become the world's leading oil storage and logistics company.

As part of its development, the Group intends to explore how it may continue its cooperation with Sinopec Group in order to make further acquisitions of crude oil logistics assets, such as storage facilities or pipelines, either from Sinopec Group itself, or third party entities.

The Directors consider that the terms and conditions of the Acquisition and the Acquisition Agreements are fair and reasonable, have been arrived at on normal commercial terms and are in the interest of the Company and the Shareholders as a whole.

C. INFORMATION ON FIVE JOINT VENTURES

Principal Businesses of the Five Joint Ventures

(1) Ningbo Shihua

Ningbo Shihua was established as a limited liability company on 5 December 2002 in the PRC, with a registered capital of RMB80 million (equivalent to approximately HK$98.16 million). At the Latest Practicable Date, Ningbo Shihua was held as to 50% by Sinopec Corp. and as to 50% by Ningbo Shihua JV Partner respectively.

The business scope of Ningbo Shihua is providing port-facilities to vessels, and loading and unloading of goods in the port area. Ningbo Shihua owns and operates two terminals, one of which is capable of docking a 250,000-ton vessel, and the other terminal is capable of docking a 69,000-ton vessel. The total design annual capacity of the above terminals is 17 million tonnes of crude oil which has been approved by the PRC's National Development Reform Commission. The second phase 450,000-ton terminal with a total design annual capacity of 18 million tonnes of crude oil as approved by the PRC's National Development Reform Commission has commenced the trial operation since June 2011 through a wholly-owned subsidiary of Ningbo Shihua, 寧波實華原油裝卸有限公司 (Ningbo Shihua Crude Oil Loading and Unloading Company Limited*) ("Ningbo Shihua Subsidiary"). Through the oil-transferring arm and the oil pipes on the working platform of the berth, the crude oil is transferred to the interim oil depot, and then transferred to each oil refining enterprise subsidiary, branches of Sinopec Group or other clients. Ningbo Shihua has obtained permit for operating the port and the licence for loading and unloading hazardous goods, both with a validity period from 26 September 2010 to 25 September 2013. For the second phase 450,000-ton terminal, Ningbo Shihua Subsidiary has obtained permit for operating the port and the license for loading and unloading hazardous goods, both of which will expire on 13 January 2012, and it will apply for a renewal of the permit for operating the port and the license for loading and unloading hazardous goods for the second phase 450,000-ton terminal immediately before the expiry of such permit. As advised by the PRC legal adviser to the Company, there will not be any legal impediments for such renewals.

(2) Qingdao Shihua

Qingdao Shihua was established as a limited liability company on 23 February 2006 in the PRC, with a registered capital of RMB200 million (equivalent to approximately HK$245.40 million). At the Latest Practicable Date, Qingdao Shihua was held as to 50% by Sinopec Corp. and as to 50% by Qingdao Shihua JV Partner respectively.

The business scope of Qingdao Shihua is loading and unloading of crude oil and refined oil product. Qingdao Shihua operates three terminals. The first phase is capable of docking a 50,000-ton vessel and a 20,000-ton vessel. The second phase and third phase are capable of docking a 200,000-ton vessel and a 300,000-ton vessel, respectively. The total design annual capacity of the terminals are 10 million tonnes (as approved by the Ministry of Transport), 17 million tonnes and 18 million tonnes (as approved by the PRC's National Development Reform Commission), of crude oil respectively. Through the oil-transferring arm and the oil pipes on the working platform of the berth, the crude oil is transferred to the interim oil depot, and then transferred to each oil refining enterprise subsidiary, branches of Sinopec Group or other clients. Qingdao Shihua has obtained the permit for operating the port and such permit does not contain a specific expiry date. As at the Latest Practicable Date, Qingdao Shihua has applied for renewal of its permit for operating the port. The PRC legal adviser to the Company has made an enquiry with the Qingdao Port and Shipping Authority. The Qingdao Port and Shipping Authority has confirmed that such permits are normally issued without an expiry date which will be renewed upon request by the Qingdao Port and Shipping Authority. As advised by the PRC legal adviser, Qingdao Shihua has been requested by the Qingdao Port and Shipping Authority to obtain a new permit which such new permit will be valid for 3 years from the date of its issuance. While it is in the course of renewing the permit, Qingdao Shihua is legally permitted to carry on its business before the grant of the renewal of such permit. It is expected that the authority will grant the new permit around January 2012. Qingdao Shihua has obtained the licence for loading and unloading hazardous goods with a validity period from 30 August 2010 to 30 August 2013.

(3) Tianjin Port Shihua

Tianjin Port Shihua was established as a limited liability company on 19 December 2007 in the PRC, with a registered capital of RMB482.66 million (equivalent to approximately HK$592.22 million). At the Latest Practicable Date, Tianjin Port Shihua was held as to 50% by Sinopec Corp. and as to 50% by Tianjin Port Shihua JV Partner.

The business scope of Tianjin Port Shihua is the operation of terminal and port facilities, loading and unloading of goods (within the port zone), and transfer and measurement of goods. Currently, Tianjin Port Shihua is principally engaged in the development and operation of the crude oil terminal which is capable of docking 300,000-ton vessel located in the Nanjiang Port Zone of Tianjin Port with a total design annual capacity of 20 million tonnes of crude oil as approved by the PRC's National Development and Reform Commission. The imported crude oil, through the oil transferring arm and oil pipes on the working platform of the berth, is transferred to the interim oil depot and then transferred to the oil refineries under Sinopec Group. Tianjin Port Shihua has obtained the permit for operating the port obtained with a validity period from 19 July 2010 to 19 July 2013. It has applied for renewal of its licence for loading and unloading hazardous goods which has already expired as at the Latest Practicable Date. The PRC legal adviser to the Company advised that Tianjin Transportation Committee is in the course of reforming the current administrative measures regarding the issuance of the license for loading and unloading hazardous goods, and it has currently suspended the issuance of any renewal of such license for all enterprises, including Tianjin Port Shihua. Tianjin Transportation Committee used to issue a new license annually to the applicants for renewal of such license. As further advised by the PRC legal adviser to the Company, before promulgating the new reform by Tianjin Transportation Committee, the annual inspection chop was affixed on the expired license of Tianjin Port Shihua on 17 September 2010, and this shows that Tianjin Port Shihua is legally permitted to carry on its business after the expiry of the existing license and before the grant of the new license for loading and unloading hazardous goods, and there will not be any legal impediments for obtaining a new license for loading and unloading hazardous goods. As at the Latest Practicable Date, Tianjin Port Shihua cannot ascertain the expected date of issuance of a new license for loading and unloading hazardous goods.

(4) Rizhao Shihua

Rizhao Shihua was established as a limited liability company on 28 June 2010 in the PRC, with a registered capital of RMB800 million (equivalent to approximately HK$981.60 million). At the Latest Practicable Date, Rizhao Shihua is held as to 50% by Sinopec Corp. and as to 50% by Rizhao Shihua JV Partner respectively.

The business scope of Rizhao Shihua is operation and construction of a 300,000-ton crude oil terminal along Rizhao Port Lanshan North Port Area (excluding oil tank area). The 300,000-ton terminal has a total design annual capacity of 20 million tonnes of crude oil which has been approved by the PRC's National Development and Reform Commission, and has commenced the trial operation since December 2010. Rizhao Shihua is in the process of preparing for the construction the second phase 300,000-ton crude oil terminal. Through the oil-transferring arm and the oil pipes on the working platform of the berth, the crude oil is transferred to the interim oil depot, and then transferred to each oil refining enterprise subsidiary, branches of Sinopec Group or other clients. Rizhao Shihua has obtained the permit for operating the port with a validity period from 10 December 2010 to 10 December 2011 and the licence for loading and unloading hazardous goods with a validity period from 12 December 2010 to 10 December 2011. As at the Latest Practicable Date, Rizhao Shihua has applied for the renewal of the permit for operating the port and the licence for loading and unloading hazardous goods. As advised by the PRC legal adviser to the Company, there will not be any legal impediments for renewing the permit for operating the port and the license for loading and unloading hazardous goods.

(5) Tangshan Caofeidian Shihua

Tangshan Caofeidian Shihua was established as a limited liability company on 22 April 2011 in the PRC. At the Latest Practicable Date, Tangshan Caofeidian Shihua was held as to 90% by Sinopec Corp. and as to 10% by Tangshan Caofeidian Shihua JV Partner respectively. Its registered capital is RMB289.61 million (equivalent to approximately HK$355.35 million).

The business scope of Tangshan Caofeidian Shihua is loading and unloading and measurement of crude oil. Tangshan Caofeidian Shihua currently operates the 300,000-ton crude oil terminal and its ancillary facilities which was constructed by Sinopec Corp. in 2008 located in Caofeidian. The total design annual capacity of the terminal, as approved by the PRC's National Development Reform Commission, is 20 million tonnes of crude oil. Tangshan Caofeidian Shihua has obtained the permit for operating the port with a validity period from 30 June 2011 to 29 June 2014 and the licence for loading and unloading the hazardous goods with a validity period from 30 June 2011 to 29 June 2012. As disclosed in the property valuation report in Appendix V of this circular, as at 30 September 2011, Tangshan Caofeidian Shihua has not obtained any State-owned land use rights or sea use rights certificates, and according to the PRC legal adviser to the Company, Tangshan Caofeidian Shihua is entitled to occupy, use, usufruct of the property save and except to transfer, mortgage or otherwise dispose of the property.

Under the original joint venture agreement in respect of Tangshan Caofeidian Shihua dated 21 October 2010 (the "Original Tangshan Caofeidian Shihua JV Agreement") entered into between Sinopec Corp. and Tangshan Caofeidian Shihua JV Partner, the registered capital of Caofeidian Shihua was RMB289.61 million, of which Sinopec Corp. agreed to contribute RMB260.65 million (representing 90% of the registered capital) including RMB60 million in cash and RMB200.65 million in kind by injection the crude oil terminal in Caofeidian, while Tangshan Caofeidian Shihua JV Partner agreed to contribute RMB28.96 million in cash (representing 10% of the registered capital). As at the Latest Practicable Date, Sinopec Corp. and Tangshan Caofeidian Shihua JV Partner have already contributed RMB60 million and RMB6.67 million respectively. Sinopec Corp. and Tangshan Caofeidian Shihua JV Partner shall make the outstanding capital contribution on or before 22 April 2013. Regarding the injection of crude oil terminal in Caofeidian, the parties to the Original Caofeidian Shihua JV Agreement agreed that they would jointly appoint a qualified valuer, as approved by the PRC government, to appraise the net asset value of the crude oil terminal. Sinopec Corp. injected the crude oil terminal to Tangshan Caofeidian Shihua in order to settle the outstanding registered capital of Tangshan Caofeidian Shihua. As disclosed in the property valuation report (property no. 10 as set out in Appendix V of this circular), the capital value of the property to be contributed by Sinopec Corp. as at 30 September 2011 was RMB196.1 million. Subject to final valuation and the approval from the relevant PRC government authorities, the crude oil terminal was preliminarily estimated to be of a value at approximately RMB600 million. As an interim measure to support Tangshan Caofeidian Shihua, Tangshan Caofeidian Shihua is allowed to use the remaining assets of the crude oil terminal (valued at approximately RMB400 million) at no cost and it is the intention for Tangshan Caofeidian Shihua would acquire from Sinopec Corp. such remaining assets at a later date as and when external financing is obtained. Pursuant to the Tangshan Caofeidian Shihua Acquisition Agreement, as one of the conditions precedent, Sinopec Corp. will make full payment for the registered capital of Tangshan Caofeidian Shihua.

Summary Financial Information for the Five Joint Ventures

Set out below is the key financial information of each of the Five Joint Ventures and their respective subsidiaries (if any) prepared in accordance with the HKFRS:

(1) Ningbo Shihua

	For the year ended 31 December 2009 *(RMB'000)*	**For the year ended 31 December 2010** *(RMB'000)*	**For the nine months ended 30 September 2011** *(RMB'000)*
Revenue	145,510	141,635	113,204
Profit before tax	112,266	107,295	88,623
Profit for the year/period	83,984	80,321	66,467
Profit attributable to holders of equity interests proposed to be acquired	41,992	40,161	33,234

	As at 31 December 2009 (RMB'000)	As at 31 December 2010 (RMB'000)	As at 30 September 2011 (RMB'000)
Net assets attributable to holders of equity interests proposed to be acquired	151,936	158,301	159,068

(2) Qingdao Shihua

	For the year ended 31 December 2009 (RMB'000)	For the year ended 31 December 2010 (RMB'000)	For the nine months ended 30 September 2011 (RMB'000)
Revenue	343,481	407,163	320,401
Profit before tax	268,971	323,160	252,746
Profit for the year/period	201,230	241,721	189,554
Profit attributable to holders of equity interests proposed to be acquired	100,615	120,861	94,777

	As at 31 December 2009 (RMB'000)	As at 31 December 2010 (RMB'000)	As at 30 September 2011 (RMB'000)
Net assets attributable to holders of equity interests proposed to be acquired	544,013	506,873	483,650

(3) Tianjin Port Shihua

	For the year ended 31 December 2009 *(RMB'000)*	**For the year ended 31 December 2010** *(RMB'000)*	**For the nine months ended 30 September 2011** *(RMB'000)*
Revenue	85,063	133,304	90,178
(Loss)/profit before tax	(90)	40,738	22,646
Profit for the year/period	4,431	45,929	26,369
Profit attributable to holders of equity interests proposed to be acquired	2,216	22,965	13,185

	As at 31 December 2009 *(RMB'000)*	**As at 31 December 2010** *(RMB'000)*	**As at 30 September 2011** *(RMB'000)*
Net assets attributable to holders of equity interests proposed to be acquired	243,546	266,685	279,870

(4) Rizhao Shihua

	For the period from 28 June 2010 (being its date of incorporation) to 31 December 2010 *(RMB'000)*	**For the nine months ended 30 September 2011** *(RMB'000)*
Revenue	–	1,081
Loss before tax	(3,911)	(27,722)
Loss for the period	(3,911)	(25,546)
Loss attributable to holders of equity interests proposed to be acquired	(1,956)	(12,773)

	As at 31 December 2010	**As at 30 September 2011**
Net assets attributable to holders of equity interests proposed to be acquired	398,045	385,272

(5) Tangshan Caofeidian Shihua

	For the period from 22 April 2011 (being its date of incorporation) to 30 September 2011 *(RMB'000)*
Revenue	52,912
Profit before tax	43,060
Profit for the period	31,813
Profit attributable to holders of equity interests proposed to be acquired	28,632

	As at 30 September 2011 *(RMB'000)*
Net assets attributable to holders of equity interests proposed to be acquired	269,251

Upon completion of the Acquisition, each of Ningbo Shihua, Qingdao Shihua, Tianjin Port Shihua, Rizhao Shihua and Tangshan Caofeidian Shihua will become jointly controlled entities of the Company under HKFRS and the accounting treatment of the Five Joint Ventures will be equity accounting. As Tangshan Caofeidian Shihua JV Partner is entitled to veto rights in certain major decisions, including certain financial and operating policies, of Tangshan Caofeidian Shihua in accordance with the existing joint venture agreement between Sinopec Corp. and Tangshan Caofeidian Shihua JV Partner, Tangshan Caofeidian Shihua will be considered a jointly controlled entity of the Company under HKFRS upon completion of the Acquisition, after consultation with the Company's external auditors.

Tianjin Port Shihua and Rizhao Shihua recorded net current liabilities as at the latest balance sheet dates. The Directors have considered sources of liquidity of both Tianjin Port Shihua and Rizhao Shihua, and believe that adequate funding will be available for the foreseeable future to fulfill their short-term obligations as they fall due on the basis that (i) Tianjin Port Shihua had revolving credit facilities from related parties of RMB479 million as at 30 September 2011 and partial of which have been ultilized and no immediate repayment is required due to its revolving nature, and it has also been profit making and generating positive operating cash flow, and (ii) Rizhao Shihua had unutilised bank credit facilities of RMB140 million as at 30 September 2011. In addition, the Directors believe that both Tianjin Port Shihua and Rizhao Shihua will continue as a going concern and accordingly have prepared the financial statements on a going concern basis.

Upon completion of the Acquisition, Sinomart Development will enter into new joint venture agreements and a new articles of association with each of the Five JV Partners in relation to the management and operation of the relevant Five Joint Ventures which will principally be in line with the parties' respective shareholding and the role of management in the Five Joint Ventures.

D. FINANCIAL EFFECTS OF THE ACQUISITION

As disclosed in the annual report of the Company for the year ended 31 December 2010, the Group recorded a profit of approximately HK$195.7 million. After the completion of the Acquisition, the Five Joint Ventures will become jointly controlled entities, and the Enlarged Group will continue its business focusing on the trading of crude oil and petroleum products, the operation of crude oil terminals and its ancillary facilities as well as vessel charter services.

As set out in Appendix I of this Circular, the unaudited pro forma total assets and pro forma total liabilities of the Enlarged Group as at 30 June 2011 following the Acquisition will remain unchanged. The consideration for the Acquisition will be paid by the Group in cash to Sinopec Corp and upon completion of the Acquisition, each of Ningbo Shihua, Qingdao Shihua, Tianjin Port Shihua, Rizhao Shihua and Tangshan Caofeidian Shihua will become jointly controlled entities of the Company under HKFRS.

For the year ended 31 December 2010, the profit for the Group was approximately HK$195.7 million. As set out in Appendix I of this circular, the unaudited pro forma profit of the Enlarged Group for the year ended 31 December 2010, excluding the financial impact of Zhan Jiang Port Petrochemical Terminal Co., would have been approximately HK$417.8 million. The Group entered into an agreement to acquire 50% of equity interest in Zhan Jiang Port Petrochemical Terminal Co. on 27 May 2011. Details of such acquisition are set out in the circular issued by the Company on 30 June 2011.

The Directors believe that the Acquisition would widen the income and scale of the Group and hence would be able to (i) provide synergy effects to the existing principal business activities of the Group; and (ii) impose positive effect on the profit of the Group in the future. The Directors are optimistic about the future prospects of the Group and the Enlarged Group.

Set out in Appendix I of this circular is the "Unaudited Pro Forma Financial Information of the Enlarged Group" and the basis of preparation thereon.

E. INFORMATION ON THE COMPANY AND SINOPEC CORP.

The Company was incorporated in Bermuda with limited liability and its shares are listed on the Stock Exchange. The principal activities of the Group are the trade of crude oil and petroleum products, the operation of crude oil terminals and their ancillary facilities, provision of logistic services including the storage, logistic, terminal services and the distribution of oil and oil products and the international logistic agency services. The Group currently owns two operating companies in the PRC, namely Huade and Zhan Jiang Port Petrochemical Terminal Co..

Huade, an indirect wholly owned subsidiary of the Group, owns and operates Huizhou crude oil terminal complex, which includes oil tanker handling, crude oil unloading, storage and pipeline transmission facilities, and is located in Mabianzhou Island (馬鞭洲島) in Daya Bay Economic and Technological Development Zone (大亞灣經濟技術開發區) in Huizhou, Guangdong Province, the PRC. In 2010, there were approximately 79 oil tankers berthed, with approximately 11.88 million tonnes of crude oil unloaded and approximately 11.76 million tonnes of crude oil transported in Huizhou crude oil terminal complex.

Zhan Jiang Port Petrochemical Terminal Co. is an associate of the Group (within the meaning of HKFRS), and is indirectly owned by the Company as to 50% of its equity interest. The Zhan Jiang terminal complex is owned and operated by Zhan Jiang Port Petrochemical Terminal Co., which includes oil tanker handling, crude oil, petroleum, and petrochemical products unloading, storage and pipeline transmission facilities, and is located in Zhan Jiang, Guangdong Province, the PRC. Zhan Jiang terminal complex has 12 petrochemical berths, including one crude oil berth that is capable of docking a 300,000-tonnage ship. These berths can simultaneously perform loading and unloading of different kinds of oil and oil products such as crude oil, light diesel oil, gasoline, fuel oil and base oil as well as other chemical solvents such as benzene, alcohol and ketone.

Sinopec Corp. is an integrated energy and chemical company with upstream, midstream and downstream operations and is the first PRC company publicly listed on the stock exchanges of Hong Kong, Shanghai, New York and London. The principal operations of Sinopec Corp. and its subsidiaries include: (1) exploration, development, production and trading of crude oil and natural gas; (2) processing crude oil into refined oil products, producing refined oil products and trading, transporting, distributing and marketing refined oil products; and (3) producing, distributing and trading chemical products.

III. THE PROPOSED RIGHTS ISSUE

In order to finance the Acquisition, the Company proposes to raise a minimum of HK$2,500 million and a maximum of HK$3,500 million before expenses by way of the proposed Rights Issue of up to one (1) Rights Share for every one (1) existing Share held on the Record Date.

The funds raised from the proposed Rights Issue will be primarily used to fund the Acquisition as well as the costs and expenses relating to the Acquisition and the proposed Rights Issue. In the event that the funds raised exceed the amount necessary to fund the Acquisition and the above costs and expenses, the balance of the funds raised will be applied for the development and operation of crude oil terminals and provision of logistics business of the Group and for general working capital purposes. Subject to market conditions, the Company intends to raise a maximum of HK$3,500 million before expenses by way of the proposed Rights Issue, and assuming that a maximum of HK$3,500 million is raised from the proposed Rights Issue, approximately 63% of the gross proceeds will be applied for the consideration of the Acquisition.

The proposed Rights Issue will be subject to, among other things, the approval of the Independent Shareholders at the SGM. The resolution approving the proposed Rights Issue will be valid until 30 April 2012 (i.e. the proposed Rights Issue will need to be completed on or before 30 April 2012).

A. DETAILS OF THE PROPOSED RIGHTS ISSUE

Basis of the proposed Rights Issue	Up to one (1) Rights Share for every one (1) existing Share held on the Record Date by the Qualifying Shareholders
Number of shares in issue	1,036,830,000 Shares as at the Latest Practicable Date

The number of Rights Shares will be subject to final determination by the Board or any other person(s) authorized by the Board in consultation with the Underwriter(s), having regard to the market conditions and pursuant to the authorization of the SGM.

As at the Latest Practicable Date, there are no other convertible securities, options or warrants in issue which would otherwise confer any right to subscribe for, convert or exchange into the new Shares.

On the basis of 1,036,830,000 Shares in issue as at the Latest Practicable Date, the total number of the Rights Shares to be allotted pursuant to the terms of the proposed Rights Issue shall be up to 1,036,830,000 Rights Shares, representing 100% of the Company's existing issued share capital as at the Latest Practicable Date or 50% of the enlarged issued share capital of the Company immediately after the completion of the proposed Rights Issue.

Subscription Price

It is the intention of the Company to raise a minimum of HK$2,500 million and a maximum of HK$3,500 million before expenses. The actual Subscription Price shall be determined by the Board or any other person(s) authorised by the Board in consultation with the Underwriter(s) with reference to market trading price, having regard to the prevailing market conditions, including but not limited to, the trading price of the Shares before the publication of a further announcement regarding the proposed Rights Issue.

Use of proceeds raised from the proposed Rights Issue

In the event that a maximum of HK$3,500 million is raised from the proposed Rights Issue, approximately 63% of the gross proceeds will be applied for the consideration of the Acquisition, and the remaining 37% of the gross proceeds after deduction of costs and expenses relating to the Acquisition and the proposed Rights Issue will be applied for the development and operation of crude oil terminals and provision of logistics business of the Group and for general working capital purposes. In the event that a minimum of HK$2,500 million is raised from the proposed Rights Issue, approximately 89% of the gross proceeds will be applied for the consideration of

Acquisition, and the remaining 11% of the gross proceeds after deduction of costs and expenses relating to the Acquisition and the proposed Rights Issue will be applied for general working capital purposes.

Qualifying Shareholders

The Company will send the Rights Issue Documents to the Qualifying Shareholders and, for information purposes only, the Prospectus to the Non-Qualifying Shareholders. To qualify for the proposed Rights Issue, a Shareholder will have to be registered as a member of the Company on the Record Date and not be a Non-Qualifying Shareholder.

Application for excess Rights Shares

Qualifying Shareholders will be able to apply, by way of excess application, for any unsold entitlements of the Non-Qualifying Shareholders and for any Rights Shares provisionally allotted to the Qualifying Shareholders but not accepted by completing the form of application for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis, and on the following principles:

(i) preference will be given to applications for less than a board lot of Rights Shares where they appear to the Directors that such applications are made to round up odd-lot holdings to whole-lot holdings and that such applications are not made with intention to abuse this mechanism (the "**Top-up Arrangement**"); and

(ii) subject to the availability of excess Rights Shares after allocation under principle (i) above, the excess Rights Shares will be allocated to the Qualifying Shareholders based on a sliding scale with reference to the number of excess Rights Shares applied by them (i.e. Qualifying Shareholders applying for smaller number of Rights Shares are allocated with a higher percentage of successful application but will receive less number of Rights Shares; whereas Qualifying Shareholders applying for larger number of Rights Shares are allocated with a smaller percentage of successful application but will receive greater number of Rights Shares) and with board lot allocations to be made on best effort basis.

Shareholders with their Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company under the Top-up Arrangement. Accordingly, the aforesaid Top-up Arrangement in relation to the allocation of the excess Rights Shares will not be extended to beneficial owners individually. Beneficial owners who hold their Shares through a nominee company are advised to consider whether they would like to arrange for the registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

Status of the Rights Shares

When allotted and fully paid, the Rights Shares will rank *pari passu* with the existing Shares in issue in all respects. Holders of such Rights Shares will be entitled to receive all future dividends and distributions, which may be declared, made or paid after the date of allotment and issue of the Rights Shares.

Rights of the Non-Qualifying Shareholders

The Rights Issue Documents will not be registered or filed under the applicable securities or equivalent legislation of any jurisdictions other than Hong Kong and Bermuda.

If, on the Record Date, there are any Overseas Shareholders, the Company will instruct its legal advisers to make enquiries regarding the applicable legal restrictions and regulatory requirements of the relevant jurisdictions outside Hong Kong in connection with the extension of the proposed Rights Issue to such Overseas Shareholders. The Company will comply with all necessary requirements specified in Rule 13.36(2) of the Listing Rules and will only exclude from the proposed Rights Issue such Overseas Shareholders who the Directors, after making enquiry regarding the legal restrictions under the laws of the relevant jurisdictions and the requirements of the relevant regulatory bodies or stock exchanges in such jurisdictions, consider it necessary or expedient to do so. The basis of exclusion of such Overseas Shareholders from the proposed Rights Issue, if any, will be disclosed in the Prospectus.

The Company will send the Prospectus to the Non-Qualifying Shareholders, if any, for their information only.

Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders, if any, to be sold in the open market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, will be distributed pro rata to the Non-Qualifying Shareholders provided that the Company will retain individual amounts of HK$100 or less for its own benefit. Any unsold Rights Shares to which the Non-Qualifying Shareholders would otherwise have been entitled will be made available for applications for excess Rights Shares.

Application for listing

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Rights Shares, in both nil-paid and fully-paid forms. Dealings in the nil-paid and fully-paid Rights Shares will be subject to the payment of stamp duty and any other applicable fees and charges in Hong Kong.

Conditions of the proposed Rights Issue

It is expected that the proposed Rights Issue will be conditional, upon, among other things, the fulfillment of the following matters:

(i) the Underwriting Agreement having become unconditional and the Underwriter(s) not having terminated the Underwriting Agreement in accordance with the terms thereof;

(ii) the approval of the proposed Rights Issue and the Acquisition by the Independent Shareholders at the SGM;

(iii) the Listing Committee of the Stock Exchange agreeing to grant the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms, either unconditionally or subject to such conditions which the Company accepts and the satisfaction of such conditions (if any) by no later than the date of posting of the Prospectus; and

(iv) the delivery to the Stock Exchange and filing and registration of all documents in relation to the proposed Rights Issue as required by law to be filed by and registered with the Registrar of Companies in Hong Kong.

Record Date

The Record Date and the trading arrangements for the nil-paid Rights Shares will be fixed by the Board later and once so fixed, a further announcement will be made by the Company. The Rights Issue will proceed only after the Rights Issue has been approved by the Independent Shareholders at the SGM and all other conditions to the proposed Rights Issue have been fulfilled.

Trading of the Rights Shares

Dealings in the Rights Shares in both their nil-paid and fully-paid forms registered with the branch registrar of members of the Company in Hong Kong will be subject to the payment of stamp duty in Hong Kong. A further announcement will be made by the Company regarding the trading arrangements for the Rights Shares (in both forms) after such arrangements have been finalised by the Board.

B. UNDERWRITING ARRANGEMENTS

The Company will proceed with the proposed Rights Issue on a fully underwritten basis in accordance with Rule 7.19(1) of the Listing Rules and such underwriting will be conducted in accordance with the requirements of the Listing Rules. Details of the underwriting arrangement in relation to the proposed Rights Issue will be provided to the Shareholders in a further announcement on the proposed Rights Issue to be issued by the Company in due course.

The controlling shareholder of the Company intends to take up its entitlement to the Shares under the proposed Rights Issue. Details will be provided in a further announcement on the proposed Rights Issue to be issued by the Company in due course.

C. REASONS FOR AND BENEFITS OF THE PROPOSED RIGHTS ISSUE

It is expected that the gross proceeds of the range from HK$2,500 million to HK$3,500 million raised from the proposed Rights Issue will be applied towards the payment of the consideration for the Acquisition and the costs and expenses relating to the Acquisition and the proposed Rights Issue. In the event that the funds raised exceed the amount necessary to fund the Acquisition and the above costs and expenses, the balance of the funds raised will be applied for the development and operation of crude oil terminals and provision of logistics business of the Group and for general working capital purposes. The Directors consider the terms and conditions of the Acquisition and the Acquisition Agreements to be in the interest of the Company and the Shareholders as a whole for the reasons stated above. Accordingly, the Directors consider that it is fair and reasonable and in the interest of the Company and the Shareholders as a whole to raise the required financing for the Acquisition by way of the proposed Rights Issue as this exercise provides opportunities for the Shareholders to maintain their stakes in the Company and to enjoy the anticipated benefits from the Acquisition.

D. FUND-RAISING ACTIVITIES OF THE GROUP DURING THE PAST TWELVE MONTHS

The Company has not engaged in or initiated any equity fund raising exercise during the past 12 months immediately before the Latest Practicable Date or any rights issue exercise prior to such 12-month period.

E. FURTHER ANNOUNCEMENT IN RELATION TO THE PROPOSED RIGHTS ISSUE AND ISSUANCE OF THE PROSPECTUS

Prior to the commencement of the proposed Rights Issue, the Company will make further announcement(s) and issue the Prospectus, which will contain all the relevant details of the proposed Rights Issue, including the definitive basis on which the Rights Shares are to be offered, the number of Rights Shares to be issued, the Subscription Price, the period of closure of the register of members, trading arrangements of the Rights Shares, trading arrangements of the rights to subscribe for the Rights Shares in nil-paid form, the arrangement for excess Rights Shares, the underwriting arrangement, details of the Underwriter and the Underwriting Agreement and the expected timetable of the proposed Rights Issue.

F. CHANGE IN THE SHAREHOLDING STRUCTURE OF THE COMPANY AS A RESULT OF THE PROPOSED RIGHTS ISSUE

As at the Latest Practicable Date, there are a total of 1,036,830,000 Shares in issue and there are no other convertible securities, options or warrants in issue which would otherwise confer any right to subscribe for, convert or exchange into the new Shares as at the Latest Practicable Date.

Set out below is the shareholding structure of the Company as at the Latest Practicable Date and the possible shareholding structure immediately after the completion of the proposed Rights Issue (on the basis of one (1) Rights Share for every one (1) existing Shares and assuming that there is no change in issued share capital for the period between Latest Practicable Date and Record Date):

	As at the Latest Practicable Date		**Immediately after completion of the proposed Rights Issue**	
	Number of shares	*%*	*Number of shares*	*%*
Substantial Shareholder:				
SKI	750,000,000	72.34	1,500,000,000	72.34
Public	286,830,000	27.66	573,660,000	27.66
Total	1,036,830,000	100.00	2,073,660,000	100.00

G. WARNING OF THE RISKS OF DEALING IN THE SHARES AND THE NIL-PAID RIGHTS SHARES

The proposed Rights Issue is conditional upon the fulfillment of the conditions set out under the section headed "Conditions of the Proposed Rights Issue" in this circular. If the conditions are not fulfilled, the proposed Rights Issue will not proceed.

Any persons contemplating dealing in the Shares prior to the date on which all the conditions of the proposed Rights Issue are fulfilled, and/or dealings in the nil-paid Rights Shares, are accordingly subject to the risk that the proposed Rights Issue may not become unconditional or may not proceed.

Any Shareholders or other persons contemplating dealing in the Shares and/or nil-paid Rights Shares are recommended to consult their own professional adviser(s).

IV. LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) exceed 100%, the Acquisition constitutes a very substantial acquisition for the Company pursuant to Rule 14.06(5) of the Listing Rules. Sinopec Corp. owns the entire issued share capital of Unipec which in turn, owns the entire issued share capital of SKI, the immediate controlling shareholder of the Company, SKI holds 750,000,000 Shares, representing approximately 72.34% equity interest in the Company. The Acquisition therefore constitutes a connected transaction of the Company under the Listing Rules. As such, the Acquisition is subject to the approval of the Independent Shareholders at the SGM.

The executive Directors, being Mr. Dai Zhaoming, Mr. Zhu Zengqing, Mr. Zhu Jianmin, Mr. Tan Ke Fei, and Mr. Zhou Feng, abstained from voting in respect of the relevant Board resolutions approving the Acquisition because they have other executive posts within the Sinopec Group.

The completion of the proposed Rights Issue would increase the issued share capital of the Company by more than 50%. Pursuant to Rule 7.19(6)(a) of the Listing Rules, the proposed Rights Issue is conditional on the approval by the Independent Shareholders in the SGM on a vote taken by way of poll at the SGM and on which SKI and its Associates, shall abstain from voting in favour.

The Independent Board Committee has been constituted to consider the terms of the Acquisition Agreements and the transactions contemplated thereunder and the proposed Rights Issue, and to advise and make recommendations to the Independent Shareholders as to how to vote at the SGM on the ordinary resolutions regarding the Transactions. Mr. Wong Po Yan, Ms. Tam Wai Chu, Maria and Mr. Fong Chung, Mark, the independent non-executive Directors, have been appointed by the Board to serve as members of the Independent Board Committee. No member of the Independent Board Committee has any material interest in the Transactions.

Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the transactions in respect of the Acquisition and the proposed Rights Issue.

V. REFRESHMENT OF GENERAL MANDATE TO ISSUE SHARES

At the 2011 AGM, ordinary resolutions were passed whereby general mandates authorising the Directors, among other things, to allot, issue and deal with the Shares of the issued share capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such powers during or after the end of the relevant period which shall not exceed the aggregate of 20% of the nominal amount of the share capital of the Company in issue as at the date of the 2011 AGM ("Previous Issue Mandate").

Since the 2011 AGM, the Company has not issued any Shares under the Previous Issue Mandate.

In view of the enlarged issued share capital of the Company upon completion of the proposed Rights Issue, the Directors proposed to seek the approval of the Shareholders at the SGM and at which no Shareholder shall abstain from voting, as permitted by Rule 13.36(4)(e) of the Listing Rules, that subject to the completion of the proposed Rights Issue (assuming the proposed Rights Issue of up to one Rights Share for every one existing Share held on the Record Date), to top-up the general mandate from 207,366,000 Shares to such number of Shares representing 20% of the Company's issued share capital as enlarged by the completion of the Rights Issue. On the basis of the proposed Rights Issue of up to one Rights Share for every one existing Share held on the Record Date and assuming that there is no change in issued share capital for the period between the Latest Practicable Date and the Record Date, the general mandate will be topped up to a maximum of 414,732,000 Shares. Such refreshment of general mandate to issue Shares shall not exceed the aggregate of (a) 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of completion of the proposed Rights Issue and (b) the aggregate nominal amount of share capital of the Company purchased by the Company subsequent to the passing of the resolution in relation thereto (up to a maximum equivalent to 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of completion of the proposed Rights Issue), and the said approval shall be limited accordingly.

The refreshment of general mandate to issue Shares is conditional upon the passing of an ordinary resolution by the Shareholders at the SGM and completion of the proposed Rights Issue.

VI. PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

At the Latest Practicable Date, the existing authorised share capital of the Company is HK$300,000,000 divided into 3,000,000,000 Shares, of which 1,036,830,000 Shares of HK$0.10 each have been issued. To facilitate future expansion and growth of the Group, the Board proposes to increase the authorised share capital of the Company to HK$1,000,000,000 divided into 10,000,000,000 Shares, by the creation of 7,000,000,000 additional Shares which will rank pari passu with all existing Shares. The Board considers that the Increase in Authorised Share Capital facilitates further expansion and provides the Company with greater flexibility to raise funds by allotting and issuing new Shares in the future and thus the Increase in Authorised Share Capital is in the interests of the Company and the Shareholders as a whole.

The Increase in Authorised Share Capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders at the SGM.

VII. SGM

The SGM will be held on Saturday, 31 December 2011 at 10:00 a.m. at Boardroom 3-4, Mezzanine Floor, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong during which ordinary resolutions shall be proposed to the shareholders of the Company to approve (i) the Acquisition; (ii) the proposed Rights Issue; (iii) the refreshment of the general mandate to issue Shares; and (iv) the Increase in Authorised Share Capital. SKI and its Associates will abstain from voting in relation to the resolutions to be proposed to approve the Acquisition and the proposed Rights Issue. The Acquisition and the Rights Issue are therefore subject to the approval by the Independent Shareholders at the SGM on a vote taken by way of poll.

A form of proxy for use by the Shareholders at the SGM is enclosed. Shareholders are advised to read the notice and to complete the accompanying white form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event, not later than 48 hours before the time appointed for holding the SGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the meeting if they so wish.

VIII. GENERAL

Prior to the commencement of the proposed Rights Issue, the Company will despatch the Rights Issue Documents to each of the Qualifying Shareholders and, for information only, the Prospectus to each of the Non-Qualifying Shareholders (if any).

As completion of the Acquisition is conditional upon the approval and completion of the proposed Rights Issue and since both the Acquisition and the proposed Rights Issue are subject to the fulfillment of certain conditions, any of the Acquisition and the proposed Rights Issue may or may not proceed. Investors should exercise caution when dealing in the Shares and/or the Rights Shares. When in doubt, investors are recommended to consult their professional adviser(s).

IX. RECOMMENDATION

The Directors consider that (i) the Acquisition, (ii) the proposed Rights Issue, (iii) the refreshment of the general mandate to issue Shares; and (iv) the Increase in Authorised Share Capital, and include all matters relating thereto are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve (i) the Acquisition, (ii) the proposed Rights Issue, (iii) the refreshment of the general mandate to issue Shares, and (iv) the Increase in Authorised Share Capital, and include all matters relating thereto.

Your attention is drawn to the recommendation of the Independent Board Committee as set out on pages 35 to 36 to this circular and the letter from the Independent Financial Adviser as set out on pages 37 to 87 to this circular.

Your attention is drawn to the information set out elsewhere in this circular and in the appendices to it.

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

SINOPEC KANTONS HOLDINGS LIMITED
(中石化冠德控股有限公司) *
(incorporated in Bermuda with limited liability)
(Stock Code: 934)

14 December 2011

To the Independent Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION ACQUISITION OF FIVE JOINT VENTURES AND (2) PROPOSED RIGHTS ISSUE IN THE PROPORTION OF UP TO ONE RIGHTS SHARE FOR EVERY ONE EXISTING SHARE HELD ON THE RECORD DATE

We refer to the circular (the "**Circular**") dated 14 December 2011 issued by the Company to its Shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

On 3 December 2011, the Board announced the Acquisition, the proposed Rights Issue and Increase in Authorised Share Capital. The Independent Board Committee was formed on 3 December 2011 to make a recommendation to the Independent Shareholders as to whether, in its view, the terms of (i) the Acquisition Agreements and (ii) the proposed Rights Issue are fair and reasonable and whether (i) the Acquisition and (ii) the proposed Rights Issue are in the interest of the Company and its Shareholders. Somerley has been appointed by the Company as independent financial adviser to advise the Independent Board Committee and Independent Shareholders on the fairness and reasonableness of (i) the Acquisition and (ii) the proposed Rights Issue.

The terms and reasons for (i) the Acquisition and (ii) the proposed Rights Issue are described in the letter from the Board as set out in the Circular.

We also draw your attention to the letter from the Independent Financial Adviser in the Circular containing the advice of Somerley in respect of (i) the Acquisition and (ii) the proposed Rights Issue.

* *For identification purpose only*

As your Independent Board Committee, we have discussed with the management of the Company the reasons for entering into (i) the Acquisition Agreements and (ii) the proposed Rights Issue and the basis upon which their terms have been determined. We have also considered the key factors taken into account by Somerley in arriving at its opinion regarding the terms of (i) the Acquisition Agreements and (ii) the Rights Issue as set out in the letter from the Independent Financial Adviser as set out in the Circular, which we urge you to read carefully.

The Independent Board Committee, after taking into account, among other things, the advice of Somerley, the independent financial adviser to the Company, consider that the terms of (i) the Acquisition Agreements and (ii) the proposed Rights Issue to be in the best interest of the Company and to be fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions in relation to (i) the Acquisition Agreements and (ii) the proposed Rights Issue as set out in the notice of the SGM at the end of the Circular.

Yours faithfully,

Mr. Wong Po Yan	**Ms. Tam Wai Chu, Maria**	**Mr. Fong Chung, Mark**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*

The following is the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

SOMERLEY LIMITED

SOMERLEY LIMITED
10th Floor
The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

14 December 2011

To: The Independent Board Committee and the Independent Shareholders of Sinopec Kantons Holdings Limited

Dear Sirs,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION ACQUISITION OF FIVE JOINT VENTURES AND (2) PROPOSED RIGHTS ISSUE IN THE PROPORTION OF UP TO ONE RIGHTS SHARE FOR EVERY ONE EXISTING SHARE HELD ON THE RECORD DATE

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and Independent Shareholders in connection with the Acquisition and the proposed Rights Issue (the "**Transactions**"). Details of the Transactions are contained in the circular to the Shareholders dated 14 December 2011 (the "**Circular**"), of which this letter forms a part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) exceed 100%, the Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules. In addition, since SKI, being the immediate controlling shareholder of the Company is an indirect wholly-owned subsidiary of Sinopec Corp., vendor under the Acquisition, the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As such, the Acquisition and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the SGM on a vote taken by way of poll.

As the proposed Rights Issue might increase the issued share capital of the Company by more than 50%, the proposed Rights Issue is conditional on the approval by the Independent Shareholders at the SGM on a vote taken by way of poll pursuant to Rule 7.19(6)(a) of the Listing Rules.

SKI and its Associates shall abstain from the voting on resolutions approving the Transactions.

The Independent Board Committee, comprising the three independent non-executive Directors, namely Mr. Wong Po Yan, Ms. Tam Wai Chu, Maria and Mr. Fong Chung, Mark, has been established to make a recommendation to the Independent Shareholders on whether the terms of the Transactions are on normal commercial terms which are fair and reasonable and whether the Transactions are in the interests of the Company and the Independent Shareholders as a whole. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

We are not associated with the Company, Sinopec Corp., their respective substantial shareholders or associates, and accordingly, are considered eligible to give independent advice on the Transactions. Apart from normal professional fees payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any other fees or benefits from the Company, Sinopec Corp., their substantial shareholders or associates. In formulating our opinion and recommendation, we have reviewed, among other things, the Announcement, the Acquisition Agreements, the Transaction Documents, the valuation reports for Five Joint Ventures (the "**PRC Valuation Reports**") prepared by China United Assets Appraisal Co., Ltd., an independent firm of qualified valuers, the annual report of the Company for two years ended 31 December 2010 (the "**2010 Annual Report**"), the interim report of the Company for the six months ended 30 June 2011 (the "**2011 Interim Report**") and the financial information on Five Joint Ventures and the Enlarged Group as set out in the Circular. We have also discussed with the management of the Group and Five Joint Ventures regarding the businesses and future prospects of the Enlarged Group. We note that the Board has reviewed the PRC Valuation Reports and the property valuation reports in respect of Five Joint Ventures as set out in Appendix V to the Circular for the purposes of determining the consideration of the Acquisition. We have also considered the aforesaid valuations in forming our overall opinion herein. We considered the PRC Valuation Reports serve as the key reference in determining the consideration of the Acquisition and we therefore have discussed with China United Appraisal Co., Ltd. the bases, assumptions and methodology adopted in the PRC Valuation Report in the course of our review in assessing the fairness and reasonableness thereof, but no material reliance has been placed by us on such valuations in forming our overall opinion herein.

In addition, we have relied on the information and facts supplied, and the opinions and intention expressed, by the Directors and management of the Group and have assumed that they are true, accurate and complete and will remain true, accurate and complete up to the time of the SGM and completion of the Acquisition. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or to doubt the truth or accuracy of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have not, however, conducted any independent investigation into the business and affairs of the Group or Five Joint Ventures.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have taken into consideration the following principal factors and reasons:

1. History and business of the Group

The Company was established in 1998 and its shares have been listed on the main board of the Stock Exchange since 1999. The Group, together with its jointly controlled companies, is principally engaged in (i) the trading of crude oil, petroleum and petrochemical products; (ii) the rendering of crude oil jetty services; and (iii) the operating of vessel charter services.

In 2010, the Board made a major decision on both development and business strategies to actively develop the Group's storage and petrochemical products shipping businesses and ceased the trading of certain products during the business transformation in order to build the Group into a world-class international oil storage and logistics company. To focus on the development of the storage and logistics business, only the trading of crude oil remains in the Group's current trading business division alongside with the newly established vessel charter business.

At present, the Group owns and operates oil tanker handling, crude oil unloading, storage and pipeline transmission facilities and crude oil terminals which are located (i) on Mabianzhou Island（馬鞭洲島）in the Daya Bay Economic and Technological Development Zone（大亞灣經濟技術開發區）in Huizhou（惠州）, the Guangdong Province, the PRC; and (ii) in Zhanjiang（湛江）, the Guangdong Province, the PRC.

2. Recent financial results and position of the Group

Financial statements of the Group for the two years ended 31 December 2010 and the six months ended 30 June 2011 are disclosed in the 2010 Annual Report and 2011 Interim Report, to which the Independent Shareholders' attention is drawn. Key financials of the Group are summarised below.

(a) Financial results of the Group

The following summarises the annual results of the Group for each of the two years ended 31 December 2010 and the interim results of the Group for the six months ended 30 June 2011 and 30 June 2010 respectively:

	For the six months ended		For the year ended	
	30 June 2011	30 June 2010	31 December 2010	31 December 2009
	(unaudited)	*(unaudited)*	*(audited)*	*(audited)*
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
Turnover	9,882.5	10,384.9	16,592.9	21,281.2
Profit attributable to the Shareholders for the period/year	130.8	95.7	195.7	196.8
Earnings per Share	12.6 cents	9.2 cents	18.9 cents	19.0 cents

The consolidated audited revenue and profit attributable to the Shareholders for the year ended 31 December 2010 were approximately HK$16,592.9 million and HK$195.7 million respectively, representing decreases of 22.0% and 0.6% respectively as compared to that of the corresponding period in 2009. The decrease in turnover was due to the Group's business transformation in 2010, where in order to focus on the development of its storage and logistics business segment, the Group ceased the trading of refined oil and petrochemical products with low profit margin. As a result of the enhanced capacity and efficiency of storage and transmission facilities in the Huizhou crude oil terminal and the reduction in finance cost, the Group only recorded a modest drop in net profit.

The consolidated unaudited revenue and profit attributable to the Shareholders for the six months ended 30 June 2011 were approximately HK$9,882.5 million and HK$130.8 million respectively, representing a decrease of 4.8% and increase of 36.7% respectively as compared to that of the corresponding period in 2010. The slight drop in turnover was mainly attributable to the cessation of trading of certain products. This was partially offset by the contribution from the two chartered vessels which commenced operation in the first half of 2011 and an increase of revenue contributed by the crude oil jetty services segment. The overall improvement in the net profit attributable to the Shareholders was a result of the improved cost control over the Group's crude oil jetty services division.

Set out below is a breakdown of the Group's revenue and results for each of the six months ended 30 June 2010 and 30 June 2011 as extracted from the 2011 Interim Report.

	Trading of crude oil, petroleum and petrochemical products		Crude oil jetty services		Vessel charter services	
			For the six months ended			
	30 June 2011	**30 June 2010**	**30 June 2011**	**30 June 2010**	**30 June 2011**	**30 June 2010**
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*
Segment revenue	9,529.2	10,110.0	292.2	274.9	61.1	–
Segment operating profit	0.5	7.9	144.9	114.9	3.3	–

As shown in the 2011 Interim Report, the trading business accounted for 96.4% of the Group's turnover for the six months ended 30 June 2011 but provided an insignificant contribution of 0.3% to the Group's total operating profit due to thin profit margin. In contrast, the crude oil jetty services division accounted for 3.0% and 97.4% of the Group's turnover and operating profit respectively for the six months ended 30 June 2011 and was the major contributor to the Group's operating profit. The Group's two chartered vessels commenced operation in the first half of 2011.

(b) Financial position of the Group

The following is a summary of the Group's balance sheet as at 30 June 2011 and 31 December 2010 as extracted from the 2011 Interim Report:

	As at 30 June 2011	**As at 31 December 2010**
	(unaudited)	*(audited)*
	HK$ million	*HK$ million*
Non-current assets		
Fixed assets		
– Investment properties	32.9	33.4
– Other property, plant and equipment	1,810.6	1,801.8
– Interests in leasehold land held for own use under operating leases	79.3	79.5
Interest in associate	11.7	–
Deferred tax assets	1.7	–
Total non-current assets	1,936.2	1,914.8

	As at 30 June 2011	**As at 31 December 2010**
	(unaudited)	*(audited)*
	HK$ million	*HK$ million*
Current assets		
Inventories	26.9	4.4
Trade and other receivables	1,993.8	188.2
Tax recoverable	2.1	2.1
Cash and cash equivalents	752.2	724.7
Total current assets	2,775.0	919.3
Total assets	4,711.2	2,834.1
Current liabilities		
Trade and other payables	1,728.5	125.1
Interest-bearing borrowings	263.9	156.0
Tax payable	18.2	9.3
Total liabilities	2,010.7	290.5
Net current assets	764.3	628.8
Net assets	2,700.5	2,543.6

As noted in the 2011 Interim Report, the Group had sound liquidity and financial positions as at 30 June 2011. The non-current assets of the Group primarily include investment properties, plant and equipment, interests in leasehold land held for own use under operating leases. Current assets principally comprise inventories, trade and other receivables as well as cash and cash equivalents. Trade and other receivables increased from approximately HK$188.2 million as at 31 December 2010 to approximately HK$1,993.8 million as at 30 June 2011, representing a substantial increase of approximately 9.6 times due to the unsettled trade receivables arising from crude oil sales in June 2011, while no crude oil sales were made in December 2010. The major categories of the liabilities of the Group are trade and other payables and interest-bearing borrowings. Trade and other payables have increased from approximately HK$125.1 million as at 31 December 2010 to approximately HK$1,728.5 million as at 30 June 2011, representing a increase of approximately 12.8 times due to the unsettled trade payables arising from crude oil purchases in June 2011, while no crude oil purchases were made in December 2010. As advised by the management of the Company, such balances of trade and other receivable and trade and other payables as at 30 June 2011 were associated with unsettled trades with Unipec which were subsequently settled in July 2011.

The net current assets of the Group improved slightly as at 30 June 2011 when compared to the position as at 31 December 2010. In addition, as at 30 June 2011, the Group had net cash of approximately HK$488.3 million, representing cash and cash equivalents of approximately HK$752.2 million less interest-bearing borrowings of approximately HK$263.9 million, as compared to a net cash of approximately HK$568.7 million as at 31 December 2010.

3. Outlook of the Group

In 2010, the Board made a decision of paramount importance to the Group, to build the Group into a world-class international oil storage and logistics company and to integrate the Group's storage business with the international petroleum trading business of the Sinopec Group. In order to implement such decision, Sinopec Corp. conducted an internal reorganisation of its shareholding structure and transferred its entire 100% equity interest in SKI, the controlling shareholder of the Company, to Unipec. Unipec, a wholly-owned subsidiary of Sinopec Corp., is one of the largest oil trading companies in the world and is principally engaged in the import of crude oil, the import and export of oil products and oil processing for the Sinopec Group and conducts other international oil trading businesses. Through its cooperation with Unipec, the Group provides ancillary storage and logistic services for Unipec's petroleum and petrochemical products trading business, which was an important initiative for the development of its storage and logistics business and laid a foundation for the Group to develop a stronger and larger storage and logistics business.

The Company also believes the rapid growth of the Chinese economy, together with the increasing energy consumption in the PRC, will foster the demand for petroleum and petrochemical products, leading to a positive and favourable operating environment and operating results of its crude oil jetty services. As stated in the 2010 Annual Report, the Group will capture such opportunity by profiting from the continued growth in the trading of petroleum and petrochemical products and cater for needs of the Sinopec Group to develop international operations and actively carry out the establishment and operation of the petroleum and petrochemical storage and logistics business.

We consider that the Acquisition is broadly in line with the strategic intention and development strategy of the Group.

4. Reasons for and benefits of the Acquisition

As set out in the letter from the Board in the Circular, together with the existing crude oil terminals in Huizhou and Zhanjiang, the number of crude oil terminal companies controlled or jointly owned by the Group will increase from two to a total of seven upon completion of the Acquisition, the number of berths will increase from 14 to 24, of which nine berths will have the capacity to accommodate VLCC vessels. Also as set out in the letter from the Board in the Circular, as a result of the Acquisition, the Group will have a jointly controlled interest in each of China's top three coastal ports for crude oil loading and unloading as measured by volume. Likewise, the annual design capacity of the Group's controlled or jointly controlled crude oil terminals will increase from approximately 85 million tonnes to approximately 225 million tonnes, representing an increase of approximately 165%. Upon completion of the Acquisition, this portfolio of strategic assets is expected to enable the Company to become the largest independent crude oil terminal operator in China and one of the largest in Asia.

The Acquisition will facilitate the Company in forming a new framework of crude oil transmission system in northern China, eastern China and southern China. With the acquisition of Five Joint Ventures, the Company will establish a crude oil transmission system in (i) the Bohai Economic Rim through the acquisition of Tianjin Port Shihua, Tangshan Caofeidian Shihua, Qingdao Shihua and Rizhao Shihua; (ii) the Yangzi River Delta through the acquisition of Ningbo Shihua; and (iii) in the Pearl River Delta through the Company's existing crude oil terminals located in Huizhou and Zhanjiang. These strategic locations on the sea board are expected to strengthen the Company's leading position in the related Chinese markets and assist the Group in becoming a world-class international oil storage and logistics company providing services for crude oil, petroleum and petrochemical storage and logistics.

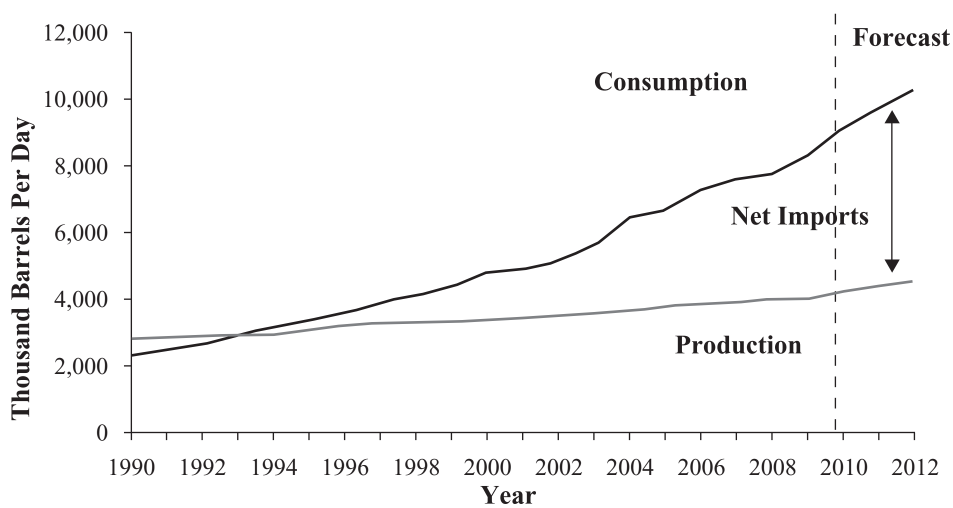
In addition, as the Chinese crude oil terminal industry tends to exhibit monopolistic characteristics, it is expected the completion of the Acquisition will enhance the Group's financial performance by way of stable revenues with high operating margins and profitability. For further details on the financial impact of the Acquisition on the Group, please refer to our analysis in section headed "Financial effects of the Acquisition and the proposed Rights Issue on the Group" below.

Among other benefits, the Acquisition will also enable the Company to combine the experience and expertise of the Group's existing management team with that of Five Joint Ventures.

5. Industry outlook

Riding on the back of rapid industrialisation and urbanisation, the PRC remains a key contributor to the growth in global demand for crude oil. According to the U.S. Energy Information Administration ("**EIA**"), the PRC is the largest energy consumer and the second-largest oil consumer in the world. Its rapidly increasing energy demand has made the PRC very influential in world energy markets. According to the BP Statistical Review of World Energy June 2011 (the "**2011 BP Report**") published by BP plc, one of the world's leading oil and gas producers, the PRC accounted approximately 20.3% of the global energy consumption. In terms of oil consumption, there has been significant increase in oil demand by the PRC in 2010. Daily oil consumption is approximately 9.1 million barrels in 2010, up approximately 10.4% when compared with the prior year.

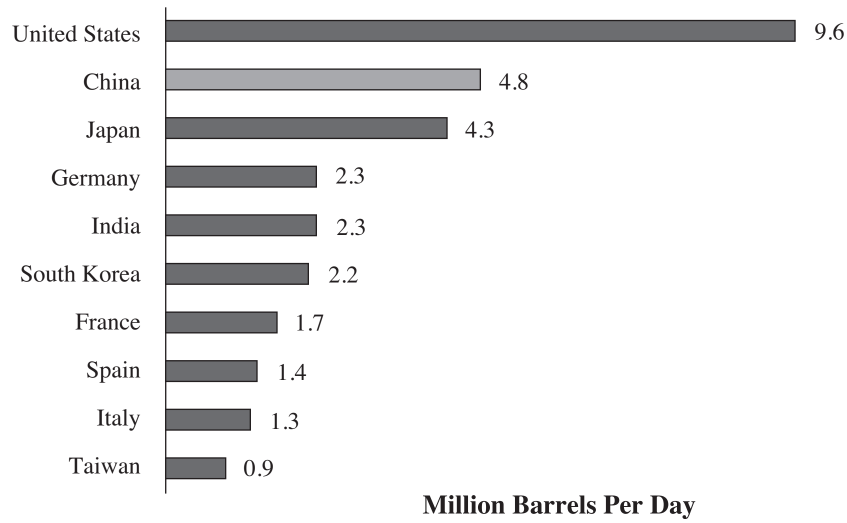
China's Oil Production and Consumption, 1990-2012



Source: EIA Short-Term Energy Outlook (April 2011)

Daily oil production in the PRC, on the other hand, albeit approximately 7.1% higher in 2010 when compared to the prior year, was only approximately 4.1 million barrels which was far below the demand. This production statistic when coupled with the PRC's proved reserve of approximately 14,800 million barrels which accounted for approximately 1.1% of share of the world's total, means the PRC's demand for oil far outstrips its own resources. The PRC was a net oil exporter until the early 1990s but became (and remains) the world's second largest net importer of oil in 2009. The PRC's oil consumption growth accounted for over a third of the world's oil consumption growth in 2010. Against this background, on average, more than 50% of the total oil demand was met by foreign oil imports. According to the 2011 BP Report, the PRC imported approximately 234.6 million tonnes or equivalent to approximately 4.7 million barrels daily of crude oil in 2010. EIA forecasts that the PRC's oil consumption will continue to grow during 2011 and 2012, and the anticipated growth of approximately 1.1 million barrels daily between 2010 and 2012 would represent approximately 40% of the projected world oil demand growth during this 2-year period. BP plc further predicts, as per the BP Energy Outlook 2030 (the "**BP Energy Outlook 2030**") published by BP plc oil consumption in China will reach 17.5 million barrels daily by 2030, overtaking the United States of America to become the world's largest oil consumer.

Top Ten Net Oil Importers, 2010*

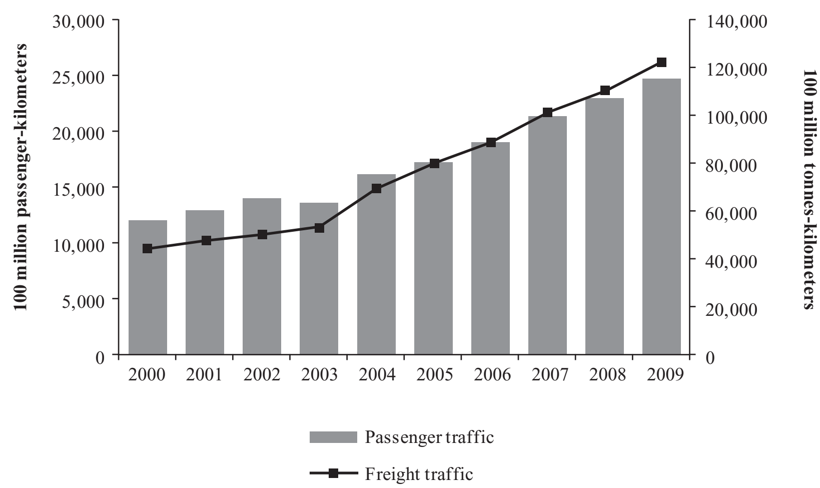


* Estimates of production and consumption.
Source: EIA Short-Term Energy Outlook (April 2011)

According to the BP Energy Outlook 2030, industry and transportation are the main sectors driving China's oil demand. Within these two sectors, there has been a major structural change. According to the research conducted by CNPC Research Institute of Economics and Technology, the proportion of industrial oil consumption declined from approximately 70.1% in 1980 to approximately 41.1% in 2007 while the proportion of transportation oil consumption increased from approximately 10.4% in 1980 to approximately 33.6% in 2007. In 2008, according to the National Bureau of Statistics of China, more than 50% of gasoline and diesel consumption is in transportation industry, and gasoline and diesel are currently the largest two components of oil consumption in China.

According to the CNPC Research Institute of Economics and Technology, rapidly growing passenger and freight traffic volume as well as the burgeoning car population are the main reasons for increasing transportation oil consumption which ultimately impacts domestic demand for crude oil. During the period between 1980 and 2008, civil vehicle ownership in China increased by almost thirty-fold representing a compound annual growth rate ("**CAGR**") of approximately 12.6%. During the same period the corresponding CAGRs in passenger and freight traffic were both greater than 8%. Such growth corresponds closely to the growing demand in crude oil in China.

PRC's total passenger and freight traffic growth, 2000-2009



Source: National Bureau of Statistics of China

Based on the above, we consider that Five Joint Ventures are in an advantageous position to benefit from China's rising foreign oil imports as a result of the increasing demand for crude oil which consequently triggers a strong demand in crude oil terminal services.

6. The Acquisition

(a) The Acquisition Agreements

On 3 December 2011, Sinomart Development (as purchaser), a wholly-owned subsidiary of the Company, and Sinopec Corp. (as vendor) entered into the Acquisition Agreements. Pursuant to the Acquisition Agreements, Sinomart Development conditionally agreed to acquire and Sinopec Corp. conditionally agreed to sell the Target Equity Interests at an aggregate consideration of RMB1,809,807,300 (equivalent to approximately HK$2,220,622,454) (the "**Total Purchase Price**"). The respective consideration for the acquisition of each of Five Joint Ventures is as follows:

(1) 50% of equity interest in Ningbo Shihua at a consideration of RMB173,284,700 (equivalent to approximately HK$212,619,264);

(2) 50% of equity interest in Qingdao Shihua at a consideration of RMB585,797,600 (equivalent to approximately HK$718,770,061);

(3) 50% of equity interest in Tianjin Port Shihua at a consideration of RMB349,546,800 (equivalent to approximately HK$428,891,779);

(4) 50% of equity interest in Rizhao Shihua at a consideration of RMB427,869,300 (equivalent to approximately HK$524,993,006); and

(5) 90% of equity interest in Tangshan Caofeidian Shihua at a consideration of RMB273,308,900 (equivalent to approximately HK$335,348,344).

The Acquisition Agreements are subject to the approval by the Independent Shareholders and the approval and completion of the proposed Rights Issue, and other conditions precedent, details of which are set out in the sub-section headed "Conditions precedent to the Acquisition" in the letter from the Board in the Circular. If any of the conditions is not fulfilled within 12 months from the date on which the resolution in respect of the Acquisition is approved by the Independent Shareholders at the SGM (or such later date as agreed between the parties), the Acquisition Agreements and the transactions contemplated thereunder will be terminated simultaneously. Our opinion on the proposed Rights Issue is set out in the section headed "The proposed Rights Issue" below.

As set out in the letter from the Board in the Circular, the Acquisition Agreements are inter-conditional as to approval by the Independent Shareholders whereas the Acquisition Agreements are not inter-conditional as to completion because Five Joint Ventures are situated in different locations and will be subject to regulatory approvals from their respective local regulatory authorities which includes the Ministry of Commerce of the PRC (both the State and provincial levels).

Upon completion of the Acquisition, Ningbo Shihua, Qingdao Shihua, Tianjin Port Shihua, Rizhao Shihua and Tangshan Caofeidian Shihua will all become jointly controlled entities of the Company under HKFRS.

(b) New joint venture agreements and new articles of association

Upon completion of the Acquisition, Sinomart Development will enter into new joint venture agreements and a new articles of association with each of the Five JV Partners in relation to the management and operation of the relevant Five Joint Ventures which will principally be in line with the parties' respective shareholding and the role of management in Five Joint Ventures.

(c) Assets to be acquired

The Target Equity Interests represent a portfolio of jointly controlled interests in the deepwater crude oil terminals located in the eastern sea board of the PRC. Further details of the Target Equity Interests are set out below and in the section headed "Information on Five Joint Ventures" in the letter from the Board in the Circular.

(d) Purchase price

The Total Purchase Price was arrived at after arm's length negotiation between Sinopec Corp. and Sinomart Development, and was determined based on, among others, the financial information of the Five Joint Ventures as set out in Appendix II of the Circular, the property valuation report as set out in Appendix V of the Circular and the valuation of each of Five Joint Ventures as at 30 September 2011, appraised by China United Assets Appraisal Co. Ltd., an independent firm of qualified PRC valuers (designated by the PRC government to conduct valuation of state-owned assets) by using the cost approach, including the replacement cost method, of the assets of the Five Joint Ventures, including the real properties, equipments and other current assets. The preparation of valuation report by China United Assets Appraisals Co., Ltd. was commissioned by Sinopec Corp., which is prepared for the State Administration of State-owned Asset Commission of the PRC Government and other relevant PRC governmental and regulatory authorities, for their review, approval and records and not for other purpose. The Directors consider that it would be appropriate and beneficial to the Company to use such approach for valuation of the Target Equity Interests for the following reasons: (i) Tangshan Caofeidian Shihua was incorporated on 22 April 2011 and has a relatively short operating history. Rizhao Shihua has been incurring losses since its incorporation on 28 June 2010 due to its trial operation, which is expected to complete by the start of 2012. As such, it would be difficult to prepare accurate valuation for Tangshan Caofeidian Shihua and Rizhao Shihua using the income method. For consistency, the cost approach for valuation has been adopted for all five Target Equity Interests; (ii) by adopting the cost approach, the parties would be able to rely on more objective criteria such as the historical figures of Five Joint Ventures instead of relying on operating assumptions to forecast the future financial performance of Five Joint Ventures under the income approach; and (iii) the cost approach is in line with the applicable PRC laws and regulations in respect of valuation of PRC state-owned assets.

As at 30 September 2011, the valuation of the Target Equity Interests to be acquired by Sinomart Development was RMB1,809,807,300 (equivalent to approximately HK$2,220,622,454). As at the date of valuation, being 30 September 2011, the net assets value of the Target Equity Interests to be acquired by Sinomart Development prepared in accordance with HKFRS was approximately RMB1,577,111,000 (equivalent to approximately HK$1,935,106,000). The Directors consider the valuation of the Target Equity Interests to be acquired by Sinomart Development, as at the date of valuation, i.e. 30 September 2011, is fair and reasonable. The valuation reports (including the property valuation report) have been reviewed by the Board for the purposes of determining the consideration of the Acquisition. The Directors are of the view that such valuation of the Target Equity Interests has been prepared after due and careful enquiry.

Pursuant to each of the Acquisition Agreements, the Total Purchase Price will be fully payable by Sinomart Development in cash to Sinopec Corp. within 6 months from the date of issue of the foreign-invested enterprise business license to each of Five Joint Ventures.

7. Information on Five Joint Ventures

(a) Background and business of Five Joint Ventures

Ningbo Shihua was established as a limited liability company on 5 December 2002 in the PRC, with a registered capital of RMB80 million (equivalent to approximately HK$98.16 million), which was held as to 50% by Sinopec Corp. and as to 50% by Ningbo Shihua JV Partner respectively at the Latest Practicable Date.

Qingdao Shihua was established as a limited liability company on 23 February 2006 in the PRC, with a registered capital of RMB200 million (equivalent to approximately HK$245.40 million), which was held as to 50% by Sinopec Corp. and as to 50% by Qingdao Shihua JV Partner respectively at the Latest Practicable Date.

Tianjin Port Shihua was established as a limited liability company on 19 December 2007 in the PRC, with a registered capital of RMB482.66 million (equivalent to approximately HK$592.22 million), which was held as to 50% by Sinopec Corp. and as to 50% by Tianjin Port Shihua JV Partner at the Latest Practicable Date.

Rizhao Shihua was established as a limited liability company on 28 June 2010 in the PRC, with a registered capital of RMB800 million (equivalent to approximately HK$981.60 million), which was held as to 50% by Sinopec Corp. and as to 50% by Rizhao Shihua JV Partner respectively at the Latest Practicable Date.

Tangshan Caofeidian Shihua was established as a limited liability company on 22 April 2011 in the PRC, which was held as to 90% by Sinopec Corp. and as to 10% by Tangshan Caofeidian Shihua JV Partner respectively at the Latest Practicable Date. Its registered capital is RMB289.61 million (equivalent to approximately HK$355.35 million). We note that one of the conditions precedent to the Acquisition requires the registered capital of Tangshan Caofeidian Shihua having been fully paid up by Sinopec Corp., and Tangshan Caofeidian Shihua having obtained the updated business license issued by the relevant Administration and Industry and Commerce of the PRC. As at the Latest Practicable Date, Sinopec Corp. has injected RMB60 million by cash to partially pay up the registered capital and the remaining portion will be satisfied by Sinopec Corp by way of injection of a portion of the assets of 300,000-tonne crude oil terminal valued at approximately RMB200 million. As at the Latest Practicable Date, Tangshan Caofeidian Shihua JV Partner has contributed RMB6.67 million.

As advised by the Company, subject to final valuation and the approval from the relevant PRC government authorities, the entire 300,000-tonne crude oil terminal is preliminarily estimated to be of a value at approximately RMB600 million. The management of the Company further advised that upon completion of the contribution to the registered capital of Tangshan Caofeidian Shihua, Tangshan Caofeidian Shihua is allowed to use the remaining assets of 300,000-tonne crude oil terminal, valued at approximately RMB400 million (subject to valuation), at no cost. To the best knowledge of the management of the Company after having made reasonable enquiries, it is the intention of Tangshan Caofeidian Shihua to acquire from the Sinopec Group the remaining assets of 300,000-tonne crude oil terminal at a later date as and when external financing can be obtained. For further information of Tangshan Caofeidian Shihua, please refer to "C. Information on Five Joint Ventures" in the letter from the Board in the Circular.

As disclosed in the property valuation report in Appendix V of the Circular, as at 30 September 2011, Tangshan Caofeidian Shihua had not obtained any State-owned land use rights or sea use rights certificates, and according to the PRC legal adviser to the Company, Tangshan Caofeidian Shihua is entitled to occupy, use, usufruct of the property save and except to transfer, mortgage or otherwise dispose of the property.

As advised by the PRC legal adviser of the Company, as at the Latest Practicable Date, Tianjin Port Shihua and Rizhao Shihua had not obtained the relevant sea use rights certificate nor had them signed long term lease agreements with the owners of the sea use rights certificates sub-letting the sea use rights of the relevant designated territorial sea area for them to engage in providing crude oil terminal services. For Tianjin Port Shihua and Rizhao Shihua, as at the Latest Practicable Date, the relevant sea use rights certificates of the relevant designated territorial sea area are held by the Tianjin Port Shihua JV Partner and the Rizhao Shihua JV Partner respectively. As advised by the PRC legal adviser of the Company, payments had been made in full by Tianjin Port Shihua and Rizhao Shihua to the Tianjin Port Shihua JV Partner and the Rizhao JV Partner since their commencement of operation for the sub-leasing of the relevant designated territorial sea area. As advised by the PRC legal adviser of the Company, Tianjin Port Shihua and Rizhao Shihua are seeking written consents from the Tianjin Port Shihua JV Partner and the Rizhao Shihua JV Partner to use the relevant designated territorial sea area respectively and the management of the Company does not foresee any obstacles in obtaining such consents.

Set out below is the key summary information on each of Five Joint Ventures. Further details of Five Joint Ventures are set out in the section headed "Information on Five Joint Ventures" in the letter from the Board in the Circular.

Name of Five Joint Ventures	Location	Registered capital (RMB million)	Equity interests to be acquired	Number of berths	Capacity: Vessel docking capacity (tonnes)	Capacity: Designed annual throughput (million tonnes)	Term
Ningbo Shihua	Daxie Development Zone (大榭開發區), Ningbo – Zhoushan Port (寧波-舟山港)	80.00	50%	3[(1)]	250,000 69,000 450,000[(1)]	35.0[(1)]	5 December 2002 to 3 December 2032
Qingdao Shihua	Jiaozhou Bay (膠州灣), Huangdao District (黃島區), Qingdao	200.00	50%	4[(2)]	50,000 (first phase) 20,000 (first phase) 200,000 (second phase) 300,000 (third phase)	45.0	23 February 2006 to 21 February 2036
Tianjin Port Shihua	Southern border waters of Tianjin Port (天津港南疆海域)	482.66	50%	1	300,000	20.0	19 December 2007 to 18 December 2037
Rizhao Shihua[(3)]	Rizhao Port Lanshan North Port Area (日照港南山港北區)	800.00	50%	1	300,000	20.0	28 June 2010 to 28 June 2040
Tangshan Caofeidian Shihua	Tanghai County Southern waters (唐海縣南部海域)	289.61	90%	1	300,000	20.0	22 April 2011 to 21 April 2031

Notes:

(1) Including the second phase 450,000-tonne crude oil terminal with a total designed annual capacity of 18 million tonnes of crude oil which commenced trial operation in June 2011.

(2) Qingdao Shihua operates 3 terminals with 4 berths.

(3) Rizhao Shihua is in the course of preparation to construct the second phase 300,000-tonne crude oil terminal.

Five Joint Ventures offer crude oil jetty services that complement the existing major business segments of the Group. Business activities of Five Joint Ventures take place around the satellite terminals situated around the Bohai Economic Rim and the Yangtze River Delta, two of the three largest economic zones in the PRC. The following map sets out the location of the crude oil terminals owned and operated by Five Joint Ventures.

(b) Financial information on Five Joint Ventures

(i) Financial results Five Joint Ventures

As advised by the Company, there were no inter-company transactions among Five Joint Ventures during the aforesaid period. The combined financial results of Five Joint Ventures for the three years ended 31 December 2010 and nine months ended 30 September 2011 as extracted from the accountants' reports of Five Joint Ventures as set out in Appendix II to the Circular, for the purpose of our analysis, are as set out below.

For the nine months ended 30 September 2011	**Ningbo Shihua**	**Qingdao Shihua**	**Tianjin Port Shihua**	**Rizhao Shihua**	**Tangshan Caofeidian Shihua**(1)	**Total**
			RMB million			
Revenue	113.2	320.4	90.2	1.1	52.9	577.8
Cost of sales	(11.9)	(56.9)	(41.4)	(21.2)	(4.3)	(135.7)
Gross profit	101.3	263.5	48.8	(20.1)	48.6	442.1
Gross profit margin	*89.5%*	*82.2%*	*54.1%*	–	*91.9%*	*76.5%*
Other revenue	0.5	4.4	0.0	1.7	0.2	6.8
Other net loss	(0.2)	(0.3)	(0.8)	–	–	(1.3)
Administrative expenses	(12.9)	(14.8)	(8.0)	(9.3)	(5.3)	(50.3)
Finance costs	–	–	(17.4)	–	–	(17.4)
Other operating expenses	–	–	–	–	(0.4)	(0.4)
Profit/(loss) before taxation	88.7	252.8	22.6	(27.7)	43.1	379.5
Income tax	(22.2)	(63.2)	3.7	2.2	(11.3)	(90.8)
Profit /(loss) and total comprehensive income for the period	66.5	189.6	26.3	(25.5)	31.8	288.7
Net profit margin	*58.7%*	*59.2%*	*29.2%*	–	*60.1%*	*50.0%*
Profit attributable to the Target Equity Interests	33.2	94.8	13.2	(12.8)	28.6	157.0

Note:

(1) Covering the period from 22 April 2011, the date of the establishment of Tangshan Caofeidian Shihua, to 30 September 2011.

For the year ended 31 December 2010	Ningbo Shihua	Qingdao Shihua	Tianjin Port Shihua	Rizhao Shihua[(1)]	Tangshan Caofeidian Shihua[(2)]	Total
			RMB million			
Revenue	141.6	407.2	133.3	–	–	682.1
Cost of sales	(19.8)	(70.2)	(58.8)	–	–	(148.8)
Gross profit	121.8	337.0	74.5	–	–	533.3
Gross profit margin	*86.0%*	*82.8%*	*55.9%*	–	–	*78.2%*
Other revenue	1.8	4.0	0.1	–	–	5.9
Other net loss	(0.2)	–	(0.2)	–	–	(0.4)
Administrative expenses	(16.1)	(17.8)	(14.0)	(3.9)	–	(51.8)
Finance costs	–	–	(19.7)	–	–	(19.7)
Other operating expenses	–	–	–	–	–	0.0
Profit/(loss) before taxation	107.3	323.2	40.7	(3.9)	–	467.3
Income tax	(27.0)	(81.5)	5.2	–	–	(103.3)
Profit /(loss) and total comprehensive income for the period	80.3	241.7	45.9	(3.9)	–	364.0
Net profit margin	*56.7%*	*59.4%*	*34.4%*	–	–	*53.4%*
Profit attributable to the Target Equity Interests	40.2	120.9	23.0	(2.0)	–	182.1

Notes:

(1) Covering the period from 28 June 2010, the date of the establishment of Rizhao Shihua, to 31 December 2010.

(2) Tangshan Caofeidian Shihua was established on 22 April 2011 so no accounts are available for the year ended 31 December 2010.

For the year ended 31 December 2009	Ningbo Shihua	Qingdao Shihua	Tianjin Port Shihua	Rizhao Shihua(1)	Tangshan Caofeidian Shihua(2)	Total
			RMB million			
Revenue	145.5	343.5	85.1	–	–	574.1
Cost of sales	(24.5)	(62.1)	(52.8)	–	–	(139.4)
Gross profit	121.0	281.4	32.3	–	–	434.7
Gross profit margin	*83.2%*	*81.9%*	*38.0%*	–	–	*75.7%*
Other revenue	2.5	3.3	–	–	–	5.8
Other net loss	(0.3)	(1.9)	0.4	–	–	(1.8)
Administrative expenses	(10.9)	(13.9)	(12.4)	–	–	(37.2)
Finance costs	–	–	(20.4)	–	–	(20.4)
Other operating expenses	–	–	–	–	–	0.0
Profit/(loss) before taxation	112.3	268.9	(0.1)	–	–	381.1
Income tax	(28.3)	(67.7)	4.5	–	–	(91.5)
Profit /(loss) and total comprehensive income for the period	84.0	201.2	4.4	–	–	289.6
Net profit margin	*57.7%*	*58.6%*	*5.2%*	–	–	*50.4%*
Profit attributable to the Target Equity Interests	42.0	100.6	2.2	–	–	144.8

Notes:

(1) Rizhao Shihua was established on 28 June 2010 so no accounts are available for the year ended 31 December 2009.

(2) Tangshan Caofeidian Shihua was established on 22 April 2011 so no accounts are available for the year ended 31 December 2009.

For the year ended 31 December 2008	Ningbo Shihua	Qingdao Shihua	Tianjin Port Shihua(1)	Rizhao Shihua(2)	Tangshan Caofeidian Shihua(3)	Total
			RMB million			
Revenue	127.0	299.2	–	–	–	426.2
Cost of sales	(26.6)	(67.1)	–	–	–	(93.7)
Gross profit	100.4	232.1	–	–	–	332.5
Gross profit margin	*79.1%*	*77.6%*	–	–	–	*78.0%*
Other revenue	2.7	2.0	–	–	–	4.7
Other net loss	(0.2)	0.0	–	–	–	(0.2)
Administrative expenses	(7.5)	(14.0)	–	–	–	(21.5)
Finance costs	–	–	–	–	–	0.0
Other operating expenses	–	–	–	–	–	0.0
Profit/(loss) before taxation	95.4	220.1	–	–	–	315.5
Income tax	(23.9)	(55.4)	–	–	–	(79.3)
Profit /(loss) and total comprehensive income for the period	71.5	164.7	–	–	–	236.2
Net profit margin	*56.3%*	*55.0%*	–	–	–	*55.4%*
Profit attributable to holders of equity interests proposed to be acquired	35.8	82.4	–	–	–	118.1

Notes:

(1) Tianjin Port Shihua commenced operation on 1 January 2009 so no accounts are available for the year ended 31 December 2008.

(2) Rizhao Shihua was established on 28 June 2010 so no accounts are available for the year ended 31 December 2008.

(3) Tangshan Caofeidian Shihua was established on 22 April 2011 so no accounts are available for the year ended 31 December 2008.

A. Revenue

Revenue represents service income from the provision of crude oil jetty services. For each of the three years ended 31 December 2010 and the nine months ended 30 September 2011, revenue derived from Sinopec Group. accounted for approximately 96.5%, 86.4%, 89.5% and 89.5% of Five Joint Venture's combined revenue respectively. Three out of Five Joint Ventures recorded revenue for the year ended 31 December 2009. Both Ningbo Shihua and Qingdao Shihua recorded a stable growth in revenue whilst Tianjin Port Shihua recorded a full-year revenue of approximately RMB85.1 million since commencing its operation in 1 January 2009. The combined revenue for the year ended 31 December 2009 of these joint ventures grew from approximately RMB426.2 million of 2008 to approximately RMB574.1 million, representing an increase of approximately 34.7% driven by increased demand from the Sinopec Group as well as enlarged capacity to accommodate more business resulting from the commencement of operation of Tianjin Port Shihua and the third phase terminal of Qingdao Shihua.

Three out of Five Joint Ventures recorded revenue for the year ended 31 December 2010. Both Qingdao Shihua and Tianjin Port Shihua recorded a stable growth in revenue whilst Ningbo Shihua's revenue was slightly lower in the year ended 31 December 2010 over the previous year due to a lower demand from Sinopec Group as competing terminals became operational. The combined revenue for the year ended 31 December 2010 of these joint ventures grew from approximately RMB574.1 million in 2009 to approximately RMB682.1 million, representing an increase of approximately 18.8% driven by increased demand from the Sinopec Group, reflecting strong recovery of market demand for crude oil following the global financial crisis.

For the nine months ended 30 September 2011, all Five Joint Ventures recorded revenue and the combined revenue of Five Joint Ventures amounted to approximately RMB577.8 million. Owing to the commencement of operations of Tangshan Caofeidian Shihua and Rizhao Shihua, an additional RMB54.0 million had been added to the combined revenue of Five Joint Ventures for the nine months ended 30 September 2011. Of the additional revenue, approximately RMB52.9 million was contributed by Tangshan Caofeidian Shihua. When compared with the previous period, both Ningbo Shihua and Qingdao Shihua recorded increases of revenue due to the increased demand for crude oil from the Sinopec Group. Tianjin Port Shihua, however, recorded a decrease in revenue due to decreased demand as a result of the full operation of a competing terminal operated by Tangshan Caofeidian Shihua.

Shareholders should note that Tangshan Caofeidian Shihua has accounted for the revenue generated from the 300,000 crude oil terminal to be owned by it in full based on its accountant's report as set out in Appendix II to the Circular.

B. Costs and expenses

Cost of sales mainly comprises employee wages, energy and consumables costs. Taken together with the depreciation charge of the property, plant and equipment as well as administrative expenses, they form the majority portion of the expenses for Five Joint Ventures. For the year ended 31 December 2009, the combined costs of sales of Ningbo Shihua, Qingdao Shihua and Tianjin Port Shihua was approximately RMB139.4 million, representing an increase of approximately 48.8% when compared to that of the previous year. Such increase was mainly attributable to the corresponding increase in revenue recorded by Tianjin Port Shihua for its first full year of operation.

The combined cost of sales of the three joint ventures grew from approximately RMB139.4 million for the year ended 31 December 2009 to approximately RMB148.8 million for the year ended 31 December 2010, representing an increase of approximately 6.7%. For the nine months ended 30 September 2011, all Five Joint Ventures recorded costs of sales and the combined costs of sales of Five Joint Ventures amounted to approximately RMB135.7 million. Such increase was driven by the increase in combined revenue of Qingdao Shihua and Tianjin Port Shihua.

The gross profit margins of two out of Five Joint Ventures for the year ended 31 December 2008 range from approximately 77.6% to approximately 79.1% with a combined gross margin of approximately 78.0%. The gross profit margins of three out of Five Joint Ventures for the year ended 31 December 2009 range from approximately 38.0% to approximately 83.2% with a combined gross margin of approximately 75.7%. The gross margins of three of Five Joint Ventures for the year ended 31 December 2010 range from approximately 55.9% to approximately 86.0% with a combined gross margin of approximately 78.2%. Four out of Five Joint Ventures recorded positive gross profit margins for the nine months ended 30 September 2011 except for Rizhao Shihua which commenced trial operations in the first quarter of 2011 and the gross margins of Five Joint Ventures (except for Rizhao Shihua) for the nine months ended 30 September 2011 range from 54.1% to 91.9% with a combined gross margin of approximately 76.5%. The strong gross margin achieved by the business of Five Joint Ventures is regarded as a common feature for the monopolistic characteristics of the Chinese crude oil terminal industry. The gross profit margins of Tianjin Port Shihua were the lowest across Five Joint Ventures (except for Rizhao Shihua which has been loss-making) during the track record period. This was mainly due to the relatively high depreciation cost charged during the year/period accounting for over 80% of costs of sales (Ningbo Shihua: 34.7%, Qingdao Shihua: 58.1% and Tangshan Caofeidian Shihua: 45.7%) on average.

C. Income tax expenses

Five Joint Ventures recorded a combined income tax expense of approximately RMB90.8 million for the nine months ended 30 September 2011 which represents an effective tax rate of approximately 23.9% for Five Joint Ventures, which is generally in line with the statutory corporate tax rate of 25% in the PRC. The effective tax rates for the 2010 and 2009 for three operating joint ventures were also at similar levels.

Pursuant to the tax regulation "Preferential Corporate Income Tax for Public Infrastructure Facility" (Guo ShuiFa (2009) No.28), which was issued by the State Administration of Taxation on April 16, 2009. Tianjin Port Shihua, Rizhao Shihua and Tangshan Caofeidian Shihua, as they are in their first few years of operation, may be entitled to a tax holiday on corporate income tax for 3 years from the first year of making revenue, and a 50% reduction in the corporate income tax rate for the following 3 years. Hence, for the aforesaid joint ventures, with the exception of Tangshan Caofeidian Shihua, negative income tax expenses were recorded due to the tax effects of depreciation allowance in excess of the related depreciation of property, plant and equipment. As for Tangshan Caofeidian Shihua, since its application for preferential tax treatment for the 2011 fiscal year has yet been approved by the tax authority, income tax provision has been made by Tangshan Caofeidian Shihua. As advised by the PRC legal adviser of the Company, the status concerning the preferential corporate income tax of each of the aforesaid joint ventures for the financial year ended 31 December 2011 are: (i) Tianjin Port Shihua is in its last year of enjoying the tax holiday on corporate income tax and it has yet to enter into the first year of enjoying the 50% reduction in the corporate income tax rate; (ii) Rizhao Shihua has submitted its application for preferential tax treatment for the 2011 fiscal year but has yet to obtain the approval from the tax authority. Nevertheless, the tax authority has in principle acknowledged the application and considered Rizhao Shihua is in its first year of enjoying the tax holiday on corporate income tax; and (iii) Tangshan Caofeidian Shihua are not yet able to enjoy the tax holiday on corporate income tax as its application for preferential tax treatment for the 2011 fiscal year has yet been approved by the tax authority.

D. Net profit

For the year ended 31 December 2009, three out of Five Joint Ventures recorded combined net profit of approximately RMB289.6 million, representing an increase of approximately 22.6% when compared to that of the previous year. Such increase in combined net profit for the year ended 31 December 2009 was driven by both Tianjin Port Shihua's first full year of operation as well as the stable increases in revenue of Ningbo Shihua and Qingdao Shihua.

The combined net profit of four out of Five Joint Ventures increased from approximately RMB289.6 million for the year ended 31 December 2009 to approximately RMB364.0 million for the year ended 31 December 2010, representing an increase of approximately 25.7%. The increase was in line with the revenue increase and predominately driven by the strong revenue increases recorded at Qingdao Shihua and Tianjin Port Shihua. The net profit for Tianjin Port Shihua for 31 December 2010 increased from a low base of approximately RMB4.4 million in 2009 to approximately RMB45.9 million, representing an increase of over ten-fold.

For the nine months ended 30 September 2011, four out of Five Joint Ventures were profitable except for Rizhao Shihua which commenced trial operations in the first quarter of 2011 and the combined net profit of Five Joint Ventures amounted to approximately RMB288.7 million with a net profit margin of approximately 50.0%. The net profit margins of the four profitable joint ventures for the nine months ended 30 September 2011 are above 50% except for Tianjin Port Shihua which recorded a relatively lower net profit margin of 29.7% and this was mainly due to the finance costs arising from the interest bearing borrowings. Tianjin Port Shihua had incurred finance costs in relation to short-term loans from related parties and bank borrowings of approximately RMB20.4 million, RMB19.7 million and RMB17.4 million for the two years ended 31 December 2010 and nine months ended 30 September 2011 respectively. The interest bearing borrowings were primarily used to finance the construction of its crude oil terminal.

(ii) Financial positions of Five Joint Ventures

Set out below are the summarised financial positions of Five Joint Ventures as at 30 September 2011 as extracted from the accountants' reports of Five Joint Ventures as set out in Appendix II to the Circular.

As at 30 September 2011	**Ningbo Shihua**	**Qingdao Shihua**	**Tianjin Port Shihua**	**Rizhao Shihua**	**Tangshan Caofeidian Shihua**	**Total**
			RMB million			
Non-current assets						
Fixed assets						
– Property, plant and equipment	123.3	678.2	1,021.2	800.6	200.2	2,823.5
– Construction in progress	141.6	1.6	–	200.6	–	343.8
Intangible assets	1.0	–	–	–	–	1.0
Deferred tax assets	–	3.6	13.4	2.2	–	19.2
Other non-current assets	–	–	6.0	–	–	6.0
	265.9	683.4	1,040.6	1,003.4	200.2	3,193.5

As at 30 September 2011	Ningbo Shihua	Qingdao Shihua	Tianjin Port Shihua	Rizhao Shihua	Tangshan Caofeidian Shihua	Total
			RMB million			
Current assets						
Inventories	0.3	0.1	0.1	–	–	0.5
Trade and other receivables	52.4	23.5	2.6	0.5	22.3	101.3
Cash and cash equivalents	50.1	340.3	2.6	64.7	116.5	574.2
Restricted bank deposit	–	–	–	27.5	–	27.5
	102.8	363.9	5.3	92.7	138.8	703.5
Current liabilities						
Trade and other payables	32.0	20.5	53.5	125.6	28.5	260.1
Income tax payable	7.3	59.5	–	–	11.3	78.1
Interest bearing borrowings due within one year	–	–	432.7	24.0	–	456.7
	39.3	80.0	486.2	149.6	39.8	794.9
Net current assets/ (liabilities)	63.5	283.9	(480.9)	(56.9)	99.0	(91.4)
Non-current liabilities						
Interest bearing borrowings	–	–	–	176.0	–	176.0
Deferred tax liabilities	11.3	–	–	–	–	11.3
	11.3	0.0	0.0	176.0	0.0	187.3
Net assets	318.1	967.3	559.7	770.5	299.2	2,914.8
Capital and reserves						
Share capital	80.0	200.0	482.6	800.0	66.7	1,629.3
Reserves	54.2	767.3	5.4	(29.5)	232.5	1,029.9
Retain earnings	183.9	–	71.7	–	–	255.6
	318.1	967.3	559.7	770.5	299.2	2,914.8
Net assets attributable to holders of equity interests proposed to be acquired	159.1	483.6	279.9	385.3	269.2	1,577.1

A. Liquidity and cash balances

The combined cash and cash equivalents balance decreased from approximately RMB596.9 million as at 31 December 2010 to approximately RMB574.2 million as at 30 September 2011, representing decrease of approximately 3.8%. The decrease was primarily due to Rizhao Shihua transferred a cash balance of RMB27.5 million and held such balance as restricted bank deposit with a bank in 2011. The combined cash and cash equivalents balance represented approximately 14.7% of the combined assets of Five Joint Ventures as at 30 September 2011.

B. Property, plant and equipment and construction in progress

Combined property, plant and equipment and construction in progress of Five Joint Ventures as at 30 September 2011 amounted to approximately RMB3,167.3 million and represented approximately 81.3% of the combined total assets of Five Joint Ventures as at 30 September 2011. They mainly comprise jetty structures, jetty facilities, buildings, vessels, motor vehicles, machineries and construction in progress directly related to the operations of the various terminals. Such combined balance represented an increase of approximately 12.1% when compared to the combined property, plant and equipment and construction in progress as at 31 December 2010 of approximately RMB2,824.0 million. The increase was due to the increase in construction in progress of Rizhao Shihua constructing the second phase 300,000-tonne crude oil terminal.

Shareholders should note that the balance sheet of Tangshan Caofeidian Shihua has accounted for the assets injected by way of capital contribution by Sinopec Group and its recognition as share capital is pending capital verification. The entire value of the 300,000-tonne crude oil terminal has yet been reflected in the latest financial statement of Tangshan Caofeidian Shihua, the current status of which is summarised in "(a) Background and business of Five Joint Ventures" in the subsection above.

C. Inventories

Inventories which are minimal, are comprised of spare parts and consumables in relation to the operations of the various crude oil terminals.

D. Trade receivables and payables

Trade and other receivables amounted to RMB101.3 million for Five Joint Ventures as at 30 September 2011 representing approximately 85.5% increase over that as at 31 December 2010 mainly due to the corresponding increase in revenue. Trade and other payables amounted to approximately RMB260.1 million for Five Joint Ventures as at 30 September 2011 representing approximately 5.7% decrease over that as at 31 December 2010 mainly due to the settlement of terminal construction expenses.

E. Interest-bearing liabilities and gearing

As at 30 September 2011 only Tianjin Port Shihua and Rizhao Shihua carried interest bearing borrowings and they were: (i) Tianjin Port Shihua's short-term loans from related parties and bank loans with a balance of approximately RMB432.7 million; and (ii) Rizhao Shihua's bank loans of RMB200 million. Tianjin Port Shihua's short-term loans from related parties bear interest rates ranging from 5.3% to 6.1% per annum while its bank loans bear interest rates at 90% of benchmark interest rate of the People's Bank of China per annum. Rizhao Shihua's bank loans carry floating interest rates linked to the benchmark interest rate of the People's Bank of China. The aforesaid borrowings were mainly obtained during the initial start-up of the crude oil terminal companies to finance the construction of crude oil terminals (including acquisition of property, plant and equipment). The gearing ratio of Five Joint Ventures, representing the combined liabilities divided by the combined assets of Five Joint Ventures, was 25.2% as at 30 September 2011. The relatively low gearing ratio of Five Joint Ventures is mainly attributable to the substantial initial equity capital contribution by the shareholders of Five Joint Ventures.

Shareholders should refer to the section headed "7. Information on Five Joint Ventures" and note that Tangshan Caofeidian Shihua will acquire the remaining assets of 300,000-tonne crude oil terminal valued at approximately RMB400 million (subject to valuation) as and when external financing is available after its registered capital is fully paid up. Assuming that the acquisition of the remaining interests took place as at 30 September 2011, the gearing ratio as at 30 September 2011 may increase accordingly.

Independent Shareholders are advised to read the management and discussion analysis of Five Joint Ventures as set out in Appendix III in the Circular for further information on the financial analysis of Five Joint Ventures.

8. Analysis of the Total Purchase Price

As discussed in the letter from the Board in the Circular, the Total Purchase Price was determined based on, among others the valuation of each of Five Joint Ventures as at 30 September 2011 of RMB1,809,807,300 (equivalent to approximately HK$2,220,622,454) appraised by China United Assets Appraisal Co., Ltd., an independent firm of qualified PRC valuers (designated by the PRC government to conduct valuation of state-owned assets) by using the cost approach, including the replacement cost method, the financial information of the Five Joint Ventures as set out in Appendix II of the Circular, and the property valuation report as set out in Appendix V of the Circular.

In order to assess the fairness of the Total Purchase Price and given the business nature of Five Joint Ventures, we have reviewed, to the best of our knowledge, the price-to-earnings ratio (the "**PER**") and the price-to-book ratio (the "**PBR**") for the transactions in respect of the sale and purchase of terminals in the PRC (the "**Comparable Transactions**") which took place in the past five years involving Hong Kong listed companies as either a purchaser or a vendor whose principal business is the provision of terminal services and related storage and logistics services. Although certain subject assets under the Comparable Transactions do not specialise in the provision of petroleum and petrochemical storage and logistics services, we consider the Comparable Transactions, in general, serve as fair and representative samples for the purposes of comparison with Five Joint Ventures and have compared those with the valuation parameters implied under the Acquisition, details of which are as follows:

Date of agreement	Purchaser/ Vendor	Transaction type	Subject assets	Price *(HK$ million)*	PER *(times)*	PBR *(times)*
14 December 2006	China Merchants Holdings (International) Company Limited (144)	Acquisition	(i) 40% of berths no. 1 and 2 at Jetty III of Shekou Container Terminals in Shenzhen, the PRC (ii) 39.25% interests in berths no. 3 and 4 at Jetty III of Shekou Container Terminals in Shenzhen, the PRC	18,330.0	12.7	4.3
26 July 2007	Tianjin Port Development Holdings Limited (3382)	Acquisition	40% of the container terminal in the port of Tianjin	535.0	–(1)	1.1
12 October 2007	Dalian Port (PDA) Company Limited (2880)	Disposal	No. 13 and 14 container terminals at Dayao Bay in Dalian, the PRC	1,205.8	358.3(2)	1.2
6 August 2008	China Shipping Container Lines Company Limited (2866)	Acquisition	Container terminals at Lianyungang, Jinzhou, Shanghai, Zhanjiang, Guangzhou, Yantai, Qinhuangdao, Dalian and Tianjin, the PRC	2,890.5	199.3(2)	0.9

Date of agreement	Purchaser/ Vendor	Transaction type	Subject assets	Price *(HK$ million)*	PER *(times)*	PBR *(times)*
29 August 2008	Xiamen International Port Co., Ltd. (3378)	Disposal	Berth no. 1 in the Haicang Port area in Xiamen, the PRC	464.5	–[3]	1.5[3]
16 March 2009	Tianjin Port Development Holdings Limited (3382)	Acquisition	56.81% of Tianjin Port Holdings Co., Ltd, a company listed on the Shanghai Stock Exchange (stock code: 600717)	10,961.0	23.5	2.4
30 September 2009	Dalian Port (PDA) Company Limited (2880)	Acquisition	Ore, cargo and bulk grain terminals in the port of Dalian, the PRC	3,182.1	31.6	1.2
18 December 2009	China Merchants Holdings (International) Company Limited (144)	Disposal	5 berths in Qianwan Harbour District, Jiaozhou Bay of Qingdao and Qingdao Economic and Technology Development Zone	2,813.3	–[1]	1.1
23 March 2011	Tianjin Port Development Holdings Limited (3382)	Acquisition	50% of Tianjin Port Shihua	329.6	11.1	1.2
29 April 2010	Cosco Pacific Limited (1199)	Acquisition	13.7% effective interests in certain Yantian terminals in the PRC	4,045.6	14.0	6.1

Date of agreement	Purchaser/ Vendor	Transaction type	Subject assets	Price	PER	PBR
				(HK$ million)	*(times)*	*(times)*
27 May 2011	The Company	Acquisition	50% of 12 petrochemical berths at Zhanjiang jetty complex, Zhanjiang, the Guangdong Province, the PRC	400.2	3.6	0.9
			Minimum		3.6	0.9
			Maximum		31.6(2)	6.1
			Mean		16.1(2)	2.0
			Median		13.3(2)	1.2
			The Acquisition		9.9(4)	1.1(5)

Source: website of the Stock Exchange (www.hkex.com.hk)

Notes:

(1) The respective companies were loss making during the latest 12 months reporting period.

(2) The relevant PERs are considered not indicative and are excluded in the analysis as the subject assets either operated for a few months or commenced trial production during the year.

(3) It refers to the disposal of assets classified as a discloseable transaction and no financial statement is available. PBR is calculated based on the disposal gain (before the relevant taxation and fees) of HK$160.2 million arising from the asset transfer.

(4) Based on the Total Purchase Price of approximately RMB1,809.8 million and the combined net profit of Five Joint Ventures attributable to the Target Equity Interests for the year ended 31 December 2010 of approximately RMB182.1 million (the "**Implied PER**").

(5) Based on the Total Purchase Price of approximately RMB1,809.8 million and the net asset value of Five Joint Ventures attributable to the Target Equity Interests as at 30 September 2011 of approximately RMB1,577.1 million (the "**Implied PBR**").

We note a number of listed companies in Hong Kong with certain parts of their operations engaged in similar business as that of Five Joint Ventures. However, most of the companies are basically conglomerates which are also involved in other non-port related businesses. We have selected, on a best efforts basis, the most likely samples of the listed companies (the "**Peer Companies**") for comparison purpose and compared the Implied PER and the Implied PBR of the Acquisition with the valuation parameters of the Peer Companies:

Name of company (stock code)	**Principal activities**	**Market capitalisation** *(HK$ million)*	**PER(1)** *(times)*	**PBR(2)** *(times)*
Dalian Port (PDA) Company Limited (2880)	Provision of oil and liquid chemicals terminal and related logistics services, tugging, pilotage, cargo handling and information technology services	13,526.4	13.3	0.9
Dragon Crown Group Holdings Limited (935)	Provision of integrated terminal services in the PRC specialising in the storage and handling of liquid chemical products using dedicated pipelines and storage terminals	909.9	9.4	1.2
Hans Energy Company Limited (554)	Provision of specialised integrated terminal, storage and logistics and services for oil gas and petrochemical products	526.3	14.2	0.8
Tianjin Port Development Holdings Limited (3382)	Provision of container handling operations, stacking and warehousing services and non-containerised cargo services	6,650.6	11.7	0.7

Name of company (stock code)	Principal activities	Market capitalisation *(HK$ million)*	PER[(1)] *(times)*	PBR[(2)] *(times)*
Titan Petrochemicals Group Limited (1192)	Providing oil logistics and marine services in the Asia Pacific region, in particular the PRC	4,370.1	–[(3)]	2.8
Xiamen International Port Company Limited (3378)	Offering shipping port services	2,889.8	7.3	0.6
The Company (934)[(4)]	Trading of crude oil, petroleum and petrochemical products; provision of crude oil jetty services and vessel charter services	4,956.0	25.3	1.8
	Minimum		7.3	0.6
	Maximum		25.3	2.8
	Mean		13.5	1.3
	Median		12.5	0.9
	The Acquisition		9.9[(1)]	1.1[(2)]

Source: website of the Stock Exchange (www.hkex.com.hk) and Bloomberg

Notes:

(1) The Implied PER

(2) The Implied PBR

(3) The company was loss making during the latest 12 months reporting period.

(4) Based on the 2010 Annual Report and excluding the potential financial results of the 50% equity interests in the crude oil terminal in Zhanjiang

(a) Price-to-book

Based on the Total Purchase Price of approximately RMB1,809.8 million and the combined net asset value of Five Joint Ventures attributable to the Target Equity Interests as at 30 September 2011 of approximately RMB1,577.1, the Implied PBR is approximately 1.1 times.

As illustrated above, the PBRs of the Comparable Transactions, which are calculated based on the respective consideration and the latest net asset value of the subject assets, range from 0.9 times to 6.1 times, with an average of approximately 2.0 times and those of the Peer Companies, which are calculated based on the respective closing share price of the company as at the Latest Practicable Date and the latest net asset value of the company, range from 0.6 to 2.8 times with an average of approximately 1.3 times. The Implied PBR of Five Joint Ventures is within the range of the PBRs and lower than the average PBR of the Comparable Transactions and within the range of the PBRs and lower than the average PBR of the Peers Companies. Given the trading valuation is affected by the market sentiments, which are changing from time to time, we consider it is more appropriate to rely on the valuation based on the prices realised on actual transactions, i.e. the Comparable Transactions, to assess the fairness of the Total Purchase Price. On this basis, the Total Purchase Price is considered fair and reasonable to the Company.

(b) Price-to-earnings

Based on the Total Purchase Price of approximately RMB1,809.8 million and the combined net profit of Five Joint Ventures attributable to the Target Equity Interests for the year ended 31 December 2010 of approximately RMB182.1 million, the Implied PER is approximately 9.9 times.

As illustrated above, the PERs of the Comparable Transactions are calculated based on the respective consideration and the results of the subject assets in the latest 12 months. No PER is shown for (i) two out of 11 Comparable Transactions as the subject assets were loss-making in the latest year immediately before the transactions took place; and (ii) one out of 11 Comparable Transactions as no financial statements are available for the disposal of assets classified as a discloseable transaction. PERs of two Comparable Transactions whose subject assets either operated for a few months or commenced trial production during the year are considered outliers and would produce an anomalous effect on our PER analysis. The PERs of the remaining six Comparable Transactions range from 3.6 times to 31.6 times, with an average of approximately 16.1 times. For PERs of the Peer Companies, which are calculated based on the respective closing share price as at the Latest Practicable Date and the results of the company for latest financial year, the PERs range from 7.3 times to 25.3 times, with an average of approximately 13.5 times. The wide range is driven by the Company's high PER, which may be due to the market expectation over the Zhanjiang acquisition and its forthcoming contribution to the Group subsequent to its completion in October 2011.

As shown in the table above, the Implied PER of Five Joint Ventures is within the range of the PERs of and lower than the average PER of the Comparable Transactions and within the range of the PERs and lower than the average PER of the Peers Companies. Given (i) PER is not an appropriate valuation for Five Joint Ventures as two had not carried out commercial operations throughout the year ended

31 December 2010; and (ii) trading valuation is subject to market volatility, our assessment on the Total Purchase Price is largely based on the PBR of the Comparable Transactions.

9. The proposed Rights Issue

(a) Structure

As stated in the letter from the Board in the Circular, the Acquisition will be funded by way of the proposed Rights Issue and the completion of the proposed Rights Issue will also be a condition precedent to the Acquisition. In this regard, the Company proposes to raise a minimum of HK$2,500 million (which is roughly equivalent to the consideration of the Acquisition) and a maximum of HK$3,500 million before expenses, subject to market conditions by way of the proposed Rights Issue on the basis of up to one Rights Share for every one existing Share held on the Record Date.

The actual Subscription Price and the number of Rights Shares have not been determined as of the date of this letter and are not expected to be fixed on the date of the SGM. The Subscription Price would be determined by the Board or any other person(s) authorised by the Board in consultation with the Underwriter(s) with reference to the market trading price, having regard to the prevailing market conditions, including but not limited to, the trading price of the Shares before the publication of a further announcement regarding the proposed Rights Issue. The number of Rights Shares will be subject to final determination by the Board or any other person(s) authorised by the Board in consultation with the Underwriter(s), having regard to the market conditions and pursuant to the authorisation of the SGM. As stated in the letter from the Board in the Circular, the resolution approving the proposed Rights Issue will be valid until 30 April 2012 (i.e. the proposed Rights Issue will need to be completed on or before 30 April 2012).

(b) Use of proceeds

As stated in the letter from the Board in the Circular, the funds raised from the proposed Rights Issue will be primarily used to fund the Total Purchase Price and the costs and expenses relating to the Acquisition and the proposed Rights Issue. In the event that the funds raised exceed the amount necessary to fund the Acquisition and the above costs and expenses, the remaining balance of the gross proceeds will be applied for the development and operation of crude oil terminals and provision of logistics business of the Group and for general working capital purposes. In the event that a maximum of HK$3,500 million is raised from the proposed Rights Issue, approximately 63% of the gross proceeds will be applied for the consideration of the Acquisition as well as the costs and expenses relating to the Acquisition and the proposed Rights Issue, and the remaining 37% of the gross proceeds after deduction of costs and expenses relating to the Acquisition and the proposed Rights Issue will be applied for the development and operation of crude oil terminals and logistics business of the Group and for general working capital purposes. In the event that a minimum of HK$2,500 million is raised from the proposed Rights Issue, approximately 89% of the gross proceeds will be applied for the consideration of Acquisition as well as the costs and expenses relating to the Acquisition and the proposed Rights Issue, and the remaining 11% of the gross proceeds after deduction of costs and expenses relating to the Acquisition and the proposed Rights Issue will be applied for general working capital purposes. It is our understanding that the Company will not rely on any debt financing for the payment of the consideration under the Acquisition. The final amount of gross proceeds shall be determined by the actual Subscription Price and number of the Rights Shares to be issued at the time of the proposed Rights Issue.

(c) Principal terms of the proposed Rights Issue

The table below summarises the principal terms of the proposed Rights Issue:

Basis of the proposed Rights Issue	:	Up to one Rights Share for every one existing Share held on the Record Date by the Qualifying Shareholders
Number of existing Shares in issue as at the Latest Practicable Date	:	1,036,830,000 Shares
Number of Rights Shares	:	To be determined
Subscription Price	:	To be determined
Qualifying Shareholders	:	The Shareholders whose names appear on the register of members of the Company on the Record Date, other than the Overseas Shareholders in respect of whom the Directors, based on legal opinions provided by legal advisers, consider it necessary or expedient not to offer the Rights Shares on account either of legal restrictions under the laws of relevant place or the requirements of the relevant regulatory body or stock exchange in such place
Conditions	:	Customary regulatory approvals and approval of the proposed Rights Issue and the Acquisition by the Independent Shareholders at the SGM
Transferability	:	Counter for trading in the nil-paid Rights Shares to be available on the Stock Exchange
Excess application	:	Available to Qualifying Shareholders

Status of the Rights Shares	:	Rank *pari passu* with the existing Shares in all respects and entitled to receive all future dividends and distributions which may be declared, made or paid after the Record Date

Assuming no new Shares are issued between the Latest Practicable Date and the Record Date, the maximum number of the Rights Shares to be issued pursuant to the terms of the Rights Issue will be 1,036,830,000 Rights Shares. This represents 100.0% of the issued share capital of the Company as at the Latest Practicable Date and 50.0% of the enlarged issued share capital of the Company immediately upon completion of the proposed Rights Issue (assuming no new Shares are issued except pursuant to the proposed Rights Issue between the Latest Practicable Date and completion of the Rights Issue).

The proposed Rights Issue is subject to the approval of the Independent Shareholders and will be fully underwritten in accordance with requirements under the Listing Rules but is conditional upon the conditions set out in the sub-sections headed "Conditions of the Rights Issue" in the letter from the Board in the Circular being fulfilled.

(d) Reasons for and benefits of the proposed Rights Issue

As stated in the letter from the Board, the gross proceeds in the range of HK$2,500 million to HK$3,500 million raised from the proposed Rights Issue will be applied towards the payment of the Total Purchase Price and the costs incidental to the Acquisition and the proposed Rights Issue. In the event that the funds raised exceed the amount necessary to fund the Acquisition and the above costs and expenses, the balance of the funds raised will be applied for the development and operation of crude oil terminals and logistics business of the Group and for general working capital purposes. We note that the Directors consider the terms and conditions of the Acquisition and the Acquisition Agreements are in the interests of the Company and the Shareholders as a whole and therefore consider that it is fair and reasonable and in the interest of the Company and the Shareholders as a whole to raise the required financing for the Acquisition by way of the proposed Rights Issue as the exercise provides opportunities for the Shareholders to maintain their stakes in the Company and to enjoy the anticipated benefits from the Acquisition.

We note that from the 2011 Interim Report, as at 30 June 2011, cash on hand and bank balances of the Group totalled approximately HK$752,166,000. We further note that the Company had not engaged in or initiated any equity fund raising exercise during the past 12 months immediately before the Latest Practicable Date or any rights issue exercise prior to such 12-month period. Given the significant size of the Total Purchase Price, though the Group currently maintains a healthy cash balance, we are of the view that the Group's financial resources alone and without the Rights Issue would not be sufficient to fund the Acquisition.

In addition, through discussions with the management of the Group, we understand that other possible fund raising venues which include, among others, (i) the raising of loans from banks or other debt securities from the debt market; (ii) the raising of loan financing from members of the Sinopec Group; and (iii) placement of new Shares, has each been individually explored and rejected for the following reasons respectively:

(i) the raising of loans or other debt securities would most likely create significant pressure on the Group's gearing position and also generate significant financing costs to the Group in the future;

(ii) the raising of loan financing from the Sinopec Group, might be at reduced financing costs as compared to other external debt financing. However, the scale of funds required for the Acquisition would still put pressure on the gearing position of the Group; and

(iii) placement of new Shares would be difficult because of the lack of liquidity in the Shares and the relatively small market capitalisation of the Company at present. Placement of new Shares would also result into dilution of the equity interests of the existing Shareholders who cannot participate in the placement.

After taking into account all of the above factors and considerations, we concur with the management of the Group that the current fund raising method by way of the Rights Issue is appropriate and acceptable for the Company and its Shareholders as whole.

(e) Analysis performed on the terms of the Rights Issue

As the Subscription Price for each Rights Share is not available on the Latest Practicable Date, our analysis on the terms of the Rights Issue is based on the assumption that (i) the minimum gross proceeds of HK$2,500 million is required to be raised to pay for the Total Purchase Price; and (ii) a maximum of 1,036,830,000 Rights Shares will be issued under the Rights Issue on the basis of up to one Rights Share for every one existing Share held on the Record Date by the Qualifying Shareholders assuming there is no change in the number of shares from the Latest Practicable Date to the Record Date. Based on these two assumptions, the implied minimum Subscription Price for the proposed Rights Issue would be approximately HK$2.41 per Rights Share (the "**Implied Minimum Subscription Price**"). In order to assess the fairness and reasonableness of the terms of the proposed Rights Issue, we have considered the following principal factors based on the Implied Minimum Subscription Price:

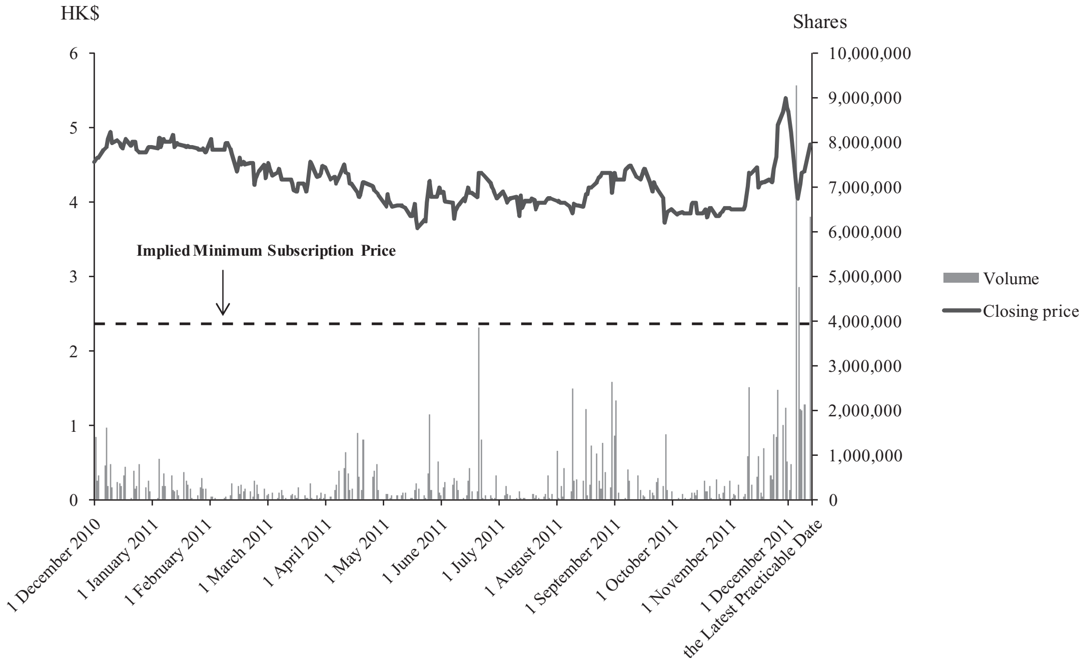
(1) Review of historical share price performance

The highest and lowest closing prices and the average daily closing price of the Shares as quoted on the Stock Exchange in each of the 12 months during the period commencing from 1 December 2010 (approximately 12 months prior to the Latest Practicable Date) up to and including the Latest Practicable Date (the "**Review Period**") are shown as follows:

Month	**Highest closing price** *HK$*	**Lowest closing price** *HK$*	**Average daily closing price** *HK$*
2010			
December	4.94	4.55	4.75
2011			
January	4.90	4.68	4.77
February	4.80	4.23	4.56
March	4.55	4.15	4.34
April	4.51	4.08	4.26
May	4.29	3.65	3.95
June	4.40	3.78	4.13
July	4.14	3.81	4.02
August	4.40	3.85	4.13
September	4.49	3.72	4.25
October	4.00	3.80	3.88
November	5.40	3.90	4.39
December (up to and including the Latest Practicable Date)	5.21	4.05	4.53

Source: website of the Stock Exchange (www.hkexnews.hk)

In addition, the chart below illustrates the closing prices of the Shares, as quoted on the Stock Exchange during the Review Period:



Source: website of the Stock Exchange (www.hkexnews.hk)

During the Review Period, the average daily closing price of the Shares ranged from approximately HK$3.88 to HK$4.77 per Share in each month, with the highest and lowest closing prices of the Shares as quoted on the Stock Exchange, being HK$5.40 per Share recorded on 29 November 2011 and HK$3.65 per Share recorded on 20 May 2011 respectively. The Implied Minimum Subscription Price represents a discount of approximately 55.4% to the highest closing price and a discount of approximately 34.0% to the lowest closing price of the Shares respectively. The Share price performance displayed a general decreasing trend for the period between December 2010 and May 2011 and thereafter mostly traded in the region of HK$4.00 to HK$5.00. We noted that it is a common market practice that, in order to enhance the attractiveness of a rights issue to existing shareholders, the subscription price represents a discount to the prevailing market prices of the relevant shares. As such, we consider that the setting of the Implied Minimum Subscription Price at a discount to the closing price of the Shares at the Latest Practicable Date is in line with general market practice.

(2) Liquidity of the Shares

The following table sets out the total trading volume per month and the average daily trading volume per month of the Shares during the Review Period:

	Total monthly trading volume of the Shares (Shares)	Average daily trading volume of the Shares during the month (Shares)	% of average daily trading volume of the Shares to the total issued Shares(1)	% of average daily trading volume of the Shares to the total public float(2)
2010				
December	11,400,600	518,209	0.05	0.18
2011				
January	6,454,000	307,333	0.03	0.11
February	3,276,000	182,000	0.02	0.06
March	2,388,000	103,826	0.01	0.04
April	9,958,000	553,222	0.05	0.19
May	5,626,200	281,310	0.03	0.10
June	9,874,000	470,190	0.05	0.16
July	2,132,000	106,600	0.01	0.04
August	17,868,000	776,870	0.07	0.27
September	7,965,501	398,275	0.04	0.14
October	3,544,010	177,201	0.02	0.06
November	18,387,288	835,786	0.08	0.29
December (up to and including the Latest Practicable Date)	27,564,044	3,445,506	0.33	1.20

Source: website of the Stock Exchange (www.hkexnews.hk)

Notes:

(1) Based on 1,036,830,000 Shares in issue as at the Latest Practicable Date.

(2) Based on 286,830,000 Shares as held in public hands on the Latest Practicable Date.

We note the total issued Shares and the total number of Shares held in public hands had remained the same throughout the Review Period, therefore we consider using the total issued Shares and the total number of Shares held in public hands as at the Latest Practicable Date essentially achieves the same result as using such figures as at the date of each month end. We also note from the above table that the trading volume of the Shares was generally thin during the Review Period, where the percentages of average daily trading volume of the Shares to the total issued Shares and the total public float during the Review Period were mainly below 0.33% and 1.20%, respectively.

(3) Comparison with recent rights issues

We have identified, on a best efforts basis, rights issue precedents involving companies listed on the Stock Exchange announced during the recent 6 months commencing from 1 June 2011 (approximately 6 months prior to the Latest Practicable Date) up to and including the Latest Practicable Date (the "**Comparable Rights Issues**") for reference purposes. It should be noted that the subject companies involved in the Comparable Rights Issues may have different principal activities, scale of operation and trading prospects as compared with those of the Company. As such, the Comparable Rights Issues may only be used to provide a general reference. Details of the Comparable Rights Issues are set out as follow:

Date of announcement	Company name (stock code)	Basis	Gross proceeds raised	Underwritten by the controlling shareholder	Discount of subscription price to the theoretical ex-rights price on the last trading day immediately prior to the date of the announcement of the rights issue
		(number of rights share(s) for number of existing shares)	*(HK$ million)*		*(%)*
2 Jun 2011	Crosby Capital Limited (8088)	1:1	39.25 to 159.45	No	30.4
2 Jun 2011	Emperor Capital Group Limited (717)	2:1	585.3	Yes	18.0
2 Jun 2011	Simsen International Corporation Limited (993)	20:1	779.43 to 839.43	Yes	25.0
9 Jun 2011	China Agri-Products Exchange Limited (149)	30:1	464.4	No	17.7

Date of announcement	Company name (stock code)	Basis *(number of rights share(s) for number of existing shares)*	Gross proceeds raised *(HK$ million)*	Underwritten by the controlling shareholder	Discount of subscription price to the theoretical ex-rights price on the last trading day immediately prior to the date of the announcement of the rights issue *(%)*
9 Jun 2011	New Universe International Group Limited (8068)	1:10	30.2	Yes	1.2
21 Jun 2011	Guojin Resources Holdings Limited (630)	11:10	82.7	Yes	48.5
24 Jun 2011	China Citic Bank Corporation Limited (998)	2:10	RMB25,993.4 million	No	15.8
29 Jun 2011	Unlimited Creativity Holdings Limited (8079)	10:1	95.34 to 96.39	No	29.6
29 Jun 2011	Radford Capital Investment Limited (901)	1:2	53.7	No	5.1
11 Aug 2011	Heritage International Holdings Limited (412)	22:1	388	No	22.5
17 Aug 2011	Quam Limited (952)	1:4	59.7 to 61.4	Yes	0.0
7 Oct 2011	Epicurean and Company, Limited (8213)	1:2	32.9	Yes	17.8

Date of announcement	Company name (stock code)	Basis *(number of rights share(s) for number of existing shares)*	Gross proceeds raised *(HK$ million)*	Underwritten by the controlling shareholder	Discount of subscription price to the theoretical ex-rights price on the last trading day immediately prior to the date of the announcement of the rights issue *(%)*
11 Oct 2011	Unity Investments Holdings Limited (913)	2:1	86.24 to 112.11	No	21.9
18 Oct 2011	New World Development Company Limited (17)	1:2	11,331.96 to 12,336.70	Yes	28.0
18 Oct 2011	New World China Land Limited (917)	1:2	4,293.1 to 4,346.5	Yes	25.1
21 Oct 2011	Sino Golf Holdings Limited (361)	1:2	59.8	Yes	3.2
25 Oct 2011	Success Universe Group Limited (487)	2:3	308.9	Yes	15.9
27 Oct 2011	Qin Jia Yuan Media Services Company Limited (2366)	4:1	299.4 to 386.0	No	68.6
3 Nov 2011	Radford Capital Investment Limited (901)	4:1	128.8	No	29.3
3 Nov 2011	Dragonite International Limited (329)	2:1	108.69 to 132.65	No	42.3

Date of announcement	Company name (stock code)	Basis	Gross proceeds raised	Underwritten by the controlling shareholder	Discount of subscription price to the theoretical ex-rights price on the last trading day immediately prior to the date of the announcement of the rights issue
		(number of rights share(s) for number of existing shares)	*(HK$ million)*		*(%)*
9 Nov 2011	Lai Sun Development Company Limited (488)	5:12	531	No	34.8
29 Nov 2011	PICC Property and Casualty Company Limited (2328)	1:10	RMB5,002 million	Yes	44.8
	For all Comparable Rights Issues				
	Minimum				0.0
	Maximum				68.6
	Mean				24.8
	Median				23.8
	For all Comparable Rights Issues underwritten by independent third parties				
	Minimum				5.1
	Maximum				68.6
	Mean				29.1
	Median				29.3
	The proposed Rights Issue				33.0[(1)]

Source: website of the Stock Exchange (www.hkexnews.hk)

Note:

(1) The discount of the Implied Minimum Subscription Price is calculated based on the comparison of the Implied Minimum Subscription Price with the theoretical ex-rights price of the Shares on the Latest Practicable Date.

As illustrated in the above table, the discount of the Implied Minimum Subscription Price is slightly higher than those of the mean and median of the discount of the rights issue price to the theoretical ex-rights price of the shares of the Comparable Rights Issues but is within the range of the discounts found in Comparable Rights Issues during period under analysis. Furthermore, when excluding the Comparable Rights Issues which were underwritten by the controlling shareholder of the issuer, the mean of the discount of the rights issue price to the theoretical ex-rights price of the shares of the Comparable Rights Issues is 29.1%, which is slightly below the discount inherent in the proposed Rights Issue of approximately 33.0%. Independent Shareholders however should note that this discount to the theoretical ex-rights price may vary when the underwriting agreement in respect of the proposed Rights Issue is entered into.

10. Financial effects of the Acquisition and the proposed Rights Issue on the Group

Ningbo Shihua, Qingdao Shihua, Tianjin Port Shihua, Rizhao Shihua and Tangshan Caofeidian Shihua will all become jointly controlled entities of the Company under HKFRS, and the Enlarged Group will continue its business with a primary focus on the operation of crude oil terminals. Upon completion of the Acquisition, the Target Equity Interests will be equity accounted for in the financial statements of the Enlarged Group as interests in jointly controlled entities.

(a) Earnings

We set out below the earnings and pro forma earnings, including on a per Share basis, of the Group and of the Enlarged Group for the year ended 31 December 2010, based on the unaudited pro forma consolidated income statement of the Enlarged Group as set out in Appendix I to the Circular.

	The Group	**The Enlarged Group immediately upon completion of the Acquisition and the proposed Rights Issue[(1)]**
Profit for the year attributable to the Shareholders (HK$ million)	195.7	419.0
Total number of Shares in issue	1,036,830,000	2,073,660,000[(2)]
Earnings per Share (HK cents)	18.9	20.2

Notes:

(1) The unaudited pro forma financial information is prepared to provide information on the Enlarged Group as a result of completion of the Acquisition and the proposed Rights Issue.

(2) Assuming a maximum of 1,036,830,000 Rights Shares are issued under the proposed Rights Issue.

As illustrated in the table above, the profit for the year attributable to the Shareholders would increase from approximately HK$195.7 million to approximately HK$419.0 million, representing an increase of approximately 114.1% upon completion of the Acquisition and the proposed Rights Issue. The increase in profit is due to inclusion of the share of profits for the year ended 31 December 2010 from Five Joint Ventures accounted as jointly controlled entities of the Group. Earnings per Share immediately upon completion of the Acquisition and the proposed Rights Issue will increase slightly by approximately 6.9 % from HK18.9 cents to HK20.2 cents.

Shareholders should note that the pro forma net profit and earnings per Share of the Enlarged Group have not fully reflected the future earnings potential of the Five Joint Ventures as (i) two, namely Rizhao Shihua and Tangshan Caofeidian Shihua, have relatively short trading histories and have not recorded any revenue during the year ended 31 December 2010; and (ii) Ningbo Shihua's second phase 450,000-tonne crude oil terminal with a total designed annual capacity of 18 million tonnes of crude oil only commenced trial operations in June 2011. Shareholders should also be aware that the Directors have not taken into account the transaction costs of the Acquisition in the pro forma financial effects as illustrated above and have assumed the associated impact was insignificant. The related costs will be recognised as expenses as and when actually incurred.

(b) Equity attributable to the Shareholders

We set out below the equity and pro forma equity attributable to the Shareholders, including on a per Share basis, of the Group and of the Enlarged Group as at 30 June 2011 respectively as extracted from the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix I to the Circular.

	The Group	**The Enlarged Group immediately upon completion of the proposed Rights Issue**
Equity attributable to the Shareholders (HK$ million)	2,700.5	6,200.5[(1)]
Total number of Shares in issue	1,036,830,000	2,073,660,000[(2)]
Equity attributable to the Shareholders per Share (HK$)	2.60	2.99

Notes:

(1) Assuming maximum proceed of HK$3,500 million is raised from the proposed Rights Issue.

(2) Assuming a maximum of 1,036,830,000 Rights Shares are issued under the proposed Rights Issue.

As shown in the table above, as at 30 June 2011, the Group's equity attributable to the Shareholders amounted to approximately HK$2,700.5 million, or approximately HK$2.60 per Share. The pro forma equity attributable to the Shareholders of the Enlarged Group per Share, is calculated based on the net asset value of the Group as enlarged by HK$2,220.6 million, being the consideration for the Acquisition and HK$3,500 million, being the maximum proceeds raised from the Rights Issue, and the number of Shares then in issue after 1,036,830,000 Rights Shares are issued. The pro forma equity attributable to the Shareholders of the Enlarged Group per Share of HK$2.99 would represent an accretion of approximately 15.0% to the equity attributable to the Shareholders of the Group per Share of HK$2.60 as at 30 June 2011.

Shareholders' attention is drawn to the fact that under the financial effects as set out in Appendix I to the Circular, the maximum gross proceeds from the Rights Issue are used for illustrative purpose. The pro forma equity attributable to the Shareholders of the Enlarged Group would be subject to a dilution of approximately 3.5% to that of the Group as at 30 June 2011 if the Company can only raise a minimum gross proceeds of HK$2,500 million as the Implied Minimum Subscription Price is lower than the net asset value per Share as at 30 June 2011. However, Shareholders are reminded that each Qualifying Shareholder will able to maintain their percentage holding by participating in the proposed Rights Issue and will receive the same benefit of such discount in the price at which the new Shares are issued. We consider such possible dilution to be acceptable on this basis.

Shareholders should also note that the Directors have not taken into account incidental costs attributable to the Rights Issue in calculating the financial effects as illustrated above. The related costs will be recognised in equity as and when actually incurred.

(c) Gearing and liquidity

As at 30 June 2011, the Group had total assets of approximately HK$4,711.2 million and total liabilities of approximately HK$2,010.7 million. The gearing ratio, defined as total liabilities divided by total assets, was approximately 42.7%. As at 30 June 2011, the Group was in a net cash position of HK$488.2 million, representing cash and cash equivalents of HK$752.2 million, less interest-bearing borrowings of HK$263.9 million.

We set out below the gearing and net cash position of the Group and of the Enlarged Group as at 30 June 2011 based on the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix I to the Circular.

	The Group	**The Enlarged Group immediately upon completion of the Acquisition and the proposed Rights Issue**
Total assets (HK$ million)	4,711.2	8,211.2
Total liabilities (HK$ million)	2,010.7	2,010.7
Gearing ratio (%)	42.7	24.5
Net cash position (HK$ million)	488.2	1,767.6

As shown in the table above, the gearing of the Group will improve to 24.5% immediately upon completion of the Acquisition and the proposed Rights Issue. The decrease in gearing for the Enlarged Group as at 30 June 2011 is attributable to the increase in total assets as a result of completion the proposed Rights Issue and the Acquisition with the total liabilities of the Enlarged Group remaining the same as under equity accounting upon completion of the Acquisition, the total liabilities of Five Joint Ventures are not expected to be consolidated with the total liabilities of the Group but instead would account the Total Purchase Price as interests in jointly controlled entities of the Enlarged Group. The net cash position of the Enlarged Group will increase to HK$1,767.6 million immediately after completion of the Acquisition and the proposed Rights Issue. This substantial increase in net cash position of the Enlarged Group is attributable to the surplus cash assuming the maximum proceeds of HK$3,500 million are raised from the Rights Issue and the payment of the consideration of HK$2,220.6 million is made.

Shareholders should note again that the maximum proceeds of HK$3,500 million from the Rights issue are used in the pro forma financial information of the Enlarged Group in Appendix I to the Circular for illustrative purpose. If the Company raises the minimum proceeds of HK$2,500 million, the net cash position of the Enlarged Group is improved slightly by HK$279.4 million, being the surplus cash arising from the Rights Issue after settlement of the consideration for the Acquisition, the Enlarged Group's gearing will improve to 27.9%. Shareholders should also note that the related costs for the Acquisition and the Rights Issue are not provided for in the financial effects in appendix I to the Circular.

As stated in the letter from the Board, the Company is proposing that the consideration under the Acquisition will be funded by way of the proposed Rights Issue and it is also the intention of the Directors to conduct the proposed Rights Issue in such a way that the Company can raise adequate proceeds to pay for the consideration of the Acquisition. The Directors have also confirmed to us that no debt financing will be arranged for the payment of the consideration under the Acquisition. On this basis, the Directors are of the view that cash payment for the Total Purchase Price would not have any material adverse impact on the Enlarged Group's business.

DISCUSSION AND ANALYSIS

In 2010, the Board undertook the streamlining and transformation of the Group's businesses by way of cessation of the trading of certain petrochemical products in order to reallocate the Group's resources and build it into a world-class international oil storage and logistics company. During the year, only one crude oil terminal was owned by the Group, in Huizhou, which has been the backbone providing significant earnings contribution to the Group accounting for 97.4% of the Group's operating profit for the six months ended 30 June 2011. In order to strengthen its core business, the Company acquired a 50% interest in the crude oil terminal in Zhanjiang in October 2011. In line with this strategy, the Company entered into this Acquisition with its parent, Sinopec Corp. on 3 December 2011.

The Acquisition will significantly increase the scale of the Group's crude oil logistics business and substantially enhances the Group's position to become the primary crude oil terminal platform in China. Upon completion of the Acquisition, the number of crude oil terminal companies controlled or jointly owned by the Group will increase from two to seven and the number of berths increasing from 14 to 24, of which nine berths will have the capacity to accommodate VLCC vessels. Annual design capacity will increase by approximately 165% from approximately 85 million tonnes to approximately 225 million tonnes of crude oil. The Acquisition will facilitate the Company forming a new framework for crude oil transmission in northern, eastern and southern China, thus substantially enhancing its market share in the crude oil logistics sector in the PRC, which is in line with the stated strategy of the Group.

Five Joint Ventures are in an advantageous position to benefit from the continuing economic growth and the increasing energy consumption in the PRC. Three out of Five Joint Ventures have started to contribute significant earnings to the Target Equity Interests in 2010, representing approximately 10% of the Total Purchase Price. The earnings momentum of the Five Joint Ventures will be further enhanced once the operations of Rizhao Shihua and Tangshan Caofeidian Shihua, and Ningbo Shihua's 450,000-tonne crude oil terminal are in full swing.

The Total Purchase Price of RMB1,809.8 million (equivalent to approximately HK$2,220.6 million) was arrived at after arm's length negotiation between Sinopec Corp. and Sinomart Development, and was determined based on, among others, the financial information of the Five Joint Ventures as set out in Appendix II of the Circular, the property valuation report as set out in Appendix V of the Circular and the valuation of each of Five Joint Ventures as at 30 September 2011, appraised by China United Assets Appraisal Co. Ltd., an independent firm of qualified PRC valuers (designated by the PRC government to conduct valuation of state-owned assets) by using the cost approach, including the replacement cost method, of the assets of the Five Joint Ventures, including the real properties, equipments and other current assets. We have assessed the amount of the Total Purchase Price in terms of the PERs and PBRs of the Comparable Transactions and Peer Companies and consider that PBRs of the Comparable Transactions are the most appropriate benchmark in evaluating the fairness of the Total Purchase Price. On the basis that the Implied PBR under the Acquisition, falling within the range of the PBRs and lower than the average PBR of the Comparable Transactions, reflects a fair valuation of the Target Equity Interests, we consider the Total Purchase Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company proposes the Total Purchase Price be funded by way of the Proposed Rights Issue. The Subscription Price and the number of the Rights Shares have not been determined as of the date of this letter and will only be determined when the Company has entered into definitive underwriting agreement for the Rights Issue. Our analysis on the terms of the Rights Issue, which is based on the minimum gross proceeds to be raised and the maximum number of Rights Shares to be issued is summarised above. The Implied Minimum Subscription Price represents a discount to the closing price of the Shares on the Latest Practicable Date, which is in line with common market practice and such discount is within the range but above the average of the discounts of the rights issue price to the theoretical ex-rights price of the shares of the Comparable Rights Issues. However, Shareholders should note that the final Subscription Price would not be determined until the definitive underwriting agreement is entered into by the Company. Nevertheless, we consider the proposed Rights Issue will provide Qualifying Shareholders with a means of ensuring that their percentage holding in the Company is not diluted. Each Qualifying Shareholder will receive the same benefit of any discount in the price at which the new Shares are issued compared with the prevailing market price. The application for excess Rights Shares will allow Qualifying Shareholders to subscribe for additional shares over and above those which they have been provisionally allotted and the trading of nil-paid Rights Shares will facilitate the Shareholders who are not interested to participate or are not entitled to participate in the proposed Rights Issue to dispose of their relevant nil-paid Rights Shares in the market. On this basis, we concur with the management of the Group that the current fund raising method by way of the Rights Issue is appropriate and acceptable for the Company and its Shareholders as whole.

OPINION

Based on the above principal factors and reasons, we consider that the Acquisition and the proposed Rights Issue are on normal commercial terms which are fair and reasonable to the Independent Shareholders and that the Acquisition and the proposed Rights Issue are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Acquisition and the proposed Rights Issue.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED

Kenneth Chow
Managing Director – Corporate Finance

Jenny Leung
Director

The unaudited pro forma financial information of the Enlarged Group is set out below for illustrative purpose only. It is prepared in accordance with Rule 4.29 of the Listing Rule for the purpose of illustrating the effect of the Acquisition and Rights Issue on the Enlarged Group's financial information.

A INTRODUCTION

On 3 December 2011, Sinomart Development, a wholly owned subsidiary of the Company, entered into agreements with Sinopec Corp. to conditionally acquire all of the equity interests held by Sinopec Corp. in Tangshan Caofeidian Shihua, Ningbo Shihua, Qingdao Shihua, Tianjin Port Shihua and Rizhao Shihua ("Acquisitions"). In connection with the Acquisitions, the Company proposed a rights issue ("Rights Issue"). The Acquisitions are conditional upon the approval and completion of the proposed Rights Issue. Upon the completion of the Acquisitions, Tangshan Caofeidian Shihua, Ningbo Shihua, Qingdao Shihua, Tianjin Port Shihua and Rizhao Shihua will become jointly controlled entities of the Group.

The unaudited pro forma financial information of the Enlarged Group has been prepared by the directors of the Company in accordance with rule 4.29(1) of the Listing Rules to illustrate the effects of the Acquisitions and Rights Issue as if such transactions had been completed on 30 June 2011 in the case of the pro forma consolidated statement of the financial position of the Enlarged Group and 1 January 2010, the beginning of the financial year of the Group ended 31 December 2010, in the case of the pro forma consolidated income statement, pro forma consolidated statement of comprehensive income and pro forma consolidated cash flow statement of the Enlarged Group.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared based on the unaudited consolidated statement of financial position of the Group as at 30 June 2011, as extracted from the interim report of the Company for the period then ended, after making pro forma adjustments relating to the Acquisitions and the Rights Issue that are directly attributable to these transactions.

The unaudited pro forma consolidated income statement, pro forma consolidated statement of comprehensive income and pro forma consolidated cash flow statement of the Enlarged Group for the year ended 31 December 2010 are prepared based on the consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year ended 31 December 2010, as extracted from the annual report of the Company for the year then ended, after making pro forma adjustments relating to the Acquisitions and the Rights Issue that are directly attributable to these transactions.

The unaudited pro forma financial information is prepared to provide information on the Enlarged Group as a result of the completion of the Acquisitions and Rights Issue that are conditional upon each other. As it is prepared for illustrative purposes only, the accompanying unaudited pro forma financial information does not purport to give a true picture of the financial position, results or cash flows of the Enlarged Group that would have been attained had the Acquisitions and Rights Issues been completed as at the specified dates. Further, the unaudited pro forma financial information of the Enlarged Group does not purport to predict the future financial position, results or cash flow of the Enlarged Group.

The unaudited pro forma financial information should be read in conjunction with the interim report of the Group for the six months ended 30 June 2011, the annual report of the Company for the year ended 31 December 2011, the accountants' reports of Tangshan Caofeidian Shihua, Ningbo Shihua, Qingdao Shihua, Tianjin Port Shihua and Rizhao Shihua set forth in appendix II and other financial information included elsewhere in this Circular.

(I) Unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 June 2011

	The Group as at 30 June 2011 *HK$'000*	Pro forma adjustments *HK$'000*	*Notes*	Pro forma Enlarged Group *HK$'000*
Non-current assets				
Fixed assets				
– Investment properties	32,877	–		32,877
– Other property, plant and equipment	1,810,627	–		1,810,627
– Interests in leasehold land held for own use under operating leases	79,307	–		79,307
Interests in jointly controlled entities	–	2,220,622	*2*	2,220,622
Interest in an associate	11,700	–		11,700
Deferred tax assets	1,705	–		1,705
	1,936,216	2,220,622		4,156,838
Current assets				
Inventories	26,897	–		26,897
Trade and other receivables	1,993,831	–		1,993,831
Tax recoverable	2,072	–		2,072
Cash and cash equivalents	752,166	3,500,000	*1*	2,031,544
		(2,220,622)	*2*	
	2,774,966	1,279,378		4,054,344
Current liabilities				
Trade and other payables	1,728,540	–		1,728,540
Interest-bearing borrowings	263,946	–		263,946
Tax payable	18,217			18,217
	2,010,703	–		2,010,703
Net current assets	764,263	1,279,378		2,043,641
Net assets	2,700,479	3,500,000		6,200,479
Capital and reserves				
Share capital	103,683	103,683	*1*	207,366
Reserves	2,596,796	3,396,317	*1*	5,993,113
	2,700,479	3,500,000		6,200,479

(II) Unaudited pro forma consolidated income statement of the Enlarged Group for the year ended 31 December 2010

	The Group for the year ended 31 December 2010	Pro forma adjustment	*Notes*	Pro forma Enlarged Group
	HK$'000	*HK$'000*		*HK$'000*
Turnover	16,592,880	–		16,592,880
Cost of sales	(16,292,059)	–		(16,292,059)
Gross profit	300,821	–		300,821
Other revenue	9,313	–		9,313
Other income, net	9,892	–		9,892
Distribution costs	(6,241)	–		(6,241)
Administrative expenses	(45,839)	–		(45,839)
Profit from operations	267,946	–		267,946
Finance costs	(15,898)	–		(15,898)
Share of profits from jointly controlled entities	–	223,349	*3*	223,349
Profit before taxation	252,048	223,349		475,397
Income tax	(56,361)	–		(56,361)
Profit for the year	195,687	223,349		419,036

(III) Unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group for the year ended 31 December 2010

	The Group for the year ended 31 December 2010	**Pro forma adjustment**	*Notes*	**Pro forma Enlarged Group**
	HK$'000	*HK$'000*		*HK$'000*
Profit for the year	195,687	223,349		419,036
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	73,663	–		73,663
Total comprehensive income for the year	269,350	223,349		492,699

(IV) Unaudited pro forma consolidated cash flow statement of the Enlarged Group for the year ended 31 December 2010

	The Group for the year ended 31 December 2010	Pro forma adjustment	*Notes*	Pro forma Enlarged Group
	HK$'000	*HK$'000*		*HK$'000*
Operating activities				
Profit before taxation	252,048	–		252,048
Adjustments for:				
Depreciation and amortisation	179,307	–		179,307
Finance costs	15,898	–		15,898
Interest income	(547)	–		(547)
Net loss on disposal of property, plant and equipment	169	–		169
Foreign exchange gain	(8,018)	–		(8,018)
	438,857	–		438,857
Changes in working capital				
Decrease in inventories	731,964	–		731,964
Decrease in trade and other receivables	2,228,012	–		2,228,012
Decrease in trade and other payables	(1,066,793)	–		(1,066,793)
Cash generated from operations	2,332,040	–		2,332,040
Hong Kong Profits Tax paid	(5,638)	–		(5,638)
PRC tax paid	(55,515)	–		(55,515)
Net cash generated from operating activities	2,270,887	–		2,270,887
Investing activities				
Payments for purchase of property, plant and equipment	(26,553)	–		(26,553)
Interest received	547	–		547
Proceeds from disposal of property, plant and equipment	4	–		4
Consideration paid for the Acquisitions	–	(2,220,622)	*2*	(2,220,622)
Net cash used in investing activities	(26,002)	(2,220,622)		(2,246,624)

	The Group for the year ended 31 December 2010	Pro forma adjustment	Notes	Pro forma Enlarged Group
	HK$'000	*HK$'000*		*HK$'000*
Financing activities				
Proceeds from new interest-bearing borrowings	10,696,544	–		10,696,544
Repayment of bank loans and interest-bearing borrowings	(12,206,502)	–		(12,206,502)
Dividends paid	(36,289)	–		(36,289)
Finance costs paid	(19,461)	–		(19,461)
Proceeds from Right Issue	–	3,500,000	*1*	3,500,000
Net cash used in financing activities	(1,565,708)	3,500,000		1,934,292
Net increase in cash and cash equivalent	679,177	3,500,000	*1*	1,958,555
		(2,220,622)	*2*	
Cash and cash equivalents at 1 January 2010	28,175	–		28,175
Effect of foreign exchange rate changes	17,359	–		17,359
Cash and cash equivalents at 31 December 2010	724,711	1,279,378		2,004,089

Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1. This is an adjustment to account for the Rights Issue. The Company proposes to raise a minimum of HK$2,500 million and a maximum of HK$3,500 million before expenses by way of the proposed Rights Issue on the basis of up to one (1) Rights Share for every one (1) existing Share held on the Record Date. The total estimated proceeds which the Company intends to raise from the Right Issue, subject to market conditions, will be a maximum of HK$3,500 million. The maximum proceeds of HK$3,500 million, before expenses, is the high end of the estimated proceeds of HK$2,500 million to HK$3,500 million, representing share capital of HK$103,683,000 and share premium of approximately HK$3,396,317,000. The incremental costs directly attributable to the Rights Issue will be recognised in equity when incurred. This adjustment has no continuing effect.

   The proceeds from the Rights Issue is mainly to finance the Acquisitions, with the cash payment of approximately RMB1,810 million (equivalent to approximately HK$2,221 million) (see Note 2).

2. Pursuant to the acquisition agreements dated 3 December 2011 entered into among Sinomart Development and Sinopec Corp. in respect of transfer of the equity interest in Tangshan Caofeidian Shihua, Ningbo Shihua, Qingdao Shihua, Tianjin Port Shihua and Rizhao Shihua respectively, the aggregated cash consideration for the Acquisitions will be approximately RMB1,810 million (equivalent to approximately HK$2,221 million).

   Upon completion of the Acquisitions, Tangshan Caofeidian Shihua, Ningbo Shihua, Qingdao Shihua, Tianjin Port Shihua and Rizhao Shihua will be accounted for as the jointly controlled entities of the Group. The interests in jointly controlled entities represent the consideration attributable to the acquisition of these five jointly controlled entities. The directors have not taken into account the transaction cost of the Acquisition assuming the impact is not significant. The related costs will be recognised in expenses when incurred. This adjustment has no continuing effect.

3. Share of profits from jointly controlled entities are calculated based on the share of profits for the year ended 31 December 2010 from the jointly controlled entities acquired in the Acquisitions as mentioned in note 2, as if the Acquisition had been completed on 1 January 2010. This adjustment has continuing effect.

4. For the purpose of the unaudited pro forma financial information, the transactions and balances arising from the Acquisitions that are stated in Renminbi are converted into Hong Kong dollars at the exchange rate of RMB0.815 : HK$1. No representation is made that the RMB amounts have been, could have been or may be converted to Hong Kong dollars or vice versa, at that rate.

5. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2011, including but not limited to the acquisition of 50% equity interests in Zhan Jiang Port Petrochemical Jetty Co., Ltd, with details set out in the circular issued by the Company on 30 June 2011.

B ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a letter dated 14 December 2011, prepared for the sole purpose of inclusion in this circular, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

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

The Directors
Sinopec Kantons Holdings Limited

14 December 2011

Dear Sirs,

Sinopec Kantons Holdings Limited (the "Company")

We report on the unaudited pro forma financial information (the "Pro Forma Financial Information") of the Company and its subsidiaries (the "Group") set out in section A on pages I-3 to I-7 in Appendix I of the circular dated 14 December 2011 (the "Circular"), which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the proposed acquisitions of equity interests in Tangshan Caofeidian Shihua Crude Oil Terminal Company Limited, Ningbo Shihua Crude Oil Terminal Company Limited, Qingdao Shihua Crude Oil Terminal Company Limited, Tianjin Port Shihua Crude Oil Terminal Company Limited and Rizhao Shihua Crude Oil Terminal Company Limited (the "Acquisitions") and the proposed rights issue (the "Rights Issue") might have affected the financial information presented. The basis of preparation of the unaudited Pro Forma Financial Information is set out on pages I-1 to I-8 in Appendix I of the Circular.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by Paragraph 4.29(7) of the Listing Rules, on the unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements ("HKSIR") 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review performed in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

The unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

– the financial position of the Group as at 30 June 2011 or any future date; or

– the results and cash flows of the Group for the year ended 31 December 2010 or any future periods.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described under "Reasons for and Benefits of the Proposed Rights Issue" in the section headed "Letter from the Board" in the Circular.

Opinion

In our opinion:

(a) the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

(A) Ningbo Shihua

KPMG

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

14 December 2011

The Directors
Sinopec Kantons Holdings Limited

Dear Sirs

INTRODUCTION

We set out below our report on the financial information relating to Ningbo Shihua Crude Oil Terminal Co. Ltd (the "Company") including the statements of comprehensive income, the statements of changes in equity and the statements of cash flows of the Company for each of the years ended 31 December 2008, 2009 and 2010 and for the nine months ended 30 September 2011 (the "Relevant Period"), and the statements of financial position of the Company as at 31 December 2008, 2009 and 2010 and 30 September 2011, together with the explanatory notes thereto (the "Financial Information"), for inclusion in the circular of Sinopec Kantons Holdings Limited dated 14 December 2011.

The Company was established in the People's Republic of China (the "PRC") with limited liability on 12 December 2002, under the laws of PRC and incorporated in Zhejiang Province.

The Company has adopted 31 December as its financial year end date. The statutory financial statements of the Company were prepared in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the PRC.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the financial statements of the Company for the Relevant Period (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Underlying Financial Statements for the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared by the Directors based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The Directors are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control as the Directors determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of the Company in respect of any period subsequent to 30 September 2011.

OPINION

In our opinion, for the purpose of this report, the Financial Information, gives a true and fair view of the Company's results and cash flows of the Company for the relevant period and the state of affairs of the Company as at 31 December 2008, 2009 and 2010 and 30 September 2011.

COMPARATIVE FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Company comprising the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the nine months ended 30 September 2010, together with the notes thereon (the "Corresponding Financial Information"), for which the Directors are responsible, in accordance with Hong Kong Standard on Review Engagement 2410 "Engagement to Review Financial Statements" issued by the HKICPA.

The Directors are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making inquires, 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 on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe the Comparative Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A FINANCIAL INFORMATION

1 Statements of comprehensive income

	Section B Note	**Years ended 31 December**			**Nine months ended 30 September**	
		2008	**2009**	**2010**	**2010**	**2011**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Revenue	*3*	126,983	145,510	141,635	111,332	113,204
Cost of sales		(26,626)	(24,547)	(19,819)	(13,617)	(11,934)
Gross profit		100,357	120,963	121,816	97,715	101,270
Other revenue	*4*	2,659	2,538	1,785	1,432	538
Other net loss		(224)	(345)	(198)	(173)	(244)
Administrative expenses		(7,447)	(10,890)	(16,108)	(10,267)	(12,941)
Profit before taxation		95,345	112,266	107,295	88,707	88,623
Income tax expenses	*6(a)*	(23,922)	(28,282)	(26,974)	(22,262)	(22,156)
Profit and total comprehensive income for the year/period		71,423	83,984	80,321	66,445	66,467

The accompanying notes form part of the Financial Information.

2 Statements of financial positions

	Section B Note	At 31 December 2008 RMB'000	2009 RMB'000	2010 RMB'000	At 30 September 2011 RMB'000
Non-current assets					
Fixed assets	9				
– Property, plant and equipment		94,955	118,235	121,821	123,272
– Construction in progress		19,958	16,575	121,455	141,638
Intangible assets	10	1,084	1,052	1,082	1,043
		115,997	135,862	244,358	265,953
Current assets					
Inventories		333	302	223	270
Trade and other receivables	11	50,320	55,803	41,903	52,433
Cash and cash equivalents	12	125,742	134,791	69,046	50,135
		176,395	190,896	111,172	102,838
Current liabilities					
Trade and other payables	13	2,308	9,916	25,638	32,032
Income tax payable	14(a)	4,565	6,454	4,050	7,294
		6,873	16,370	29,688	39,326
Net current assets		169,522	174,526	81,484	63,512
Total assets less current liabilities		285,519	310,388	325,842	329,465
Non-current liabilities					
Deferred tax liabilities	14(b)	3,555	6,516	9,240	11,330
		3,555	6,516	9,240	11,330
Net assets		281,964	303,872	316,602	318,135
Capital and reserves	15				
Share capital		80,000	80,000	80,000	80,000
Reserves		37,802	46,200	54,232	54,232
Retain earnings		164,162	177,672	182,370	183,903
Total equity		281,964	303,872	316,602	318,135

The accompanying notes form part of the Financial Information.

3 Statements of changes in equity

	Share capital (Section B note 15 (c)) RMB'000	Statutory reserve (Section B note 15 (d)) RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2008	80,000	30,660	99,881	210,541
Profit and total comprehensive income for the year	–	–	71,423	71,423
Transfer to statutory reserve	–	7,142	(7,142)	–
At 31 December 2008	80,000	37,802	164,162	281,964
Profit and total comprehensive income for the year	–	–	83,984	83,984
Transfer to statutory reserve	–	8,398	(8,398)	–
Dividend declared in respect of the year of 2008	–	–	(62,076)	(62,076)
At 31 December 2009	80,000	46,200	177,672	303,872
Profit and total comprehensive income for the year	–	–	80,321	80,321
Transfer to statutory reserve	–	8,032	(8,032)	–
Dividend declared in respect of the year of 2009	–	–	(67,591)	(67,591)
At 31 December 2010	80,000	54,232	182,370	316,602
Profit and total comprehensive income for the period	–	–	66,467	66,467
Dividend declared in respect of the period of 2010	–	–	(64,934)	(64,934)
At 30 September 2011	80,000	54,232	183,903	318,135
At 1 January 2010 (audited)	80,000	46,200	177,672	303,872
Profit and total comprehensive income for the period			66,445	66,445
Dividend declared in respect of the period of 2009	–	–	(67,591)	(67,591)
At 30 September 2010 (unaudited)	80,000	46,200	176,526	302,726

The accompanying notes form part of the Financial Information.

4 Statements of cash flows

	Section B Note	Years ended 31 December			Nine months ended 30 September	
		2008	**2009**	**2010**	**2010**	**2011**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Operating activities						
Cash generated from operations	*12(b)*	69,951	109,822	107,403	91,855	83,952
Income tax paid		(28,863)	(23,432)	(26,650)	(20,148)	(16,826)
Net cash generated from operating activities		41,088	86,390	80,753	71,707	67,126
Investing activities						
Payment for purchase of property, plant and equipment and intangible assets		(21,456)	(17,816)	(80,692)	(70,378)	(21,641)
Proceeds from disposal of property, plant and equipment		–	13	–	–	–
Interest received		2,659	2,538	1,785	1,432	538
Net cash used in investing activities		(18,797)	(15,265)	(78,907)	(68,946)	(21,103)
Financing activities						
Dividend paid		–	(62,076)	(67,591)	(67,591)	(64,934)
Net cash used in financing activities		–	(62,076)	(67,591)	(67,591)	(64,934)
Net increase/(decrease) in cash and cash equivalents		22,291	9,049	(65,745)	(64,830)	(18,911)
Cash and cash equivalents at 1 January		103,451	125,742	134,791	134,791	69,046
Cash and cash equivalents at 31 December/30 September	*12(a)*	125,742	134,791	69,046	69,961	50,135

The accompanying notes form part of the Financial Information.

B NOTES TO THE FINANCIAL INFORMATION

1 Significant accounting policies

(a) Statement of compliance

These Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These Financial Information also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by Ningbo Shihua Crude Oil Terminal Co.,Ltd (the "Company") is set out below. The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The HKICPA has issued certain new and revised HKFRSs. For the purpose of preparing the Financial Information, the Company has adopted all these new and revised HKFRSs applicable to the Relevant Period, except for any new standards of interpretations that are not yet effective for the Relevant Period and are set out in note 19.

(b) Basis of measurement

The Financial Information has been prepared on the historical cost basis.

(c) Functional and presentation currency

The Financial Information is presented in Renminbi ("RMB"), which is the Company's functional currency.

(d) Use of estimates and judgements

The preparation of Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other resources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revisions affect only that period, or in the period of the revisions and future periods if the revision affect both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 2.

(e) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Company has not agreed any additional terms with the holders of those interests which would result in the Company as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Company can elect to measure any noncontrolling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Campany are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Company's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Company loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss.Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled.

(f) Property, plant and equipment

The items of property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 1(i)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriation proportion of production overheads and borrowing costs.

Gains or losses arising from the retirement of disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Jetty structures	20 – 25 years
– Jetty facilities	12 – 20 years
– Plant and machinery	5 – 10 years
– Motor vehicles and vessels	5 – 10 years
– Furniture, fixtures and equipment	4 – 12 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

No depreciation is provided in respect of construction in progress.

(g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Company

Assets that are held by Company under leases which transfer to the Company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Company are classified as operating leases, with the following exceptions:

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Company, or taken over from the previous lessee.

(ii) Operating lease charges

Where the Company has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(h) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(i)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Land use right	30 years
– Software	10 years

(i) Impairment of assets

(i) Impairment of receivables

Trade and other receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting periods to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Company about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Company is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting periods to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment; and

– intangible assets

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Inventories are initially measured at their actual cost. Cost of inventories is calculated using the specific identification method.

Inventories of the Company are mainly the spare parts for maintenance.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(i)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(n) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave and contributions to defined contribution retirement plans are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Company demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the relevant periods date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profit that may support the recognition of deferred tax assets arising from deductible temporary differences includes those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax assets can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the Relevant Period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of the reporting periods and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

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

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

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

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

  - the same taxable entity; or

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

(p) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Crude oil jetty service income

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

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(r) Related parties

(i) A person, or a close member of that person's family, is related to the Company if that person is a member of the key management personnel of the Company.

(ii) An entity is related to the Company if any of the following conditions applies:

(1) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(2) Both entities are joint ventures of the same third party.

(3) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(4) The entity is controlled or jointly controlled by a person identified in (i).

(5) A person identified in (i) has significant influence over the entity or is a member of the key management personnel of the entity.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(s) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Company's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Company's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Accounting judgements and estimates

(a) Sources of estimation uncertainty

(i) Impairment of long lived assets

If circumstances indicate that the net book value of a long lived asset may not be recoverable, the asset may be considered "impaired" and an impairment loss may be recognised in accordance with HKAS 36, Impairment of assets. The carrying amounts of long lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate service fee because quoted market prices for the Company's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of business volume, service fee and the amount of operating costs. The Company uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of business volume, service fee and the amount of operating costs.

(ii) Depreciation and amortisation

Property, plant, and equipment and intangible assets are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Company reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expenses to be recorded during any Relevant Period. The useful lives are based on the Company's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods is adjusted if there are significant changes from previous estimates. Any revision of useful lives of the Company's fixed assets and intangible assets may have a significant impact to the Company's operating results.

(iii) Impairment of bad and doubtful debts

The Company estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Company bases the estimates on the aging of the trade receivable balance, customer credit-worthiness and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

3 Revenue and segment reporting

(a) Revenue

The principal activity of the Company is operation of crude oil jetty and its ancillary facilities.

Revenue represents the income from provision of port services and logistic services, net of related sales taxes. The amount of each significant category of revenue recognised in revenue during the Relevant Period is as follows:

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Port services	112,162	129,395	121,042	95,905	98,174
Logistic services	7,047	9,984	9,809	7,917	8,198
Security income	7,484	6,131	10,784	7,510	6,832
Others	290	–	–	–	–
	126,983	145,510	141,635	111,332	113,204

(b) Segment information

The Company has single operating segment, being provision of crude oil jetty services and logistic services in Zhejiang province in the PRC. The directors review internal monthly management reports on the results of the Company as a single reportable segment.

Information about major customers

Revenue from customers of the corresponding years/periods contributing over 10% of the total revenue of the Company are as follows:

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
China Petroleum & Chemical Corporation	120,104	111,157	124,717	97,432	101,978
Daxie Petrochemical Corporation	–	23,380	4,424	4,424	542
	120,104	134,537	129,141	101,856	102,520

All revenue of the Company are derived from the PRC.

All non-current assets of the Company are located in the PRC, its country of domicile.

4 Other revenue

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Interest income	2,659	2,538	1,785	1,432	538

5 Profit before taxation

Profit before taxation is arrived at after charging.

(a) Staff costs

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Contributions to defined contribution retirement plan	642	579	581	412	550
Salaries, wages and other benefits	6,990	7,482	9,945	6,124	7,874
	7,632	8,061	10,526	6,536	8,424

(b) Other items

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Amortisation	32	32	34	32	39
Depreciation	6,115	7,037	7,229	5,410	6,035
Auditors' remuneration – audit services	54	52	55	55	55

6 Income tax expenses

(a) *Income tax expenses in the statements of comprehensive income represents:*

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
PRC Corporate Income Tax					
Provision for the year/period	23,107	25,321	24,250	20,196	20,066
Deferred tax					
Origination of temporary differences	815	2,961	2,724	2,066	2,090
	23,922	28,282	26,974	22,262	22,156

The Company is subject to PRC Corporate Income Tax and the PRC's statutory income tax is 25%.

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

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Profit before taxation	95,345	112,266	107,295	88,707	88,623
Tax at PRC Corporate Income Tax statutory rate of 25%	23,836	28,067	26,824	22,177	22,156
Tax effect of expenses not deductible for tax purposes	86	215	150	85	–
Tax charges for the year/period	23,922	28,282	26,974	22,262	22,156

7 Directors' remuneration

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is nil during the three years ended 31 December 2008, 2009 and 2010, and the nine months period ended 31 September 2011 and 2011.

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, the aggregate of the emoluments for the years ended 31 December 2008, 2009, 2010 and for the nine months ended 30 September 2010 (unaudited) and 2011 are as follows:

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Contribution to defined contribution retirement plans	81	52	56	42	45
Salaries and other benefits	1,200	1,217	1,163	723	863
	1,281	1,269	1,219	765	908

The emoluments of the above individuals with the highest emoluments are within the following band:

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Nil – HK$1,000,000	5	5	5	5	5

9 Fixed assets

	Jetty structures RMB'000	Jetty facilities RMB'000	Plant and machinery RMB'000	Motor vehicles and vessels RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2008	103,272	17,253	2,081	1,384	500	1,291	125,781
Additions	–	–	659	257	20	20,517	21,453
Transfers	–	–	1,850	–	–	(1,850)	–
At 31 December 2008	103,272	17,253	4,590	1,641	520	19,958	147,234
Additions	17	–	85	313	51	26,617	27,083
Transfers	30,000	–	–	–	–	(30,000)	–
Disposal	–	(218)	(237)	–	(89)	–	(544)
At 31 December 2009	133,289	17,035	4,438	1,954	482	16,575	173,773
Additions	–	–	–	1,047	275	114,380	115,702
Transfers	9,429	–	–	–	71	(9,500)	–
Disposal	–	–	–	(137)	–	–	(137)
At 31 December 2010	142,718	17,035	4,438	2,864	828	121,455	289,338
Additions	–	30	–	–	72	27,567	27,669
Transfers	6,815	569	–	–	–	(7,384)	–
At 30 September 2011	149,533	17,634	4,438	2,864	900	141,638	317,007
Accumulated depreciation:							
At 1 January 2008	(18,556)	(5,412)	(970)	(1,001)	(267)	–	(26,206)
Charge for the year	(3,979)	(1,098)	(735)	(236)	(67)	–	(6,115)
At 31 December 2008	(22,535)	(6,510)	(1,705)	(1,237)	(334)	–	(32,321)
Charge for the year	(5,119)	(988)	(735)	(132)	(63)	–	(7,037)
Disposal	–	87	224	–	84	–	395
At 31 December 2009	(27,654)	(7,411)	(2,216)	(1,369)	(313)	–	(38,963)
Charge for the year	(5,499)	(932)	(595)	(128)	(75)	–	(7,229)
Disposal	–	–	–	130	–		130
At 31 December 2010	(33,153)	(8,343)	(2,811)	(1,367)	(388)	–	(46,062)
Charge for the period	(4,648)	(699)	(451)	(155)	(82)	–	(6,035)
At 30 September 2011	(37,801)	(9,042)	(3,262)	(1,522)	(470)	–	(52,097)
Carrying values:							
At 31 December 2008	80,737	10,743	2,885	404	186	19,958	114,913
At 31 December 2009	105,635	9,624	2,222	585	169	16,575	134,810
At 31 December 2010	109,565	8,692	1,627	1,497	440	121,455	243,276
At 30 September 2011	111,732	8,592	1,176	1,342	430	141,638	264,910

10 Intangible assets

	Land use rights *RMB'000*	Software *RMB'000*	Total *RMB'000*
Cost			
At 1 January 2008	1,017	121	1,138
Addition	–	–	–
At 31 December 2008	1,017	121	1,138
Addition	–	–	–
At 31 December 2009	1,017	121	1,138
Addition	–	64	64
At 31 December 2010	1,017	185	1,202
Addition	–	–	–
At 30 September 2011	1,017	185	1,202
Accumulated amortisation			
At 1 January 2008	(20)	(2)	(22)
Charge for the year	(20)	(12)	(32)
At 31 December 2008	(40)	(14)	(54)
Charge for the year	(20)	(12)	(32)
At 31 December 2009	(60)	(26)	(86)
Charge for the year	(20)	(14)	(34)
At 31 December 2010	(80)	(40)	(120)
Charge for the period	(20)	(19)	(39)
At 30 September 2011	(100)	(59)	(159)
Carrying Value			
At 31 December 2008	977	107	1,084
At 31 December 2009	957	95	1,052
At 31 December 2010	937	145	1,082
At 30 September 2011	917	126	1,043

11 Trade and other receivables

	At 31 December 2008	At 31 December 2009	At 31 December 2010	At 30 September 2011
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	744	1,435	1,989	1,515
Amount due from related parties	48,390	53,785	39,570	48,969
Deposits and prepayments	1,186	583	344	1,949
Loans and receivables	50,320	55,803	41,903	52,433

(a) Ageing analysis

Included in trade and other receivables are trade receivables (net of allowance for doubtful debts) with the following ageing analysis as of the end of the Relevant Period:

	At 31 December 2008	At 31 December 2009	At 31 December 2010	At 30 September 2011
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current	744	1,435	1,989	1,515

Trade receivables are due within 90 days from the date of billing. Further details on the Company's credit policy are set out in note 18(a).

(b) Trade receivables that are not impaired

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

	At 31 December 2008	At 31 December 2009	At 31 December 2010	At 30 September 2011
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	744	1,435	1,989	1,515

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

12 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	At 31 December 2008	At 31 December 2009	At 31 December 2010	At 30 September 2011
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposits with banks	125,742	134,791	69,046	50,135

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

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit before taxation	95,345	112,266	107,295	88,707	88,623
Adjustments for					
– Depreciation	6,115	7,037	7,229	5,410	6,035
– Amortisation	32	32	34	32	39
– Interest income	(2,659)	(2,538)	(1,785)	(1,432)	(538)
– Loss on disposal of property, plant and equipment	–	136	7	7	–
Changes in working capital					
– (Increase)/decrease in inventories	(52)	31	79	(20)	(47)
– Increase in trade and other receivables	(29,535)	(6,290)	(6,367)	(1,975)	(10,536)
– Increase/(decrease) in trade and other payables	705	(852)	911	1,126	376
Cash generated from operations	69,951	109,822	107,403	91,855	83,952

13 Trade and other payables

	At 31 December			At 30 September
	2008	**2009**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount due to related parties	312	151	1,009	1,365
Other payables	1,996	9,765	24,629	30,667
	2,308	9,916	25,638	32,032

14 Income tax in the statement of financial position

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

	At 31 December			At 30 September
	2008	**2009**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Income tax payable	4,565	6,454	4,050	7,294

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax liabilities recognised in the Company's statement of financial position and the movements during the year/period are as follows:

	Depreciation of fixed assets
	RMB'000
Deferred tax arising from:	
At 1 January 2008	2,740
Charged to profit or loss	815
At 31 December 2008	3,555
At 1 January 2009	
Charged to profit or loss	2,961
At 31 December 2009	6,516
At 1 January 2010	
Charged to profit or loss	2,724
At 31 December 2010	9,240
At 1 January 2011	
Charged to profit or loss	2,090
At 30 September 2011	11,330

15 Capital, reserves and dividends

(a) Movements in components of equity

The opening and closing balances of each component of the Company's equity and a reconciliation between these amounts are set out in the statement of changes in equity.

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year/period

	Years ended 31 December			**Nine months ended 30 September**	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year/period	–	62,076	67,591	67,591	64,934

(c) Share capital

	At 31 December			At 30 September
	2008	**2009**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Share capital, authorised, issued and fully paid:				
At 1 January/31 December/30 September	80,000	80,000	80,000	80,000

(d) Nature and purpose of statutory reserve

In accordance with the PRC Company Law and the articles of association of the Company, it is required to appropriate 10% of the profit after tax (determined in accordance with PRC GAAP and after offsetting any prior years' losses) to the statutory surplus reserve (except where the reserve balance has reached 50% of the Company's registered capital). The statutory surplus reserve and the discretionary surplus reserve fund can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of the Company's registered capital after such usages. This reserve cannot be used for purposes other than those for which they are appropriated and are not distributable as cash dividends.

(e) Capital management

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Company monitors its capital structure on the basis of a gearing ratio, defined as total interest-bearing loans divided by total equity. As at 30 September 2011, the Company did not have any interest-bearing loans.

The Company is not subject to any externally imposed capital requirements.

16 Commitments

(a) Capital commitments not provided for in the Financial Information were as follows:

	At 31 December			At 30 September
	2008	**2009**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted for	18,022	123,191	22,790	2,692

(b) The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 December			At 30 September
	2008	**2009**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	–	–	–	145

17 Related party transactions

(a) Key management personnel remuneration

Remuneration for key management personnel of the Company, including amounts paid to the Company's directors as disclosed in note 7, is as follows:

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Short-term employee benefits	2,826	2,555	1,974	1,481	880

Total remuneration is included in "staff costs" (see note 5(a)).

(b) Other related party transactions

During the Relevant Period, the Company had the following significant transactions with a venture of the Company which were carried out in the ordinary course of business.

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Provision of port and logistic services	119,646	112,146	127,403	98,991	104,464
Receipt of services	10,569	8,167	2,849	2,137	1,691
Purchase of material	–	–	31,897	31,897	–

18 Financial risk management and fair values

Exposure to credit, liquidity and interest rate arises in the normal course of the Company's business.

The Company's exposure to these risks and the financial risk management policies and practices used by the Company to manage these risks are described below.

(a) Credit risk

The Company's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 90 days from the date of billing. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Company does not obtain collateral from customers.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Company has significant exposure to individual customers. At 31 December 2008, 2009 and 2010 and 30 September 2011, the Company has a certain concentration of credit risk as 96%, 61%, 94% and 93% of the total trade and other receivables was due from the Company's largest customer and 97%, 96%, 97% and 96% the total trade and other receivables was due from the 2 largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. The Company does not provide any guarantees which would expose the Company to credit risk.

Further quantitative disclosures in respect of the Company's exposure to credit risk arising from trade and other receivables are set out in note 11.

(b) Liquidity risk

The Company's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

All of the Company's trade and other payable expected to settle within one year.

(c) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008, 2009 and 2010 and 30 September 2011.

19 Possible impact of amendments, new standards and interpretation issued but not yet effective for the Relevant Period

Up to the date of issue of these Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the nine months ended 30 September 2011 and which have not been adopted in the Financial Information. These include the following which may be relevant to the Company:

	Effective for accounting periods beginning on or after
Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*	1 July 2011
Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*	1 January 2012
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
HKFRS 9, *Financial instruments*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013

The Company is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

C SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to 30 September 2011.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

(B) Qingdao Shihua

KPMG

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

14 December 2011

The Directors
Sinopec Kantons Holdings Limited

Dear Sirs

INTRODUCTION

We set out below our report on the financial information relating to Qingdao Shihua Crude Oil Terminal Company Limited (the "Company") including the statements of comprehensive income, the statements of changes in equity and the statements of cash flows of the Company for each of the years ended 31 December 2008, 2009 and 2010 and for the nine months ended 30 September 2011 (the "Relevant Period"), and the statements of financial position of the Company as at 31 December 2008, 2009 and 2010 and 30 September 2011, together with the explanatory notes thereto (the "Financial Information"), for inclusion in the circular of Sinopec Kantons Holdings Limited dated 14 December 2011.

The Company was established in the People's Republic of China (the "PRC") with limited liability on 23 February 2006, under the laws of PRC and incorporated in Shandong Province.

The Company has adopted 31 December as its financial year end date. The statutory financial statements of the Company were prepared in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the PRC.

The directors of the Company (the "Directors") have prepared the financial statements of the Company for the Relevant Period (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Underlying Financial Statements for each of the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared by the Directors based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The Directors are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control as the Directors determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of the Company in respect of any period subsequent to 30 September 2011.

OPINION

In our opinion, for the purpose of this report, the Financial Information, gives a true and fair view of the Company's results and cash flows of the Company for the Relevant Period and the state of affairs of the Company as at 31 December 2008, 2009 and 2010 and 30 September 2011.

COMPARATIVE FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Company comprising the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the nine months ended 30 September 2010, together with the notes thereon (the "Corresponding Financial Information"), for which the Directors are responsible, in accordance with Hong Kong Standard on Review Engagement 2410 "Engagement to Review Financial Statements" issued by the HKICPA.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making inquires, 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 on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe the Comparative Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A FINANCIAL INFORMATION

1 Statements of comprehensive income

	Section B Note	**Years ended 31 December**			**Nine months ended 30 September**	
		2008	**2009**	**2010**	**2010**	**2011**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (Unaudited)*	*RMB'000*
Revenue	*3*	299,195	343,481	407,163	308,292	320,401
Cost of sales		(67,078)	(62,061)	(70,203)	(49,580)	(56,936)
Gross profit		232,117	281,420	336,960	258,712	263,465
Other revenue	*4*	2,015	3,279	3,994	1,558	4,373
Other net loss		(60)	(1,862)	–	–	(344)
Administrative expenses		(13,970)	(13,866)	(17,794)	(11,587)	(14,748)
Profit before taxation	*5*	220,102	268,971	323,160	248,683	252,746
Income tax	*6*	(55,354)	(67,741)	(81,439)	(62,326)	(63,192)
Profit and total comprehensive income for the year/period		164,748	201,230	241,721	186,357	189,554

The accompanying notes form part of the Financial Information.

2 Statements of financial positions

	Section B Note	At 31 December 2008 RMB'000	2009 RMB'000	2010 RMB'000	At 30 September 2011 RMB'000
Non-current assets					
Fixed assets	9				
– Property, plant and equipment		695,896	707,410	696,914	678,189
– Construction in progress		14,169	3,677	8,449	1,639
Deferred tax assets	13(b)	–	1,296	2,602	3,581
		710,065	712,383	707,965	683,409
Current assets					
Inventories		72	144	167	83
Trade and other receivables	10	21,220	4,876	5,814	23,522
Cash and cash equivalents	11	177,940	435,368	392,519	340,333
		199,232	440,388	398,500	363,938
Current liabilities					
Trade and other payables	12	3,766	12,625	9,974	20,492
Income tax payable	13(a)	18,736	52,121	82,745	59,555
		22,502	64,746	92,719	80,047
Net current assets		176,730	375,642	305,781	283,891
Total assets less current liabilities		886,795	1,088,025	1,013,746	967,300
Net assets		886,795	1,088,025	1,013,746	967,300
Capital and reserves	14				
Share capital		200,000	200,000	200,000	200,000
Reserves		686,795	888,025	813,746	767,300
Total equity		886,795	1,088,025	1,013,746	967,300

The accompanying notes form part of the Financial Information.

3 Statements of changes in equity

	Share capital *(Section B Note 14 (c))*	Capital reserve *(Section B Note 14 (d)(i))*	Statutory reserve *(Section B Note 14 (d)(ii))*	Retained profits	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008	200,000	491,974	30,073	–	722,047
Profit and total comprehensive income for the year	–	–	–	164,748	164,748
Transfer to statutory reserve	–	–	16,475	(16,475)	–
At 31 December 2008	200,000	491,974	46,548	148,273	886,795
Profit and total comprehensive income for the year	–	–	–	201,230	201,230
Transfer to statutory reserve	–	–	20,123	(20,123)	–
At 31 December 2009	200,000	491,974	66,671	329,380	1,088,025
Profit and total comprehensive income for the year	–	–	–	241,721	241,721
Transfer to statutory reserve	–	–	24,172	(24,172)	–
Dividends approved in respect of the previous year	–	–	–	(316,000)	(316,000)
At 31 December 2010	200,000	491,974	90,843	230,929	1,013,746
Profit and total comprehensive income for the period	–	–	–	189,554	189,554
Dividends approved in respect of the previous year	–	–	–	(236,000)	(236,000)
At 30 September 2011	200,000	491,974	90,843	184,483	967,300
At 1 January 2010 (audited)	200,000	491,974	66,671	329,380	1,088,025
Profit and total comprehensive income for the period	–	–	–	186,357	186,357
Dividends approved in respect of the previous year	–	–	–	(316,000)	(316,000)
At 30 September 2010 (unaudited)	200,000	491,974	66,671	199,737	958,382

The accompanying notes form part of the Financial Information.

4 Statements of cash flows

	Section B Note	Years ended 31 December			Nine months ended 30 September	
		2008	2009	2010	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Operating activities						
Cash generated from operations	11(b)	262,198	322,081	359,805	286,542	277,587
Income taxes paid		(46,270)	(35,652)	(52,121)	(52,121)	(87,360)
Net cash generated from operating activities		215,928	286,429	307,684	234,421	190,227
Investing activities						
Payment for purchase of property, plant and equipment		(132,525)	(32,280)	(38,527)	(33,601)	(10,828)
Proceeds from disposal of property, plant and equipment		–	–	–	–	42
Interest received		2,015	3,279	3,994	1,558	4,373
Net cash used in investing activities		(130,510)	(29,001)	(34,533)	(32,043)	(6,413)
Financing activities						
Dividends paid		(2,075)	–	(316,000)	(316,000)	(236,000)
Net cash used in financing activities		(2,075)	–	(316,000)	(316,000)	(236,000)
Net increase/(decrease) in cash and cash equivalents		83,343	257,428	(42,849)	(113,622)	(52,186)
Cash and cash equivalents at 1 January		94,597	177,940	435,368	435,368	392,519
Cash and cash equivalents at 31 December/30 September	11(a)	177,940	435,368	392,519	321,746	340,333

The accompanying notes form part of the Financial Information.

B NOTES TO THE FINANCIAL INFORMATION

1 Significant accounting policies

(a) Statement of compliance

These Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These Financial Information also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by Qingdao Shihua Crude Oil Terminal Company Limited (the "Company") is set out below. The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The HKICPA has issued certain new and revised HKFRSs. For the purpose of preparing the Financial Information, the Company has adopted all these new and revised HKFRSs to the Relevant Period, except for any new standards of interpretations that are not yet effective for the Relevant Period and are set out in note 18.

(b) Basis of measurement

The Financial Information has been prepared on the historical cost basis.

(c) Functional and presentation currency

The Financial Information is presented in Renminbi ("RMB"), which is the Company's functional currency.

(d) Use of estimates and judgements

The preparation of Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other resources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revisions affect only that period, or in the period of the revisions and future periods if the revision affect both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 2.

(e) Property, plant and equipment

The items of property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 1(g)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriation proportion of production overheads and borrowing costs.

Gains or losses arising from the retirement of disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings	20 – 25 years
– Jetty structures	20 – 25 years
– Jetty facilities and machinery	5 – 20 years
– Motor vehicles and vessels	5 – 10 years
– Other equipments	4 – 12 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

No depreciation is provided in respect of construction in progress.

(f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Company

Assets that are held by Company under leases which transfer to the Company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Company are classified as operating leases, with the following exceptions:

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Company, or taken over from the previous lessee.

(ii) Operating lease charges

Where the Company has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(g) Impairment of assets

(i) Impairment of receivables

Trade and other receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each Relevant Period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Company about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Company is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each Relevant Period to identify indications that property, plant and equipment may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated, to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Inventories are initially measured at their actual cost. Cost of inventories is calculated using the specific identification method.

Inventories of the Company are mainly the spare parts for maintenance.

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(g)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(j) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(l) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave and contributions to defined contribution retirement plans are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Company demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(m) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profit that may support the recognition of deferred tax assets arising from deductible temporary differences includes those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax assets can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of the Relevant Period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

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

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

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

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

  – the same taxable entity; or

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

(n) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Crude oil jetty service income

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

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(p) Related parties

(i) A person, or a close member of that person's family, is related to the Company if that person is a member of the key management personnel of the Company.

(ii) An entity is related to the Company if any of the following conditions applies:

  (1) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

  (2) Both entities are joint ventures of the same third party.

(3) One entity is a joint venture of a third entity and other entity is an associate of the third party.

(4) The entity is controlled or jointly controlled by a person identified in (i).

(5) A person identified in (i) has significant influence over the entity or is a member of the key management personnel of the entity.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(q) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Company's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Company's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Sources of estimation uncertainty

(a) Impairment of long lived assets

If circumstances indicate that the net book value of a long lived asset may not be recoverable, the asset may be considered "impaired" and an impairment loss may be recognised in accordance with HKAS 36, Impairment of assets. The carrying amounts of long lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for the Company's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of business volume, service fee and the amount of operating costs. The Company uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of business volume, service fee and the amount of operating costs.

(b) Depreciation

Property, plant, and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Company reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Company's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates. Any revision of useful lives of the Company's fixed assets may have a significant impact to the Company's operating results.

(c) Impairment of bad and doubtful debts

The Company estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Company bases the estimates on the aging of the trade receivable balance, customer credit-worthiness and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

3 Revenue and segment reporting

(a) Revenue

The principal activity of the Company is operation of crude oil jetty and its ancillary facilities.

Revenue represents the income from provision of port services and logistic services, net of related sales taxes. The amount of each significant category of revenue recognised in revenue during the Relevant Period is as follows:

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Port services	288,855	331,677	393,186	298,127	309,860
Logistic services	9,867	11,175	13,393	9,591	10,539
Others	473	629	584	574	2
	299,195	343,481	407,163	308,292	320,401

(b) Segment information

The Company has single operating segment, being provision of crude oil jetty services and logistic services in Shandong province in the PRC. The directors review internal monthly management reports on the results of the Company as a single reportable segment.

Information about major customers

Revenue from customers of the corresponding years/periods contributing over 10% of the total revenue of the Company are as follows:

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
China Petroleum & Chemical Corporation	283,904	294,706	346,150	261,477	268,111

All revenue of the Company are derived from the PRC.

All non-current assets of the Company are located in the PRC, its country of domicile.

4 Other revenue

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Interest income	2,015	3,279	3,994	1,558	4,373

5 Profit before taxation

Profit before taxation is arrived at after charging:

(a) Staff costs

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Contribution to defined retirement plan	3,209	2,350	2,519	1,896	2,098
Salaries, wages and other benefits	23,324	18,249	20,323	14,536	17,358
	26,533	20,599	22,842	16,432	19,456

(b) Other items

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Amortisation	533	–	–	–	–
Depreciation	37,000	38,506	41,629	29,641	31,751
Operating lease charges – hire of other assets (including property rentals)	–	983	497	373	373
Auditors' remuneration					
– audit services	55	50	50	50	50
– tax services	3	3	13	13	–

6 Income tax

(a) Income tax in the statements of comprehensive income represents:

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
PRC Corporate Income Tax					
Provision for the year/period	55,354	69,037	82,745	63,305	64,171
Deferred tax					
Origination of temporary differences	–	(1,296)	(1,306)	(979)	(979)
	55,354	67,741	81,439	62,326	63,192

The Company is subject to PRC Corporate Income Tax and the PRC's statutory income tax rate is 25%.

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

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Profit before taxation	220,102	268,971	323,160	248,683	252,746
Tax at PRC Corporate Income Tax statutory rate of 25%	55,026	67,243	80,790	62,171	63,187
Tax effect of expenses not deductible for tax purposes	328	498	649	155	5
Tax charges for the year/period	55,354	67,741	81,439	62,326	63,192

7 Directors' remuneration

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	Year ended 31 December 2008		
	Directors' fees	**Salaries, allowances and benefits-in-kind**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Executive directors			
Tian Yimin	–	–	–
Tian Guangwen	–	–	–
Sun Ge	–	–	–
Yang Fengguang	–	–	–
Wang Guotao	–	–	–
Yu Shengping	–	–	–
Supervisors			
Xue Qingxia	–	–	–
Zheng Shuyang	–	–	–
Liu Shan	–	–	–
Fu Xinmin	–	–	–
	–	–	–

	Year ended 31 December 2009		
	Directors' fees	**Salaries, allowances and benefits-in-kind**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Executive directors			
Tian Yimin	–	–	–
Tian Guangwen	–	–	–
Sun Ge	–	–	–
Yang Fengguang	–	–	–
Wang Guotao	–	–	–
Yu Shengping	–	–	–
Supervisors			
Xue Qingxia	–	–	–
Zheng Shuyang	–	–	–
Liu Shan	–	–	–
Fu Xinmin	–	–	–
	–	–	–

	Year ended 31 December 2010		
	Directors' fees	Salaries, allowances and benefits-in-kind	Total
	RMB'000	*RMB'000*	*RMB'000*
Executive directors			
Tian Yimin	–	–	–
Tian Guangwen	–	–	–
Sun Ge	–	–	–
Yang Fengguang	–	233	233
Wang Guotao	–	–	–
Yu Shengping	–	–	–
Supervisors			
Xue Qingxia	–	–	–
Zheng Shuyang	–	–	–
Liu Shan	–	–	–
Fu Xinmin	–	–	–
	–	233	233

	Nine months ended 30 September 2010 (unaudited)		
	Directors' fees	Salaries, allowances and benefits-in-kind	Total
	RMB'000	*RMB'000*	*RMB'000*
Executive directors			
Tian Yimin	–	–	–
Tian Guangwen	–	–	–
Sun Ge	–	–	–
Yang Fengguang	–	–	–
Wang Guotao	–	–	–
Yu Shengping	–	–	–
Supervisors			
Xue Qingxia	–	–	–
Zheng Shuyang	–	–	–
Liu Shan	–	–	–
Fu Xinmin	–	–	–
	–	–	–

	Nine months ended 31 December 2011		
	Directors' fees	**Salaries, allowances and benefits-in-kind**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Executive directors			
Tian Yimin	–	–	–
Tian Guangwen	–	–	–
Sun Ge	–	–	–
Yang Fengguang	–	208	208
Wang Guotao	–	–	–
Yu Shengping	–	–	–
Supervisors			
Xue Qingxia	–	–	–
Zheng Shuyang	–	–	–
Liu Shan	–	–	–
Fu Xinmin	–	–	–
	–	208	208

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, one is a director for the year ended 31 December 2010 and the nine months ended 30 September 2011 respectively, whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the remaining 4 individuals for the year ended 31 December 2010 and the nine months ended 30 September 2011, and the 5 individuals for the years ended 31 December 2008 and 2009 and the nine months ended 30 September 2010 (unaudited) are as follows:

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Contribution to defined contribution retirement plans	49	70	61	57	51
Salaries and other benefits	399	627	745	654	702
	448	697	806	711	753

The emoluments of the above individuals with the highest emoluments are within the following band:

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Nil – HK$1,000,000	5	5	4	5	4

9 Fixed assets

	Buildings *RMB'000*	Jetty structure *RMB'000*	Jetty facilities and machinery *RMB'000*	Motor vehicles and vessels *RMB'000*	Other equipments *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost:							
At 1 January 2008	–	642,930	34,334	31,155	185	–	708,604
Additions	–	–	156	–	274	69,405	69,835
Transfers	–	55,164	–	–	72	(55,236)	–
Disposals	–	(16)	(56)	–	–	–	(72)
At 31 December 2008	–	698,078	34,434	31,155	531	14,169	778,367
Additions	–	3,392	24,507	705	135	12,651	41,390
Transfers	–	8,352	14,467	–	324	(23,143)	–
Disposals	–	(1,410)	(1,071)	–	–	–	(2,481)
At 31 December 2009	–	708,412	72,337	31,860	990	3,677	817,276
Additions	–	8,420	1,446	–	702	25,337	35,905
Transfers	21,122	(4,095)	2,500	–	1,038	(20,565)	–
At 31 December 2010	21,122	712,737	76,283	31,860	2,730	8,449	853,181
Additions	–	–	174	–	89	6,340	6,603
Transfers	–	11,800	1,350	–	–	(13,150)	–
Disposals	–	–	(982)	(16)	(38)	–	(1,036)
At 30 September 2011	21,122	724,537	76,825	31,844	2,781	1,639	858,748
Accumulated depreciation and amortisation:							
At 1 January 2008	–	(23,251)	(3,099)	(4,933)	(31)	–	(31,314)
Charge for the year	–	(30,537)	(3,449)	(2,960)	(54)	–	(37,000)
Written back on disposals	–	1	11	–	–		12
At 31 December 2008	–	(53,787)	(6,537)	(7,893)	(85)	–	(68,302)
Charge for the year	–	(29,320)	(6,097)	(2,978)	(111)	–	(38,506)
Written back on disposals	–	246	373	–	–	–	619
At 31 December 2009	–	(82,861)	(12,261)	(10,871)	(196)	–	(106,189)
Charge for the year	(84)	(30,295)	(8,025)	(3,027)	(198)	–	(41,629)
At 31 December 2010	(84)	(113,156)	(20,286)	(13,898)	(394)	–	(147,818)
Charge for the period	(750)	(22,498)	(5,841)	(2,270)	(392)	–	(31,751)
Written back on disposals	–	–	604	8	37	–	649
At 30 September 2011	(834)	(135,654)	(25,523)	(16,160)	(749)	–	(178,920)
Carrying values:							
At 31 December 2008	–	644,291	27,897	23,262	446	14,169	710,065
At 31 December 2009	–	625,551	60,076	20,989	794	3,677	711,087
At 31 December 2010	21,038	599,581	55,997	17,962	2,336	8,449	705,363
At 30 September 2011	20,288	588,883	51,302	15,684	2,032	1,639	679,828

10 Trade and other receivables

	At 31 December			At 30 September
	2008	**2009**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount due from related parties	20,425	4,615	5,338	7,059
Amount due from third parties	795	261	125	16,346
Loans and receivables	21,220	4,876	5,463	23,405
Prepayments	–	–	351	117
	21,220	4,876	5,814	23,522

(a) Ageing analysis

Included in trade and other receivables are trade receivables (net of allowance for doubtful debts) with the following ageing analysis at the end of the Relevant Period:

	At 31 December			At 30 September
	2008	**2009**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current	21,220	4,876	5,463	23,405

Trade receivables are due within 30 days from the date of billing. Further details on the Company's credit policy are set out in note 17(a).

(b) Trade receivables not impaired

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

	At 31 December			At 30 September
	2008	**2009**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	21,220	4,876	5,463	23,405

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

11 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	At 31 December			At 30 September
	2008	**2009**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and in hand	127,940	285,368	42,519	70,333
Deposits with banks	50,000	150,000	350,000	270,000
	177,940	435,368	392,519	340,333

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

		Years ended 31 December			Nine months ended 30 September	
	Note	**2008**	**2009**	**2010**	**2010**	**2011**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Operating activities						
Profit before taxation		220,102	268,971	323,160	248,683	252,746
Adjustments for:						
– Depreciation	*5(b)*	37,000	38,506	41,629	29,641	31,571
– Amortisation of long-term deferred assets	*5(b)*	533	–	–	–	–
– Loss on disposal of property, plant and equipment		60	1,862	–	–	344
– Interest income	*4*	(2,015)	(3,279)	(3,994)	(1,558)	(4,373)
Changes in working capital:						
– Decrease/(increase) in inventories		10	(71)	(23)	92	84
– Decrease/(increase) in trade and other receivables		8,105	16,343	(589)	4,688	(17,942)
– (Decrease)/increase in trade and other payables		(1,597)	(251)	(378)	4,996	15,157
Cash generated from operating activities		262,198	322,081	359,805	286,542	277,587

12 Trade and other payables

	At 31 December			At 30 September
	2008	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other payables	1,478	2,428	1,912	6,946
Amount due to related parties	2,288	10,197	8,062	13,546
	3,766	12,625	9,974	20,492

13 Income tax in the statement of financial position

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

	At 31 December			At 30 September
	2008	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
PRC income tax payable	18,736	52,121	82,745	59,555

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax assets recognised in the Company's statement of financial position and the movements during the year/period are as follows:

	Depreciation of fixed assets
	RMB'000
At 1 January 2008, 31 December 2008 and 1 January 2009	–
Credited to profit or loss	1,296
At 31 December 2009	1,296
At 1 January 2010	1,296
Credited to profit or loss	1,306
At 31 December 2010	2,602
At 1 January 2011	2,602
Credited to profit or loss	979
At 30 September 2011	3,581

14 Capital, reserves and dividends

(a) Movements in components of equity

The opening and closing balances of each component of the Company's equity and a reconciliation between these amounts are set out in the statement of changes in equity.

(b) Dividends

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Final dividend in respect of the previous year, approved and paid during the year/period	–	–	316,000	316,000	236,000

(c) Share capital

	At 31 December			At 30 September
	2008	**2009**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Share capital, authorised, issued and fully paid:				
At 1 January/31 December/ 30 September	200,000	200,000	200,000	200,000

(d) Nature and purpose of reserves

(i) Capital reserve

The capital reserve of the Company represents the contributed amounts in excess of paid-up registered capital.

(ii) Statutory reserve

In accordance with the PRC Company Law and the articles of association of the Company, it is required to appropriate 10% of the profit after tax (determined in accordance with PRC GAAP and after offsetting any prior years' losses) to the statutory surplus reserve (except where the reserve balance has reached 50% of the Company's registered capital). The statutory surplus reserve and the discretionary surplus reserve fund can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of the Company's registered capital after such usages. This reserve cannot be used for purposes other than those for which they are appropriated and are not distributable as cash dividends.

(e) Capital management

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Company monitors its capital structure on the basis of a gearing ratio, defined as total interest-bearing loans divided by total equity. As at 30 September 2011, the Company did not have any interest-bearing loans.

The Company is not subject to any externally imposed capital requirements.

15 Commitments

(a) *Capital commitments not provided for in the Financial Information are as follows:*

	At 31 December			At 30 September
	2008	**2009**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted for	1,010	16,800	6,450	2,261

(b) *The total future minimum lease payments under non-cancellable operating leases are payable as follows:*

	At 31 December			At 30 September
	2008	**2009**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	–	497	497	497
After 1 year within 5 years	–	1,988	1,988	1,988
After 5 years	–	5,966	5,469	4,972
	–	8,451	7,954	7,457

16 Related party transactions

(a) *Key management personnel remuneration*

Remuneration for key management personnel of the Company, including amounts paid to the Company's directors as disclosed in note 7, is as follows:

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Short-term employee benefits	76	246	792	335	755
Post-employment benefits	11	28	61	23	51
	87	274	853	358	806

Total remuneration is included in "staff costs" (see note 5(a)).

(b) Other related party transactions

During the Relevant Period, the Company had the following significant transactions with the ventures of the Company and their subsidiaries which were carried out in the ordinary course of business.

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Provision of port and logistic services	287,411	296,027	346,292	261,619	268,111
Receipt of services	52,268	16,514	36,457	29,450	11,245

17 Financial risk management and fair values

Exposure to credit and liquidity risks arise in the normal course of the Company's business.

The Company's exposure to these risks and the financial risk management policies and practices used by the Company to manage these risks are described below.

(a) Credit risk

The Company's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 days from the date of billing. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Company does not obtain collateral from customers.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Company has significant exposure to individual customers. At 31 December 2008, 2009 and 2010 and 30 September 2011, the Company has a certain concentration of credit risk as 64%, 95%, 98% and 30% of the total trade and other receivables was due from the Company's largest customer and 64%, 95%, 98% and 30% the total trade and other receivables was due from the five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. The Company does not provide any guarantees which would expose the Company to credit risk.

Further quantitative disclosures in respect of the Company's exposure to credit risk arising from trade and other receivables are set out in note 10.

(b) Liquidity risk

The Company's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

All of the Company's trade and other payables are expected to settle within one year.

(c) Fair values

All financial instruments are carried at amounts not materially different from their fair values as 31 December 2008, 2009 and 2010 and 30 September 2011.

18 Possible impact of amendments, new standards and interpretations issued but not yet effective for the Relevant Period

Up to the date of issue of these Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the nine months ended 30 September 2011 and which have not been adopted in the Financial Information. These include the following which may be relevant to the Company:

	Effective for accounting periods beginning on or after
Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*	1 July 2011
Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*	1 January 2012
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
HKFRS 9, *Financial instruments*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013

The Company is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

C SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to 30 September 2011.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

(C) Tianjin Port Shihua

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

14 December 2011

The Directors
Sinopec Kantons Holdings Limited

Dear Sirs

INTRODUCTION

We set out below our report on the financial information relating to Tianjin Port Shihua Crude Oil Terminal Company Limited (the "Company") including the statements of comprehensive income, the statements of changes in equity and the statements of cash flows of the Company for each of the years ended 31 December 2008, 2009 and 2010 and for the nine months ended 30 September 2011 (the "Relevant Period"), and the statements of financial position of the Company as at 31 December 2008, 2009 and 2010 and 30 September 2011, together with the explanatory notes thereto (the "Financial Information"), for inclusion in the circular of Sinopec Kantons Holdings Limited dated 14 December 2011.

The Company was established in the People's Republic of China (the "PRC") with limited liability on 19 December 2007, under the laws of PRC and incorporated in Tianjin Municipality.

The Company adopts 31 December as its financial year end date. The statutory financial statements of the Company were prepared in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the PRC.

The directors of the Company (the "Directors") have prepared the financial statements of the Company for the Relevant Period (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Underlying Financial Statements for each of the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared by the Directors based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The Directors are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control as the Directors determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of the Company in respect of any period subsequent to 30 September 2011.

OPINION

In our opinion, for the purpose of this report, the Financial Information, gives a true and fair view of the Company's results and cash flows of the Company for the Relevant Period and the state of affairs of the Company as at 31 December 2008, 2009 and 2010 and 30 September 2011.

COMPARATIVE FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Company comprising the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the nine months ended 30 September 2010, together with the notes thereon (the "Corresponding Financial Information"), for which the Directors are responsible, in accordance with Hong Kong Standard on Review Engagement 2410 "Engagement to Review Financial Statements" issued by the HKICPA.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making inquires, 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 on the Corresponding Financial Information.

Base on our review, for the purpose of this report, nothing has come to our attention that causes us to believe the Comparative Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A FINANCIAL INFORMATION

1 Statements of comprehensive income

	Section B Note	**Years ended 31 December**			**Nine months ended 30 September**	
		2008	**2009**	**2010**	**2010**	**2011**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Revenue	*3*	–	85,063	133,304	105,332	90,178
Cost of sales		–	(52,744)	(58,781)	(40,930)	(41,400)
Gross profit		–	32,319	74,523	64,402	48,778
Other revenue	*4*	–	49	127	120	15
Other net income/(loss)		–	358	(193)	(54)	(762)
Administrative expenses		–	(12,400)	(14,042)	(8,611)	(7,989)
Profit from operations		–	20,326	60,415	55,857	40,042
Finance costs	*5(a)*	–	(20,416)	(19,677)	(14,610)	(17,396)
(Loss)/profit before taxation	*5*	–	(90)	40,738	41,247	22,646
Income tax	*6*	–	4,521	5,191	3,833	3,723
Profit and total comprehensive income for the year/period		–	4,431	45,929	45,080	26,369

The accompanying notes form part of the Financial Information.

2 Statements of financial positions

	Section B Note	At 31 December 2008 RMB'000	At 31 December 2009 RMB'000	At 31 December 2010 RMB'000	At 30 September 2011 RMB'000
Non-current assets					
Fixed assets	9				
– Property, plant and equipment		1,003	1,107,490	1,056,040	1,021,216
– Construction in progress		1,072,035	–	–	–
Deferred tax assets	10	–	4,521	9,712	13,435
Other non-current assets	11	–	–	3,994	5,994
		1,073,038	1,112,011	1,069,746	1,040,645
Current assets					
Inventories		–	42	51	70
Trade and other receivables	12	–	5	6,913	2,577
Cash and cash equivalents	13	217	6,916	1,053	2,666
		217	6,963	8,017	5,313
Current liabilities					
Trade and other payables	14	210,075	212,363	82,793	53,559
Short-term borrowings and current portion of long-term borrowings	15	279,250	276,300	448,400	432,660
		489,325	488,663	531,193	486,219
Net current liabilities		(489,108)	(481,700)	(523,176)	(483,906)
Total assets less current liabilities		583,930	630,311	546,570	559,739
Non-current liabilities					
Interest bearing borrowings less current portion	15	101,270	143,220	13,200	–
		101,270	143,220	13,200	–
Net assets		482,660	487,091	533,370	559,739
Capital and reserves	16				
Share capital		482,660	482,660	482,660	482,660
Reserves		–	443	5,386	5,386
Retain earnings		–	3,988	45,324	71,693
Total equity		482,660	487,091	533,370	559,739

The accompanying notes form part of the Financial Information.

3 Statements of changes in equity

	Share capital *(Section B note 16 (b))* *RMB'000*	**Statutory reserve** *(Section B note 16 (c)(i))* *RMB'000*	**Other reserve** *(Section B note 16 (c)(ii))* *RMB'000*	**Retained profits** *RMB'000*	**Total equity** *RMB'000*
At 1 January/31 December 2008	482,660	–	–	–	482,660
Profit and total comprehensive income for the year	–	–	–	4,431	4,431
Transfer to statutory reserve	–	443	–	(443)	–
At 31 December 2009	482,660	443	–	3,988	487,091
Profit and total comprehensive income for the year	–	–	–	45,929	45,929
Transfer to statutory reserve	–	4,593	–	(4,593)	–
Others	–	–	350	–	350
At 31 December 2010	482,660	5,036	350	45,324	533,370
Profit and total comprehensive income for the period	–	–	–	26,369	26,369
At 30 September 2011	482,660	5,036	350	71,693	559,739
At 1 January 2010 (audited)	482,660	443	–	3,988	487,091
Profit and total comprehensive income for the period	–	–	–	45,080	45,080
Others	–	–	350	–	350
At 30 September 2010 (unaudited)	482,660	443	350	49,068	532,521

The accompanying notes form part of the Financial Information.

4 Statements of cash flows

	Section B Note	Years ended 31 December			Nine months ended 30 September	
		2008	2009	2010	2010	2011
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Operating activities						
Cash generated from operations	*13(b)*	340	83,515	117,976	109,446	83,829
Net cash generated from operating activities		340	83,515	117,976	109,446	83,829
Investing activities						
Payment for purchase of PPE		(814,479)	(95,925)	(146,369)	(116,718)	(35,895)
Interest received		–	49	127	120	15
Net cash used in investing activities		(814,479)	(95,876)	(146,242)	(116,598)	(35,880)
Financing activities						
Repayment of borrowings		(98,270)	(512,250)	(912,890)	(569,950)	(795,070)
Interest paid		(48,824)	(19,940)	(19,677)	(14,610)	(17,396)
Proceeds from borrowings		478,790	551,250	954,970	597,350	766,130
Net cash used in financing activities		331,696	19,060	22,403	12,790	(46,336)
Net (decrease)/increase in cash and cash equivalents		(482,443)	6,699	(5,863)	5,638	1,613
Cash and cash equivalent at 1 January		482,660	217	6,916	6,916	1,053
Cash and cash equivalent at 31 December	*13(a)*	217	6,916	1,053	12,554	2,666

The accompanying notes form part of the Financial Information.

B NOTES TO THE FINANCIAL INFORMATION

1 Significant accounting policies

(a) Statement of compliance

These Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These Financial Information also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by Tianjin Port Shihua Crude Oil Terminal Company Limited (the "Company") is set out below. The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The HKICPA has issued certain new and revised HKFRSs. For the purpose of preparing the Financial Information, the Company has adopted all these new and revised HKFRSs to the Relevant Period, except for any new standards of interpretations that are not yet effective for the Relevant Period are set out in note 20.

(b) Basis of preparation

The measurement basis used in the preparation of the Financial Information is the historical cost basis.

As at 30 September 2011, the Company's current liabilities exceeded its current assets by RMB483,906,000. In preparing the Financial Information, the directors have considered the Company's sources of liquidity and believe that adequate funding will be available for the foreseeable future to fulfill the Company's short-term obligations as they fall due on the basis that (i) the Company had revolving credit facilities from related parties of RMB479 million as at 30 September 2011; and (ii) the Company has been profit making and generating positive operating cash flow. The directors believe that the Company will continue as a going concern accordingly and have prepared the Financial Information on a going concern basis.

(c) Functional and presentation currency

The Financial Information is presented in Renminbi ("RMB"), which is the Company's functional currency.

(d) Use of estimates and judgements

The preparation of Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other resources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revisions affect only that period, or in the period of the revisions and future periods if the revision affect both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 2.

(e) Property, plant and equipment

The items of property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 1(g)(ii)):

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriation proportion of production overheads and borrowing costs (see note 1(q)).

Gains or losses arising from the retirement of disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Jetty structures	20 – 25 years
– Jetty facilities	12 – 20 years
– Plant and machinery	5 – 20 years
– Motor vehicles and vessels	5 – 10 years
– Furniture, fixtures and equipment	4 – 12 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

No depreciation is provided in respect of construction in progress.

(f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Company

Assets that are held by Company under leases which transfer to the Company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Company are classified as operating leases, with the following exceptions:

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Company, or taken over from the previous lessee.

(ii) Operating lease charges

Where the Company has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(g) Impairment of assets

(i) Impairment of receivables

Trade and other receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each Reporting Periods to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Company about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Company is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each Reporting Periods to identify indications that property, plant and equipment may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated, to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Inventories are initially measured at their actual cost. Cost of inventories is calculated using the specific identification method.

Inventories of the Company are mainly the spare parts for maintenance.

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(g)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(j) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(k) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(m) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave and contributions to defined contribution retirement plans are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Company demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the Relevant Period date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profit that may support the recognition of deferred tax assets arising from deductible temporary differences includes those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax assets can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of the Reporting Periods and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

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

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

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

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

  - the same taxable entity; or

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

(o) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Crude oil jetty service income

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

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(q) Borrowing costs

Borrowing costs are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

(r) Related parties

(i) A person, or a close member of that person's family, is related to the Company if that person is a member of the key management personnel of the Company.

(ii) An entity is related to the Company if any of the following conditions applies:

(1) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(2) Both entities are joint ventures of the same third party.

(3) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(4) The entity is controlled or jointly controlled by a person identified in (i).

(5) A person identified in (i) has significant influence over the entity or is a member of the key management personnel of the entity.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(s) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Company's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Company's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Accounting judgements and estimates

(a) Sources of estimation uncertainty

(i) Impairment of long lived assets

If circumstances indicate that the net book value of a long lived asset may not be recoverable, the asset may be considered "impaired" and an impairment loss may be recognised in accordance with HKAS 36, Impairment of assets. The carrying amounts of long lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate service fee because quoted market prices for the Company's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of business volume, service fee and the amount of operating costs. The Company uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of business volume, service fee and the amount of operating costs.

(ii) Depreciation

Property, plant, and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Company reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Company's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates. Any revision of useful lives of the Company's fixed assets may have a significant impact to the Company's operating results.

(iii) Impairment of bad and doubtful debts

The Company estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Company bases the estimates on the aging of the trade receivable balance, customer credit-worthiness and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

3 Revenue and segment reporting

(a) Revenue

The principal activity of the Company is operation of crude oil jetty and its ancillary facilities.

Revenue represents the income from provision of port services and logistic services, net of related sales taxes. The amount of each significant category of revenue recognised in revenue during the Relevant Period is as follows:

	Years ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Port services	–	77,795	121,412	95,890	82,774
Logistic services	–	2,848	5,576	4,283	4,055
Security services	–	4,285	6,026	4,942	3,213
Others	–	135	290	217	136
	–	85,063	133,304	105,332	90,178

(b) Segment information

The Company has single operating segment, being provision of crude oil jetty services and logistic services in Tianjin Municipality in the PRC. The directors review internal monthly management reports on the results of the Company as a single reportable segment.

Information about major customers

Revenue from customers of the corresponding years/periods contributing over 10% of the total revenue of the Company are as follows:

	Years ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
China Petroleum & Chemical Corporation	–	81,063	127,672	92,697	86,184

All revenue of the Company are derived from the PRC.

All non-current assets of the Company are located in the PRC, its country of domicile.

4 Other revenue

	Years ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Interest income	–	49	127	120	15

5 Profit before taxation

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

(a) Finance costs

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Interest on bank advances and other borrowings wholly repayable within five years	48,824	20,892	19,677	14,610	17,396
Less: interest expense capitalised*	(48,824)	(476)	–	–	–
	–	20,416	19,677	14,610	17,396

* The borrowing costs have been capitalised at a rate of 5.18% and 6.72% per annum for the year ended 31 December 2008 and 2009, respectively.

(b) Staff costs

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Contributions to defined contribution retirement plan	–	314	329	248	306
Salaries, wages and other benefits	–	6,005	7,129	4,520	4,657
	–	6,319	7,458	4,768	4,963

(c) Other items

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Depreciation	–	42,201	46,439	34,798	34,938
Auditors' remuneration – audit services	–	35	45	45	45

6 Income tax

(a) Income tax expenses in the statements of comprehensive income represents:

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Deferred tax					
Origination of temporary differences	–	4,521	5,191	3,833	3,723

The Company is subject to PRC Corporate Income Tax. Effective from 1 January 2008, the PRC's statutory income tax rate is 25%. For the years ended 2008, 2009, 2010 and nine months ended 30 September 2011, the Company is in the income tax exemption periods.

Pursuant to the tax regulation "Preferential Corporate Income Tax for Public Infrastructure Facility" (Guo ShuiFa (2009) No.28), which was issued by the State Administration of Taxation on April 16, 2009, the Company is entitled to a tax holiday on corporate income tax for 3 years from the first year of making revenue, and a 50% reduction in the corporate income tax rate for the following 3 years.

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

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Profit before taxation	–	(90)	40,378	41,247	22,646
Tax at the applicable tax rate of 0%	–	–	–	–	–
Tax effect of depreciation allowance in excess of the related depreciation of fixed assets	–	4,521	5,191	3,833	3,723
Tax charges for the year/period	–	4,521	5,191	3,833	3,723

7 Directors' remuneration

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	Year ended 31 December 2008		
	Directors' fees	**Salaries, allowances and benefits-in-kind**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Executive directors			
Bo Wanming	–	391	391
Yuan Baotong	–	–	–
Gao Andong	–	–	–
Duan Yanxiu	–	–	–
Yang Xuejun	–	–	–
Wang Jian	–	–	–
	–	391	391

	Year ended 31 December 2009		
	Directors' fees	**Salaries, allowances and benefits-in-kind**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Executive directors			
Bo Wanming	–	318	318
Yuan Baotong	–	–	–
Gao Andong	–	–	–
Duan Yanxiu	–	–	–
Yang Xuejun	–	–	–
Wang Jian	–	–	–
	–	318	318

	Year ended 31 December 2010		
	Directors' fees	**Salaries, allowances and benefits-in-kind**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Executive directors			
Bo Wanming	–	356	356
Yuan Baotong	–	–	–
Gao Andong	–	–	–
Duan Yanxiu	–	–	–
Yang Xuejun	–	–	–
Wang Jian	–	–	–
	–	356	356

	Nine months ended 30 September 2010 (Unaudited)		
	Directors' fees	Salaries, allowances and benefits-in-kind	Total
	RMB'000	*RMB'000*	*RMB'000*
Executive directors			
Bo Wanming	–	267	267
Yuan Baotong	–	–	–
Gao Andong	–	–	–
Duan Yanxiu	–	–	–
Yang Xuejun	–	–	–
Wang Jian	–	–	–
	–	267	267

	Nine months ended 30 September 2011		
	Directors' fees	Salaries, allowances and benefits-in-kind	Total
	RMB'000	*RMB'000*	*RMB'000*
Executive directors			
Bo Wanming	–	337	337
Yuan Baotong	–	–	–
Gao Andong	–	–	–
Duan Yanxiu	–	–	–
Yang Xuejun	–	–	–
Wang Jian	–	–	–
	–	337	337

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, one is a director whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the remaining four individuals for the years ended 31 December 2008, 2009 and 2010 and for the nine months ended 30 September 2010 (unaudited) and 2011 are as follows:

	Years ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Contribution to defined contribution retirement plans	65	75	80	60	68
Salaries and other benefits	1,315	1,509	1,877	961	785
	1,380	1,584	1,957	1,021	853

The emoluments of the above individuals with the highest emoluments are within the following band:

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Nil – HK$1,000,000	4	4	4	4	4

9 Fixed assets

	Jetty structures RMB'000	Jetty facilities RMB'000	Plant and machinery RMB'000	Motor vehicles and vessels RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2008	–	–	–	–	–	–	–
Additions	–	–	–	621	483	1,072,035	1,073,139
At 31 December 2008	–	–	–	621	483	1,072,035	1,073,139
Additions	–	–	–	52	235	76,366	76,653
Transfers	1,059,780	29,158	46,366	10,872	2,225	(1,148,401)	–
At 31 December 2009	1,059,780	29,158	46,366	11,545	2,943	–	1,149,792
Additions	–	–	–	–	296	–	296
Adjustment*	(4,908)	(135)	(188)	(5)	(71)	–	(5,307)
At 31 December 2010	1,054,872	29,023	46,178	11,540	3,168	–	1,144,781
Additions	12	–	87	9	6	–	114
At 30 September 2011	1,054,884	29,023	46,265	11,549	3,174	–	1,144,895
Accumulated depreciation:							
At 1 January 2008	–	–	–	–	–	–	–
Charge for the year	–	–	–	(34)	(67)	–	(101)
At 31 December 2008	–	–	–	(34)	(67)	–	(101)
Charge for the year	(37,309)	(1,663)	(2,548)	(491)	(190)	–	(42,201)
At 31 December 2009	(37,309)	(1,663)	(2,548)	(525)	(257)	–	(42,302)
Charge for the year	(40,931)	(1,350)	(616)	(2,957)	(585)	–	(46,439)
At 31 December 2010	(78,240)	(3,013)	(3,164)	(3,482)	(842)	–	(88,741)
Charge for the period	(29,980)	(1,381)	(2,305)	(650)	(622)	–	(34,938)
At 30 September 2011	(108,220)	(4,394)	(5,469)	(4,132)	(1,464)	–	(123,679)
Carrying values:							
At 31 December 2008	–	–	–	587	416	1,072,035	1,073,038
At 31 December 2009	1,022,471	27,495	43,818	11,020	2,686	–	1,107,490
At 31 December 2010	976,632	26,010	43,014	8,058	2,326	–	1,056,040
At 30 September 2011	946,664	24,629	40,796	7,417	1,710	–	1,021,216

* Relevant jetty assets of the Company are ready for use in January 2009 which used the estimated value as the initial recognition. In March 2010, in accordance with the Construction Completion Report issued by a professional supervision company, the Company made an adjustment to reduce the cost of the assets by the amount of RMB5,306,794.

10 Deferred tax assets

The components of deferred tax assets recognised in the Company's statement of financial position and the movements during the year/period are as follows:

	Depreciation of fixed assets
	RMB'000
At 1 January 2008	–
Charged to profit or loss	–
At 31 December 2008	–
At 1 January 2009	–
Charged to profit or loss	4,521
At 31 December 2009	4,521
At 1 January 2010	4,521
Charged to profit or loss	5,191
At 31 December 2010	9,712
At 1 January 2011	9,712
Charged to profit or loss	3,723
At 30 September 2011	13,435

11 Other non-current assets

	At 31 December			At 30 September
	2008	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepaid for the office building	–	–	3,994	5,994

12 Trade and other receivables

	At 31 December			At 30 September
	2008	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	–	–	6,913	2,517
Deposits and prepayments	–	5	–	60
	–	5	6,913	2,577

(a) Ageing analysis

Included in trade and other receivables are trade receivables (net of allowance for doubtful debts) with the following ageing analysis at the end of the Relevant Period:

	At 31 December			At 30 September
	2008	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current	–	–	6,913	2,517

Trade receivables are due within 20 days from the date of billing. Further details on the Company's credit policy are set out in note 19(a).

(b) Trade receivables that are not impaired

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

	At 31 December			At 30 September
	2008	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	–	–	6,913	2,517

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

13 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	At 31 December			At 30 September
	2008	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposits with banks	217	6,916	1,053	2,666

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

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Operating activities					
(Loss)/profit before taxation	–	(90)	40,738	41,247	22,646
Adjustments for:					
– Depreciation	–	42,201	46,439	34,798	34,938
– Finance costs	–	20,416	19,677	14,610	17,396
– Interest income	–	(49)	(127)	(120)	(15)
Changes in working capital:					
– Increase in inventories	–	(42)	(9)	(180)	(19)
– Increase in trade and other receivables	–	(3)	(6,909)	(10,378)	4,337
– Increase in trade and other payables	340	21,082	18,167	29,469	4,546
Net cash generated from operating activities	340	83,515	117,976	109,446	83,829

14 Trade and other payables

	At 31 December			At 30 September
	2008	**2009**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount due to related parties	–	20,862	38,710	43,261
Creditors and accrued charges	210,075	162,781	16,083	8,373
Notes payables	–	28,720	28,000	1,925
	210,075	212,363	82,793	53,559

15 Interest-bearing borrowings

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

	At 31 December			At 30 September
	2008	**2009**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Short-term loans from related parties (i)	–	200,000	395,100	366,160
Bank loans (ii)	380,520	219,520	66,500	66,500
	380,520	419,520	461,600	432,660

(i) Short-term loans from related parties bear interest rates ranging from 5.3% to 6.1% per annum at 30 September 2011.

(ii) Bank loans bear interest rates at 90% of PBOC prime rate per annum at 30 September 2011 with maturities and are expected to be settled within one year.

(b) The interest-bearing borrowings were repayable as follows:

	At 31 December			At 30 September
	2008	**2009**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year or on demand	279,250	276,300	448,400	432,660
After 1 year but within 2 years	53,000	60,070	13,200	–
After 2 years but within 5 years	48,270	83,150	–	–
	101,270	143,220	13,200	–
	380,520	419,520	461,600	432,660

16 Capital, reserves and dividends

(a) Movements in components of equity

The opening and closing balances of each component of the Company's equity and a reconciliation between these amounts are set out in the statement of changes in equity.

(b) Share capital

	At 31 December			At 30 September
	2008	**2009**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Share capital, authorised, issued and fully paid:				
At 1 January/31 December/30 September	482,660	482,660	482,660	482,660

(c) Nature and purpose of reserves

(i) Statutory reserve

In accordance with the PRC Company Law and the articles of association of the Company, it is required to appropriate 10% of the profit after tax (determined in accordance with PRC GAAP and after offsetting any prior years' losses) to the statutory surplus reserve (except where the reserve balance has reached 50% of the Company's registered capital). The statutory surplus reserve and the discretionary surplus reserve fund can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of the Company's registered capital after such usages. This reserve cannot be used for purposes other than those for which they are appropriated and are not distributable as cash dividends.

(ii) Other reserve

In September 2010, Tianjin Finance Bureau granted special funds to the Company's energy-saving pipeline project. According to local government instructions, the Company recognised the special funds in capital surplus shared by all shareholders.

(d) Capital management

The Company's primary objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The gearing ratio at 31 December 2008, 2009, 2010 and 30 September 2011 were 122%, 130%, 104% and 89% respectively.

The Company is not subject to any externally imposed capital requirements.

17 Commitments

Capital commitments not provided for in the Financial Information are as follows:

	At 31 December			At 30 September
	2008	**2009**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted for	75,431	11,678	3,331	1,331

18 Related party transactions

(a) Key management personnel remuneration

Remuneration for key management personnel of the Company, including amounts paid to the Company's directors as disclosed in note 7, is as follows:

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Short-term employee benefits	1,565	1,271	1,422	1,067	1,011

Total remuneration is included in "staff costs" (see note 5(b)).

(b) Other related party transactions

During the Relevant Period, the Company had the following significant transactions with a venture of the Company which were carried out in the ordinary course of business.

	Years ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Provision of port and logistic services	–	82,209	127,708	101,041	86,114
Purchase of raw material	–	146	39	39	36
Net loans (repaid to)/obtained from related parties	–	200,000	195,100	165,420	(28,940)
Net receivables on behalf of related parties	–	20,863	17,848	26,086	4,551

19 Financial risk management and fair values

Exposure to credit, liquidity and interest rate arises in the normal course of the Company's business.

The Company's exposure to these risks and the financial risk management policies and practices used by the Company to manage these risks are described below.

(a) Credit risk

The Company's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 20 days from the date of billing. Debtors with balances that are more than 1 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Company does not obtain collateral from customers.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Company has significant exposure to individual customers. At 31 December 2008, 2009 and 2010 and 30 September 2011, the Company has a certain concentration of credit risk as 0%, 0%, 99% and 98% of the total trade and other receivables was due from the Company's largest customer and 0%, 0%, 100% and 100% the total trade and other receivables was due from the five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. The Company does not provide any guarantees which would expose the Company to credit risk.

Further quantitative disclosures in respect of the Company's exposure to credit risk arising from trade and other receivables are set out in note 12.

(b) Liquidity risk

The Company's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the Relevant Period of the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the Reporting Periods) and the earliest date the Company can be required to pay:

	At 31 December 2008 Contractual undiscounted cash outflow					
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**	**Total**	**Carrying amount**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other payables	210,075	–	–	–	210,075	210,075
Interest bearing borrowings	285,091	58,171	55,603	–	398,865	380,520
	495,166	58,171	55,603	–	608,940	590,595

At 31 December 2009
Contractual undiscounted cash outflow

	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other payables	212,363	–	–	–	212,363	212,363
Interest bearing borrowings	282,589	65,225	92,968	–	440,782	419,520
	494,952	65,225	92,968	–	653,145	631,883

At 31 December 2010
Contractual undiscounted cash outflow

	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other payables	82,793	–	–	–	82,793	82,793
Interest bearing borrowings	455,059	14,168	–	–	469,227	461,600
	537,852	14,168	–	–	552,020	544,393

At 31 December 2011
Contractual undiscounted cash outflow

	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other payables	53,559	–	–	–	53,559	53,559
Interest bearing borrowings	448,751	–	–	–	448,751	432,660
	502,310	–	–	–	502,310	486,219

(c) Interest rate risk

The Company's interest rate risk arises primarily from interest-bearing borrowings. Borrowings issued at variable rates and at fixed rates expose the Company to cash flow interest rate risk and fair value interest rate risk respectively. The Company's interest rate profile as monitored by management is set out in note (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Company's interest-bearing borrowings at the end of the Relevant Period:

	At 31 December						At 30 September	
	2008		2009		2010		2011	
	Effective interest rate %	*RMB'000*	*Effective interest rate %*	*RMB'000*	*Effective interest rate %*	*RMB'000*	*Effective interest rate %*	*RMB'000*
Variable rate borrowings	5.18% – 6.72%	380,520	4.37% – 5.19%	319,520	4.37% – 5.60%	268,050	5.27% – 6.21%	283,900

(ii) Sensitivity analysis

At 31 December 2008, 2009 and 2010 and 30 September 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Company's profit after tax and retained profits by approximately RMB3,805,200, RMB3,195,200, RMB2,680,500 and RMB 2,839,000 respectively.

(ii) Sensitivity analysis

The sensitivity analysis above indicates the instantaneous change in the Company's profit for the Relevant Period (and retained earnings) that would arise assuming that the change in interest rates had occurred at the end of the Relevant Period and had been applied to re-measure those financial instruments held by the Company which expose the Company to fair value interest rate risk at the end of the Relevant Period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Company at the end of the Relevant Period, the impact on the Company's profit for the Relevant Period(and retained earnings) is estimated as an annualized impact on interest expense or income of such a change in interest rates. The analysis has been performed on the same basis during the Relevant Period.

(d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008, 2009 and 2010 and 30 September 2011.

20 Possible impact of amendments, new standards and interpretations issued but not yet effective for the Relevant Period

Up to the date of issue of these Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the nine months ended 30 September 2011 and which have not been adopted in the Financial Information. These include the following which may be relevant to the Company:

	Effective for accounting periods beginning on or after
Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*	1 July 2011
Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*	1 January 2012
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
HKFRS 9, *Financial instruments*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013

The Company is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

C SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to 30 September 2011.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

(D) Rizhao Shihua

KPMG

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

14 December 2011

The Directors
Sinopec Kantons Holdings Limited

Dear Sirs

INTRODUCTION

We set out below our report on the financial information relating to Rizhao Shihua Crude Oil Terminal Company Limited (the "Company") including the statements of comprehensive income, the statements of changes in equity and the statements of cash flows of the Company for the period from 28 June 2010 (Establishment date) to 31 December 2010 and for the nine months ended 30 September 2011 (the "Relevant Period"), and the statements of financial position of the Company as at 31 December 2010 and 30 September 2011, together with the explanatory notes thereto (the "Financial Information"), for inclusion in the circular of Sinopec Kantons Holdings Limited dated 14 December 2011.

The Company was established in the People's Republic of China (the "PRC") with limited liability on 28 June 2010, under the laws of PRC and incorporated in Shandong Province.

The Company has adopted 31 December as its financial year end date. The statutory financial statements of the Company were prepared in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the PRC.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the financial statements of the Company for the Relevant Period (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Underlying Financial Statements for the period ended 31 December 2010 and the nine months ended 30 September 2011 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared by the Directors based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The Directors are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control as the Directors determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of the Company in respect of any period subsequent to 30 September 2011.

OPINION

In our opinion, for the purpose of this report, the Financial Information, gives a true and fair view of the Company's results and cash flows of the Company for the Relevant Period and the state of affairs of the Company as at 31 December 2010 and 30 September 2011.

COMPARATIVE FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Company comprising the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period from 28 June 2010 (Establishment date) to 30 September 2010, together with the notes thereon (the "Corresponding Financial Information"), for which the Directors are responsible, in accordance with Hong Kong Standard on Review Engagement 2410 "Engagement to Review Financial Statements" issued by the HKICPA.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making inquires, 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 on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe the Comparative Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A FINANCIAL INFORMATION

1 Statements of comprehensive income

	Section B Note	**From 28 June to 31 December 2010**	**From 28 June to 30 September 2010** *(Unaudited)*	**Nine months ended 30 September 2011**
		RMB'000	*RMB'000*	*RMB'000*
Revenue	*3*	–	–	1,081
Cost of sales		–	–	(21,190)
Gross loss		–	–	(20,109)
Other revenue	*4*	–	–	1,666
Administrative expenses		(3,911)	(152)	(9,269)
Other operating expenses		–	–	(10)
Loss before taxation	*5*	(3,911)	(152)	(27,722)
Income tax	*6*	–	–	2,176
Loss and total comprehensive income for the periods		(3,911)	(152)	(25,546)

The accompanying notes form part of the Financial Information.

2 Statements of financial positions

	Section B Note	At 31 December 2010 RMB'000	At 30 September 2011 RMB'000
Non-current assets			
Fixed assets	9		
– Property, plant and equipment		4,157	800,646
– Construction in progress		815,120	200,569
Deferred tax assets	10	–	2,176
		819,277	1,003,391
Current assets			
Inventories		–	8
Trade and other receivables		30	519
Restricted bank deposit	11	–	27,500
Cash and cash equivalents	12	134,152	64,713
		134,182	92,740
Current liabilities			
Trade and other payables	13	157,370	125,588
Interest bearing borrowings due within one year	14	–	24,000
		157,370	149,588
Net current liabilities		(23,188)	(56,848)
Total assets less current liabilities		796,089	946,543
Non-current liabilities			
Interest bearing borrowings	14	–	176,000
		–	176,000
NET ASSETS		796,089	770,543
CAPITAL AND RESERVES	15		
Share capital		800,000	800,000
Reserves		(3,911)	(29,457)
TOTAL EQUITY		796,089	770,543

The accompanying notes form part of the Financial Information.

3 Statements of changes in equity

	Share capital *(Section B Note 15(b))* *RMB'000*	Accumulated Losses *RMB'000*	Total Equity *RMB'000*
At 28 June 2010	–	–	–
Proceeds from issue of share capital	800,000	–	800,000
Loss and total comprehensive income for the period	–	(3,911)	(3,911)
At 31 December 2010	800,000	(3,911)	796,089
Loss and total comprehensive income for the period	–	(25,546)	(25,546)
At 30 September 2011	800,000	(29,457)	770,543
At 28 June 2010 (audited)	–	–	–
Proceeds from issue of share capital	800,000	–	800,000
Loss and total comprehensive income for the period	–	(152)	(152)
At 30 September 2010 (unaudited)	800,000	(152)	799,848

The accompanying notes form part of the Financial Information.

4 Statements of cash flows

	Section B Note	From 28 June to 31 December 2010	From 28 June to 30 September 2010	Nine months ended 30 September 2011
			(Unaudited)	
		RMB'000	*RMB'000*	*RMB'000*
Operating activities				
Cash used in operations	*12(b)*	(3,454)	(281)	(11,069)
Investing activities				
Payment for purchase of property, plant and equipment		(262,394)	(198,965)	(255,368)
Interest received		–	–	1,666
Net cash used in investing activities		(262,394)	(198,965)	(253,702)
Financing activities				
Proceeds from issue of share capital		400,000	400,000	–
Proceeds from borrowings		–	–	200,000
Interest paid		–	–	(4,668)
Net cash generated from financing activities		400,000	400,000	195,332
Net increase/(decrease) in cash and cash equivalents		134,152	200,754	(69,439)
Cash and cash equivalents at the beginning of the period		–	–	134,152
Cash and cash equivalents at the end of the period	*12(a)*	134,152	200,754	64,713

The accompanying notes form part of the Financial Information.

B NOTES TO THE FINANCIAL INFORMATION

1 Significant accounting policies

(a) Statement of compliance

These Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These Financial Information also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by Rizhao Shihua Crude Oil Terminal Company Limited (the "Company") is set out below. The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The HKICPA has issued certain new and revised HKFRSs. For the purpose of preparing the Financial Information, the Company has adopted all these new and revised HKFRSs to the Relevant Period, except for any new standards of interpretations that are not yet effective for the Relevant Period and are set out in note 19.

(b) Basis of preparation

The measurement basis used in the preparation of the Financial Information is the historical cost basis.

As at 30 September 2011, the Company's current liabilities exceeded its current assets by RMB56,848,000. In preparing the Financial Information, the directors believe that adequate funding will be available for the foreseeable future to meet the Company's short-term obligations as they fall due on the basis that the Company had unutilised bank credit facilities of RMB140 million as at 30 September 2011. The directors believe that the Company will continue as a going concern and accordingly have prepared the Financial Information on a going concern basis.

(c) Functional and presentation currency

The Financial Information is presented in Renminbi ("RMB"), which is the Company's functional currency.

(d) Use of estimates and judgements

The preparation of Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other resources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revisions affect only that period, or in the period of the revisions and future periods if the revision affect both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 2.

(e) Property, plant and equipment

The items of property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 1(g)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriation proportion of production overheads and borrowing costs (see note 1(q)).

Gains or losses arising from the retirement of disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Jetty structures	20 – 25 years
– Jetty facilities, machinery and equipment	5 – 20 years
– Motor vehicles	5 – 10 years
– Others	4 – 12 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

No depreciation is provided in respect of construction in progress.

(f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Company

Assets that are held by Company under leases which transfer to the Company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Company are classified as operating leases, with the following exceptions:

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Company, or taken over from the previous lessee.

(ii) Operating lease charges

Where the Company has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(g) Impairment of assets

(i) Impairment of receivables

Trade and other receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each Relevant Periods to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Company about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

  Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Company is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each Relevant Periods to identify indications that property, plant and equipment may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated, to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Inventories are initially measured at their actual cost. Cost of inventories is calculated using the specific identification method.

Inventories of the Company are mainly the spare parts for maintenance.

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(g)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(j) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(k) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(m) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave and contributions to defined contribution retirement plans are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Company demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profit that may support the recognition of deferred tax assets arising from deductible temporary differences includes those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax assets can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of the Relevant Periods and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

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

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

- in the case of current tax assets and liabilities, the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either;
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Crude oil jetty service income

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

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(q) Borrowing costs

Borrowing costs are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

(r) Related parties

(i) A person, or a close member of that person's family, is related to the Company if that person is a member of the key management personnel of the Company.

(ii) An entity is related to the Company if any of the following conditions applies:

(1) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(2) Both entities are joint ventures of the same third party.

(3) One entity is a joint venture of a third entity and other entity is an associate of the third party.

(4) The entity is controlled or jointly controlled by a person identified in (i).

(5) A person identified in (i) has significant influence over the entity or is a member of the key management personnel of the entity.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(s) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Company's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Company's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Sources of estimation uncertainty

(a) Impairment of long lived assets

If circumstances indicate that the net book value of a long lived asset may not be recoverable, the asset may be considered "impaired" and an impairment loss may be recognised in accordance with HKAS 36, Impairment of assets. The carrying amounts of long lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for the Company's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of business volume, service fees and the amount of operating costs. The Company uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of business volume, service fees and the amount of operating costs.

(b) Depreciation

Property, plant, and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Company reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Company's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates. Any revision of useful lives of the Company's fixed assets may have a significant impact to the Company's operating results.

(c) Impairment of bad and doubtful debts

The Company estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Company bases the estimates on the aging of the trade receivable balance, customer credit-worthiness and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

3 Revenue and segment reporting

(a) Revenue

The principal activity of the Company is operation of crude oil jetty and its ancillary facilities.

Revenue represents the income from provision of port services and logistic services, net of related sales taxes. The amount of each significant category of revenue recognised in revenue during the Relevant Period is as follows:

	From 28 June to 31 December 2010	**From 28 June to 30 September 2010**	**Nine months ended 30 September 2011**
		(Unaudited)	
	RMB'000	*RMB'000*	*RMB'000*
Port services	–	–	1,014
Logistic services	–	–	67
	–	–	1,081

(b) Segment information

The Company has single operating segment, being provision of crude oil jetty services and logistic services in Shandong province in the PRC. The directors review internal monthly management reports on the results of the Company as a single reportable segment.

Information about major customers

Revenue from customers of the corresponding periods contributing over 10% of the total revenue of the Company are as follows:

	From 28 June to 31 December 2010	From 28 June to 30 September 2010 *(Unaudited)*	Nine months ended 30 September 2011
	RMB'000	*RMB'000*	*RMB'000*
China Petroleum & Chemical Corporation	–	–	732
Rizhao Port Oil Terminal Co., Ltd.	–	–	349
	–	–	1,081

All revenue of the Company are derived from the PRC.

All non-current assets of the Company are located in the PRC, its country of domicile.

4 Other revenue

	From 28 June to 31 December 2010	From 28 June to 30 September 2010 *(Unaudited)*	Nine months ended 30 September 2011
	RMB'000	*RMB'000*	*RMB'000*
Interest income	–	–	1,666

5 Loss before taxation

Loss before taxation is arrived at after charging:

(a) Finance costs

The interest on bank loans, that are wholly repayable within five years, of RMB 4,668 million for the nine months ended 30 September 2011 (for the period from 28 June 2010 to 31 December 2010 and the period from 28 June 2010 to 30 September 2010: nil) have been capitalised at a rate of 6.65%-6.90%.

(b) Staff costs

	From 28 June to 31 December 2010	From 28 June to 30 September 2010	Nine months ended 30 September 2011
		(Unaudited)	
	RMB'000	*RMB'000*	*RMB'000*
Contributions to defined contribution retirement plan	131	–	567
Salaries, wages and other benefits	1,141	87	3,947
	1,272	87	4,514

(c) Other items

	From 28 June to 31 December 2010	From 28 June to 30 September 2010	Nine months ended 30 September 2011
		(Unaudited)	
	RMB'000	*RMB'000*	*RMB'000*
Depreciation	74	–	19,279
Operating lease charges:			
– hire of other assets (including property rentals)	144	46	781
Auditors' remuneration			
– audit services	30	30	–

6 Income tax

(a) Income tax in the statements of comprehensive income represents:

	From 28 June to 31 December 2010	From 28 June to 30 September 2010	Nine months ended 30 September 2011
		(Unaudited)	
	RMB'000	*RMB'000*	*RMB'000*
Deferred tax			
Origination of temporary differences	–	–	2,176

The Company is subject to PRC Corporate Income Tax, and the PRC's statutory income tax rate is 25%.

Pursuant to the tax regulation "Preferential Corporate Income Tax for Public Infrastructure Facility" (Guo ShuiFa (2009) No.28), which was issued by the State Administration of Taxation on April 16, 2009, the Company is entitled to a tax holiday on corporate income tax for 3 years from the first year of making revenue, and a 50% reduction in the corporate income tax rate for the following 3 years. The application to enjoy the preferential tax rates by the Company is pending for approval by the tax authority.

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

	From 28 June to 31 December 2010	From 28 June to 30 September 2010	Nine months ended 30 September 2011
		(Unaudited)	
	RMB'000	*RMB'000*	*RMB'000*
Loss before taxation	3,911	152	27,722
Tax at the applicable tax rate of 0%	–	–	–
Tax effect of the related depreciation of fixed assets in excess of depreciation allowance	–	–	2,176
Tax charges for the periods	–	–	2,176

7 Directors' remuneration

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	From 28 June to 31 December 2010		
	Directors' fees	Salaries, allowances and benefits in-kind	Total
	RMB'000	*RMB'000*	*RMB'000*
Executive directors			
Tian Yimin	–	–	–
Cai Zhongtang	–	–	–
Duan Yanxiu	–	–	–
Wang Jian	–	–	–
Li Baoguo	–	–	–
Cheng Jixi	–	–	–
Supervisors			
Liu Chuantian	–	–	–
Zhu Zengqing	–	–	–
Qi Feng	–	–	–
Yu Qinzong	–	–	–
	–	–	–

	From 28 June to 30 September 2010 (Unaudited)		
	Directors' fees	**Salaries, allowances and benefits in-kind**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Executive directors			
Tian Yimin	–	–	–
Cai Zhongtang	–	–	–
Duan Yanxiu	–	–	–
Wang Jian	–	–	–
Li Baoguo	–	–	–
Cheng Jixi	–	–	–
Supervisors			
Liu Chuantian	–	–	–
Zhu Zengqing	–	–	–
Qi Feng	–		–
Yu Qinzong	–	–	–
	–	–	–

	Nine months ended 30 September 2011		
	Directors' fees	**Salaries, allowances and benefits in-kind**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Executive directors			
Tian Yimin	–	–	–
Cai Zhongtang	–	–	–
Duan Yanxiu	–	–	–
Wang Jian	–	413	413
Li Baoguo	–	–	–
Cheng Jixi	–	–	–
Supervisors			
Liu Chuantian	–	–	–
Zhu Zengqing	–	–	–
Qi Feng	–	–	–
Yu Qinzong	–	301	301
	–	714	714

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, one is a director for the nine months ended 30 September 2011, whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the remaining four individuals for the nine months ended 30 September 2011, and the five individuals for the period from 28 June 2010 to 31 December 2010 and 28 June 2010 to 30 September 2010 (unaudited), are as follows:

	From 28 June to 31 December 2010	**From 28 June to 30 September 2010** *(Unaudited)*	**Nine months ended 30 September 2011**
	RMB'000	*RMB'000*	*RMB'000*
Contribution to defined contribution retirement plans	22	7	62
Salaries and other benefits	571	38	844
	593	45	906

The emoluments of the above individuals with the highest emoluments are within the following band:

	From 28 June to 31 December 2010	**From 28 June to 30 September 2010** *(Unaudited)*	**Nine months ended 30 September 2011**
	Number of individuals	*Number of individuals*	*Number of individuals*
Nil – HK$1,000,000	5	5	4

9 Fixed assets

	Jetty structures *RMB'000*	Jetty facilities, machinery and equipment *RMB'000*	Motor vehicles *RMB'000*	Others *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost:						
At 28 June 2010	–	–	–	–	–	–
Additions	–	–	3,290	941	815,120	819,351
At 31 December 2010	–	–	3,290	941	815,120	819,351
Additions	–	15	155	478	200,569	201,217
Transfers	790,876	20,173	–	4,071	(815,120)	–
At 30 September 2011	790,876	20,188	3,445	5,490	200,569	1,020,568
Accumulated depreciation and amortisation:						
At 28 June 2010	–	–	–	–	–	–
Charge for the period	–	–	(64)	(10)	–	(74)
At 31 December 2010	–	–	(64)	(10)	–	(74)
Charge for the period	(17,716)	(819)	(395)	(349)	–	(19,279)
At 30 September 2011	(17,716)	(819)	(459)	(359)	–	(19,353)
Carrying values:						
At 31 December 2010	–	–	3,226	931	815,120	819,277
At 30 September 2011	773,160	19,369	2,986	5,131	200,569	1,001,215

10 Income tax in the statement of financial position

(a) Deferred tax assets recognised:

The components of deferred tax assets recognised in the Company's statement of financial position and the movements during the periods are as follows:

	Depreciation of fixed assets *RMB'000*
At the date of 28 June 2010 and 31 December 2010	–
Credited to profit or loss	2,176
At 30 September 2011	2,176

(b) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 1(n), the Company has not recognised deferred tax assets in respect of cumulative tax losses of RMB 22.02 million (2010: RMB 3.36 million) as the Company estimates it's highly probable that future taxable profits against which the losses can be utilised will be available in the years of 2012 and 2013, in which the Company is entitled to tax holiday as set out in Note 6(a).

11 Restricted bank deposit

As at 30 September 2011, the Company had a deposit of RMB 27,500,000 with a bank as a guarantee for a bill payable issued by the bank for the Company.

12 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	At 31 December 2010	At 30 September 2011
	RMB'000	*RMB'000*
Cash at bank and in hand	134,152	59,713
Cash at other financial institution	–	5,000
	134,152	64,713

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

	Note	From 28 June to 31 December 2010	From 28 June to 30 September 2010	Nine months ended 30 September 2011
			(Unaudited)	
		RMB'000	*RMB'000*	*RMB'000*
Loss before taxation		(3,911)	(152)	(27,722)
Adjustments for:				
Depreciation	*5(c)*	74	–	19,279
Interest income	*4*	–	–	(1,666)
Changes in working capital:				
Increase in inventories		–	–	(8)
Increase in trade and other receivables		(30)	(109)	(489)
Increase/(decrease) in trade and other payables		413	(20)	(463)
Cash used in operations		(3,454)	(281)	(11,069)

13 Trade and other payables

	At 31 December 2010 *RMB'000*	At 30 September 2011 *RMB'000*
Amount due to related parties	118,250	20,399
Other payables	39,120	105,189
	157,370	125,588

14 Bank loans

The bank loans were repayable as follows:

	At 31 December 2010 *RMB'000*	At 30 September 2011 *RMB'000*
Within 1 year or on demand	–	24,000
		24,000
After 1 year but within 2 years	–	48,000
After 2 years but within 5 years	–	128,000
	–	176,000
	–	200,000

15 Capital and reserves

(a) Movements in components of equity

The opening and closing balances of each component of the Company's equity and a reconciliation between these amounts are set out in the statement of changes in equity.

(b) Share capital

	At 31 December 2010 *RMB'000*	At 30 September 2011 *RMB'000*
Share capital, authorised, issued and fully paid:		
At 28 June 2010/1 January 2011	–	800,000
Capital contribution from		
– China Petroleum & Chemical Corporation	400,000	–
– Rizhao Port Group Company	400,000	–
At 31 December/30 September	800,000	800,000

(c) Capital management

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Company monitors its capital structure on the basis of a gearing ratio, defined as total interest-bearing loans divided by total equity. As at 30 September 2011, the gearing ratio of the Company is 385%.

The Company is not subject to any externally imposed capital requirements.

16 Commitments

(a) Capital commitments not provided for in the Financial Information were as follows:

	At 31 December 2010	At 30 September 2011
	RMB'000	*RMB'000*
Contracted for	–	360

(b) The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 December 2010	At 30 September 2011
	RMB'000	*RMB'000*
Within 1 year	343	280

17 Related party transactions

(a) Key management personnel remuneration

Remuneration for key management personnel of the Company, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	From 28 June to 31 December 2010	From 28 June to 30 September 2010 *(Unaudited)*	Nine months ended 30 September 2011
	RMB'000	*RMB'000*	*RMB'000*
Short-term employee benefits	114		1,036
Contributions to defined contribution retirement plan	5	–	123
	119	–	1,159

Total remuneration is included in "staff costs" (see note 5(b)).

(b) Other related party transactions

During the Relevant Period, the Company had the following significant transactions with its ventures and their subsidiaries which were carried out in the ordinary course of business.

	From 28 June to 31 December 2010	From 28 June to 30 September 2010 *(Unaudited)*	Nine months ended 30 September 2011
	RMB'000	*RMB'000*	*RMB'000*
Provision of port and logistic services	–	–	1,081
Receipt of services	131	–	11,234
Rental expenses paid	75	–	577
Cash deposit placed in related party	–	–	5,000

18 Financial risk management and fair values

Exposure to credit, liquidity and interest rate risks arises in the normal course of the Company's business.

The Company's exposure to these risks and the financial risk management policies and practices used by the Company to manage these risks are described below.

(a) Credit risk

The Company's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 days from the date of billing. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Company does not obtain collateral from customers.

At 30 September 2011, the trade and other receivables of the Company were due from the Company's venturer.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. The Company does not provide any guarantees which would expose the Company to credit risk.

(b) Liquidity risk

The Company's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the Reporting Periods of the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the Reporting Periods) and the earliest date the Company can be required to pay:

	At 31 December 2010			
	Contractual undiscounted cash outflow			
	Within 1 year or on demand	More than 1 year but less than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other payables	157,370	–	157,370	157,370

	At 30 September 2011			
	Contractual undiscounted cash outflow			
	Within 1 year or on demand	More than 1 year but less than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other payables	125,588	–	125,588	125,588
Interest bearing borrowings	36,357	193,117	229,474	200,000
	161,945	193,117	355,062	325,588

(c) Interest rate risk

The Company's interest rate risk arises primarily from interest-bearing financial instrument issued at variable rates and at fixed rates expose the Company to cash flow interest rate risk and fair value interest rate risk respectively. The Company's interest rate profile as monitored by management is set out in note (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Company's interest-bearing financial instrument at the end of the Relevant Period:

	At 31 December 2010		At 30 September 2011	
	Effective interest rate	**Amount**	**Effective interest rate**	**Amount**
	%	*RMB'000*	*%*	*RMB'000*
Variable rate instruments				
Financial assets				
– Cash at bank and on hand	0.36%	134,149	0.50%	59,693
– Deposit in related parties		–	0.50%	5,000
Financial liabilities				
– Interest bearing borrowings due within one year		–	6.65%~6.9%	(24,000)
– Interest bearing borrowings		–	6.65%~6.9%	(176,000)
		134,149		(135,307)

(ii) Sensitivity analysis

At 30 September 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Company's loss after tax and accumulated losses by approximately RMB 0.65 million (31 December 2010: RMB 1.34 million).

The sensitivity analysis above indicates the instantaneous change in the Company's profit for the year/period (and retained earnings) that would arise assuming that the change in interest rates had occurred at the balance sheet dates and had been applied to re-measure those financial instruments held by the Company which expose the Company to fair value interest rate risk at the balance sheet dates. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Company at the balance sheet dates, the impact on the Company's profit for the year/period (and retained earnings) is estimated as an annualized impact on interest expense or income of such a change in interest rates. The analysis has been performed on the same basis during the Relevant Period.

(d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2010 and 30 September 2011.

19 Impact of amendments, new standards and interpretations issued but not yet effective for the Relevant Period

Up to the date of issue of these Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the nine months ended 30 September 2011 and which have not been adopted in the Financial Information. These include the following which may be relevant to the Company:

	Effective for accounting periods beginning on or after
Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*	1 July 2011
Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*	1 January 2012
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
HKFRS 9, *Financial instruments*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013

The Company is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

C SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to 30 September 2011.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

(E) Tangshan Caofeidian Shihua

KPMG

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

14 December 2011

The Directors
Sinopec Kantons Holdings Limited

Dear Sirs

INTRODUCTION

We set out below our report on the financial information relating to Tangshan Caofeidian Shihua Crude Oil Terminal Company Limited (the "Company") including the statements of comprehensive income, the statements of changes in equity and the statements of cash flows of the Company for the period from 22 April 2011 (Establishment date) to 30 September 2011 (the "Relevant Period"), and the statements of financial position of the Company as at 30 September 2011, together with the explanatory notes thereto (the "Financial Information"), for inclusion in the circular of Sinopec Kantons Holdings Limited dated 14 December 2011.

The Company was established in the People's Republic of China (the "PRC") with limited liability on 22 April 2011 under the laws of the PRC and incorporated in Hebei Province.

The Company has adopted 31 December as its financial year end date. As at the date of this report, no audited financial statements have been prepared for the Company as it is not yet subject to the statutory audit requirements under the relevant rules and regulations in the jurisdiction of establishment.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the financial statements of the Company for the Relevant Period (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Underlying Financial Statements for the period from 22 April 2011 to 30 September 2011 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared by the Directors based on the Underlying Financial Statements with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The Directors are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control as the Directors determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of the Company in respect of any period subsequent to 30 September 2011.

OPINION

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the Company's results and cash flows of the Company for the Relevant Period and the state of affairs of the Company as at 30 September 2011.

A FINANCIAL INFORMATION

1 Statement of comprehensive income

	Section B Note	**From 22 April 2011 to 30 September 2011** *RMB'000*
Revenue	*3*	52,912
Cost of sales		(4,342)
Gross profit		48,570
Other revenue	*4*	191
Distribution expenses		(378)
Administrative expenses		(5,323)
Profit before taxation		43,060
Income tax expenses	*6(a)*	(11,247)
Profit and total comprehensive income for the period		31,813

The accompanying notes form part of the Financial Information.

2 Statement of financial positions

	Section B Note	At 30 Septermber 2011 RMB'000
Non-current assets		
Property plant and equipment	9	200,212
		200,212
Current assets		
Trade and other receivables	10	22,323
Cash and cash equivalents	11	116,409
		138,732
Current liabilities		
Trade and other payables	12	28,529
Income tax payable	13	11,247
		39,776
Net current assets		98,956
Total assets less current liabilities		299,168
Net assets		299,168
Capital and reserves	14	
Share capital		66,670
Reserves		232,498
Total equity		299,168

The accompanying notes form part of the Financial Information.

3 Statement of changes in equity

	Share capital (Section B note 14(b)) RMB'000	Capital reserve (Section B note 14(c)) RMB'000	Retained profits RMB'000	Total equity RMB'000
At 22 April 2011				
Issue of share capital	66,670	–	–	66,670
Capital contribution	–	200,685	–	200,685
Profit and total comprehensive income for the period	–	–	31,813	31,813
At 30 September 2011	66,670	200,685	31,813	299,168

The accompanying notes form part of the Financial Information.

4 Statement of cash flows

	Section B Note	From 22 April 2011 to 30 September 2011 RMB'000
Operating activities		
Cash generated from operations	11(b)	51,061
Net cash generated from operating activities		51,061
Investing activities		
Payment for purchase of property, plant and equipment		(1,513)
Interest received		191
Net cash used in investing activities		(1,322)
Financing activities		
Proceeds from the issue of share capital		66,670
Net cash generated from financing activities		66,670
Net increase in cash and cash equivalents		116,409
Cash and cash equivalents at 22 April 2011		–
Cash and cash equivalents at 30 September 2011	11(a)	116,409

The accompanying notes form part of the Financial Information.

B NOTES TO THE FINANCIAL INFORMATION

1 Significant accounting policies

(a) Statement of compliance

These Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These Financial Information also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by Tangshan Caofeidian Shihua Crude Oil Terminal Company Limited (the "Company") is set out below. The accounting policies set out below have been applied consistently to the period presented in the Financial Information.

The HKICPA has issued certain new and revised HKFRSs. For the purpose of preparing the Financial Information, the Company has adopted all these new and revised HKFRSs applicable to the Relevant Period, except for any new standards of interpretations that are not yet effective for the accounting period ended 30 September 2011 and are set out in note 18.

(b) Basis of measurement

The Financial Information has been prepared on the historical cost basis.

(c) Functional and presentation currency

The Financial Information is presented in Renminbi ("RMB"), which is the Company's functional currency.

(d) Use of estimates and judgements

The preparation of Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other resources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revisions affect only that period, or in the period of the revisions and future periods if the revision affect both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 2.

(e) Property, plant and equipment

The following items of property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 1(g)(ii)).

Gains or losses arising from the retirement of disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Jetty structures	20 – 25 years
– Plant and machinery	5 – 20 years
– Motor vehicles and vessels	5 – 10 years
– Furniture, fixtures and equipment	4 – 12 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

No depreciation is provided in respect of construction in progress.

(f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Company

Assets that are held by Company under leases which transfer to the Company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Company are classified as operating leases, with the following exceptions:

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Company, or taken over from the previous lessee.

(ii) Operating lease charges

Where the Company has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(g) Impairment of assets

(i) Impairment of receivables

Trade and other receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each Reporting Period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Company about one or more of the following loss events:

– significant financial difficulty of the debtor;

- a breach of contract, such as a default or delinquency in interest or principal payments;

- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Company is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of the Reporting Period to identify indications that property, plant and equipment may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(h) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(g)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(i) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(k) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave and contributions to defined contribution retirement plans are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Company demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(l) ***Income tax***

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profit that may support the recognition of deferred tax assets arising from deductible temporary differences includes those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax assets can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of the Reporting Periods and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

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

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

- in the case of current tax assets and liabilities, the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either;
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(m) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Crude oil jetty service income

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

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(o) Borrowing costs

Borrowing costs are directly attributable to the acquisition, construction of an asset which necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

(p) Related parties

(i) A person, or a close member of that person's family, is related to the Company if that person is a member of the key management personnel of the Company or the Company's parent.

(ii) An entity is related to the Company if any of the following conditions applies:

(1) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(2) Both entities are joint ventures of the same third party.

(3) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(4) The entity is controlled or jointly controlled by a person identified in (i).

(5) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(q) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Company's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Company's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Accounting judgements and estimates

(a) Sources of estimation uncertainty

(i) Impairment of long lived assets

If circumstances indicate that the net book value of a long lived asset may not be recoverable, the asset may be considered "impaired" and an impairment loss may be recognised in accordance with HKAS 36, Impairment of assets. The carrying amounts of long lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate service fee because quoted market prices for the Company's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of business volume, service fee and the amount of operating costs. The Company uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of business volume, service fee and the amount of operating costs.

(ii) Depreciation

Property, plant, and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Company reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Company's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates. Any revision of useful lives of the Company's fixed assets may have a significant impact to the Company's operating results.

(iii) Impairment of bad and doubtful debts

The Company estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Company bases the estimates on the aging of the trade receivable balance, customer credit-worthiness and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

3 Revenue and segment reporting

(a) Revenue

The principal activity of the Company is operation of crude oil jetty and its ancillary facilities.

Revenue represents the income from provision of port services and logistic services, net of related sales taxes. The amount of each significant category of revenue recognised in revenue during the Relevant Period is as follows:

	From 22 April 2011 to September 2011 *RMB'000*
Port services	47,539
Security services	2,048
Others	3,325
	52,912

(b) Segment information

The Company has single operating segment, being provision of crude oil jetty services and logistic services in Hebei province in the PRC. The directors review internal monthly management reports on the results of the Company as a single reportable segment.

Information about major customers

Revenue from customers of the corresponding period contributing over 10% of the total revenue of the Company are as follows:

	From 22 April 2011 to September 2011 *RMB'000*
China Petroleum & Chemical Corporation	50,492

All revenue of the Company are derived from the PRC.

All non-current assets of the Company are located in the PRC, its country of domicile.

4 Other revenue

	From 22 April 2011 to September 2011 *RMB'000*
Interest income	191

5 Profit before taxation

Profit before taxation is arrived at after charging:

(a) Staff costs

	From 22 April 2011 to September 2011
	RMB'000
Contributions to defined contribution retirement plan	310
Salaries, wages and other benefits	3,510
	3,820

(b) Other items

	From 22 April 2011 to September 2011
	RMB'000
Depreciation	1,986
Operating lease charges	723
Auditors' remuneration – audit services	8

6 Income tax expenses

(a) Income tax expenses in the statements of comprehensive income represents:

	From 22 April 2011 to September 2011
	RMB'000
PRC Corporate Income Tax	
Provision for the period	11,247

The Company is subject to PRC Corporate Income Tax and the PRC's statutory income tax is 25%.

According to the tax regulation of Guoshuifa (2009) No. 28, issued by the State Administration of Taxation on 16 April 2009, the Company is entitled to a tax holiday with a Corporate Income Tax rate of nil from the year 2011 to 2013 and 12.5% from the year 2014 to 2016, subject to the approval by the tax authority. The Company is currently applying for the entitlement, but the final approval has not been obtained from the tax authority yet, therefore 25% rax rate is used for tax calculation for the period.

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

	From 22 April 2011 to September 2011 *RMB'000*
Profit before taxation	43,060
Tax at PRC Corporate Income Tax statutory rate of 25%	10,765
Tax effect of expenses not deductible for tax purposes	482
Tax charges for the period	11,247

7 Directors' remuneration

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	From 22 April 2011 to 30 September 2011		
	Directors' fees *RMB'000*	**Salaries, allowances and benefits-in-kind** *RMB'000*	**Total** *RMB'000*
Executive directors	–	1,004	1,004

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, four is directors whose emoluments are disclosed in note 7, the aggregate of the emolument in respect of the remaining one individual for the period from 22 April 2011 to September 2011 is as follows:

	From 22 April 2011 to September 2011 *RMB'000*
Contribution to defined contribution retirement plans	3
Salaries and other benefits	89
	92

The emolument of the above individual with the highest emolument is within the following band:

	From 22 April 2011 to September 2011 *RMB'000*
Nil – HK$1,000,000	1

9 Property, plant and equipment

	Jetty structure* *RMB'000*	Plant and machinery* *RMB'000*	Motor vehicles *RMB'000*	Furniture, fixtures and equipment *RMB'000*	Total *RMB'000*
Cost:					
At 22 April 2011	–	–	–	–	–
Additions	193,285	7,400	1,295	218	202,198
At 30 September 2011	193,285	7,400	1,295	218	202,198
Accumulated depreciation:					
At 22 April 2011	–	–	–	–	–
Charge for the period	1,837	88	44	17	1,986
At 30 September 2011	1,837	88	44	17	1,986
Carrying values:					
At 22 April 2011	–	–	–	–	–
At 30 September 2011	191,448	7,312	1,251	201	200,212

* During the Relevant Period, pursuant to the joint venture agreement of the Company, one of the ventures contributed certain property, plant and equipment, amounting to RMB200,685,000 as determined by an independent valuation, into the Company as consideration for the issuance of share capital.

10 Trade and other receivables

	At 30 September 2011 *RMB'000*
Trade receivables	21,573
Deposits and prepayments	750
	22,323

(a) Ageing analysis

Included in trade and other receivables are trade receivables (net of allowance for doubtful debts) with the following ageing analysis as of the end of the Reporting Period:

	At 30 September 2011
	RMB'000
Current	11,627
1 to 3 months past due	9,946
	21,573

Trade receivables are due within 30 days from the date of billing. Further details on the Company's credit policy are set out in note 17(a).

(b) Trade receivables that are not impaired

Receivables that were neither past due nor impaired relate to the Company's venturer for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Company. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

11 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	At 30 September 2011
	RMB'000
Deposits with banks	116,322
Cash at bank and in hand	87
	116,409

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

	From 22 April 2011 to 30 September 2011
	RMB'000
Profit before taxation	43,060
Adjustments for:	
– Depreciation	1,986
– Interest income	(191)
Changes in working capital:	
– Increase in trade and other receivables	(22,323)
– Increase in trade and other payables	28,529
Cash generated from operations	51,061

12 Trade and other payables

	At 30 September 2011
	RMB'000
Creditors and accrued charges	28,529

13 Income tax in the statement of financial position

Current taxation in the statement of financial position represents:

	At 30 September 2011
	RMB'000
Income tax payable	11,247

14 Capital, reserves and dividends

(a) ***Movements in components of equity***

The opening and closing balances of each component of the Company's equity and a reconciliation between these amounts are set out in the statement of changes in equity.

(b) Share capital

	At 30 September 2011 RMB'000
Authorised:	
Registered capital	289,610
Share capital, issued and fully paid:	
At 22 April 2011	–
Issuance of share capital	66,670
At 30 September 2011	66,670

(c) Capital reserve

Pursuant to the joint venture agreement of the Company, one of the venturers contributed total assets of RMB 200,685,000 as consideration for the issuance of share capital. As at 30 September 2011, such contribution was recorded in the capital reserve, which will be transferred to share capital subject to the completion of capital verification in accordance with relevant PRC rules and regulations.

(d) Capital management

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Company monitors its capital structure on the basis of a gearing ratio, defined as total interest-bearing loans divided by total equity. As at 30 September 2011, the Company did not have any interest-bearing loans.

According to the joint venture agreement of the Company, the Company will receive further capital injection by cash of RMB22,290,000 from one of the venturers. The Company is not subject to any externally imposed capital requirements.

15 Commitments

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 September 2011 RMB'000
Within 1 year	2,313
After 1 year within 5 years	2,969
	5,282

16 Related party transactions

(a) Key management personnel remuneration

Remuneration for key management personnel of the Company, including amounts paid to the Company's directors as disclosed in note 7 is as follows:

	From 22 April 2011 to 30 September 2011 *RMB'000*
Short-term employee benefits	1,004

Total remuneration is included in "staff costs" (see note 5(a)).

(b) Other related party transactions

During the Relevant Period, the Company had the following significant transactions with a venture of the Company which were carried out in the ordinary course of business.

	From 22 April 2011 to 30 September 2011 *RMB'000*
Provision of port and logistic services	50,492
Receipt of services provided	832

17 Financial risk management and fair values

Exposure to credit, liquidity and interest rate arises in the normal course of the Company's business.

The Company's exposure to these risks and the financial risk management policies and practices used by the Company to manage these risks are described below.

(a) Credit risk

The Company's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 days from the date of billing. Normally, the Company does not obtain collateral from customers.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Company has significant exposure to individual customers. At 30 September 2011, the Company has a certain concentration of credit risk as 96% of the total trade and other receivables was due from the Company's largest customer and 97% the total trade and other receivables was due from the 2 largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. The Company's largest customer is a venture of the Company

Further quantitative disclosures in respect of the Company's exposure to credit risk arising from trade and other receivables are set out in note 10.

(b) Liquidity risk

The Company's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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

(c) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 30 September 2011.

18 Possible impact of amendments, new standards and interpretations issued but not yet effective for the Relevant Period

Up to the date of issue of these Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the nine months ended 30 September 2011 and which have not been adopted in the Financial Information. These include the following which may be relevant to the Company:

	Effective for accounting periods beginning on or after
Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*	1 July 2011
Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*	1 January 2012
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
HKFRS 9, *Financial instruments*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013

The Company is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

C SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the company in respect of any period subsequent to 30 September 2011.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

Set out below are the management discussion and analysis on the Five Joint Ventures:

(A) Ningbo Shihua

For the Nine Months Ended September 30, 2011

Business Review

Ningbo Shihua Crude Oil Terminal Company Limited ("Ningbo Shihua") was incorporated in the PRC on December 5, 2002 and commenced operations upon its incorporation. Ningbo Shihua principally engages in loading and unloading crude oil mainly for certain branch companies of Sinopec Group. Ningbo Shihua operated two terminals in Ningbo, Zhejiang Province, China, with annual design throughput capacity totalling 17 million tonnes of crude oil as of September 30, 2011. A third terminal with annual design throughput capacity of 18 million tonnes of crude oil has started trial operations since June 2011.

Ningbo Shihua generated revenue of approximately RMB113.2 million (approximately HK$138.9 million) and profit and total comprehensive income of approximately RMB66.5 million (approximately HK$81.6 million) during the nine months ended September 30, 2011, which represented increases of approximately 1.7% and approximately 0.03%, respectively, compared to the nine months ended September 30, 2010.

Ningbo Shihua had total throughput of 21.2 million tonnes during the nine months ended September 30, 2011, an increase of 0.6 million tonnes, or 3.0%, compared to the nine months ended September 30, 2010. The increase was primarily due to Sinopec Group's increased production volume in the first half of 2011.

Capital Structure

As of September 30, 2011, Ningbo Shihua had share capital of RMB80.0 million (approximately HK$98.2 million). Operating income provided the main source of capital of Ningbo Shihua. Ningbo Shihua used expenditures primarily to pay dividends and purchase plant, property and equipment relating to construction of Ningbo Shihua's third terminal.

As of September 30, 2011, Ningbo Shihua had no outstanding bank borrowings.

Financial Review

Revenue

Ningbo Shihua generated revenue of approximately RMB113.2 million (approximately HK$138.9 million) during the nine months ended September 30, 2011 (nine months ended September 30, 2010: approximately RMB111.3 million (approximately HK$136.6 million)). The increase in revenue was primarily due to increased revenue from logistics services as a result of increased demand. Sinopec Group accounted for approximately 90.1% of Ningbo Shihua's revenue during the nine months ended September 30, 2011.

Liquidity and Financial Resources

As of September 30, 2011, Ningbo Shihua had cash and cash equivalents totalling approximately RMB50.1 million (approximately HK$61.5 million) (December 31, 2010: approximately RMB69.0 million (approximately HK$84.7 million)) and no outstanding bank borrowings.

Gearing Ratio

As of September 30, 2011, Ningbo Shihua's current ratio (current assets to current liabilities) was 2.6 (December 31, 2010: 3.7) and gearing ratio (total liabilities to total assets) was approximately 13.7% (December 31, 2010: 10.9%).

Capital Expenditures

Capital expenditures amounted to approximately RMB21.6 million (approximately HK$26.5 million) for the nine months ended September 30, 2011, primarily for purchases of plant, property and equipment and intangible assets in connection with the construction of Ningbo Shihua's third terminal.

Capital Commitments

As of September 30, 2011, Ningbo Shihua had capital commitments of approximately RMB2.7 million (approximately HK$3.3 million) not provided for in its financial statements, primarily related to contracts for purchases of plant, property and equipment in connection with the construction of Ningbo Shihua's third terminal.

Significant Investments and Material Acquisitions and Disposals

Ningbo Shihua did not make any significant investments or material acquisitions and disposals in the nine months ended September 30, 2011.

Contingent Liabilities and Pledged Assets

As of September 30, 2011, Ningbo Shihua did not have any contingent liabilities or pledged assets.

Trade and Other Receivables

As of September 30, 2011, Ningbo Shihua had trade and other receivables of approximately RMB52.4 million (approximately HK$64.3 million) (December, 31 2010: approximately RMB41.9 million (approximately HK$51.4 million)). The increase was primarily due to a corresponding increase in revenue for the period. As of September 30, 2011, the amount due from related parties equaled approximately RMB49.0 million (approximately HK$60.1 million), which primarily represented amounts due from certain branch companies of Sinopec Group for port services, logistic services and security services.

Trade and Other Payables

As of September 30, 2011, Ningbo Shihua had trade and other payables of approximately RMB32.0 million (approximately HK$39.3 million) (December 31, 2010: approximately RMB25.6 million (approximately HK$31.4 million)). The increase was primarily due to amounts related to the construction of Ningbo Shihua's third terminal. As of September 30, 2011, the amount due to related parties equaled approximately RMB1.4 million (approximately HK$1.7 million), which primarily represented port usage fees payable to Ningbo Shihua JV Partner.

Inventories

As of September 30, 2011, Ningbo Shihua had inventories of approximately RMB0.3 million (approximately HK$0.4 million) (December 31, 2010: approximately RMB0.2 million (approximately HK$0.2 million)). The increase was primarily due to increased storage of dock operating equipment.

Exchange Rate Risks

Ningbo Shihua conducts its business primarily in the PRC, where its assets and liabilities are denominated in RMB. As such, the Directors believe that the business of Ningbo Shihua does not face any significant foreign exchange risks.

Employees and Emolument Policies

As of September 30, 2011, Ningbo Shihua had 95 employees. Remuneration packages included salaries, annual bonuses, paid annual leave and contributions to defined contribution retirement plans. In accordance with PRC legal requirements, Ningbo Shihua participates in employee social security programs operated by the government, including basic pension insurance, medical insurance, housing funds and other social security programs.

Except for compensation provided to employees in connection with termination of employment, Ningbo Shihua recognizes remuneration payables as liabilities in the accounting period during which an employee renders services.

For the Year Ended December 31, 2010

Business Review

Ningbo Shihua generated revenue of approximately RMB141.6 million (approximately HK$173.7 million) and profit and total comprehensive income of approximately RMB80.3 million (approximately HK$98.5 million) in 2010, which represented decreases of 2.7% and 4.4%, respectively, compared to 2009.

Ningbo Shihua had total cargo throughput of 26.5 million tonnes in 2010, a decrease of 1.3 million tonnes, or 4.8%, compared to 2009. The decrease was due to lower demand from Sinopec Group as competing terminals became operational.

Capital Structure

As of December 31, 2010, Ningbo Shihua had share capital of RMB80.0 (approximately HK$98.2 million) million. Operating income provided the main source of capital of Ningbo Shihua. Ningbo Shihua used expenditures primarily to purchase plant, property and equipment relating to its third terminal and pay dividends.

As of December 31, 2010, Ningbo Shihua had no outstanding bank borrowings.

Financial Review

Revenue

Ningbo Shihua generated revenue of approximately RMB141.6 million (approximately HK$173.7 million) in 2010 (2009: approximately RMB145.5 million (approximately HK$178.5 million)). The decrease was primarily due to decreased demand from Sinopec Group. Sinopec Group accounted for approximately 88.1% of Ningbo Shihua's revenue in 2010.

Liquidity and Financial Resources

As of December 31, 2010, Ningbo Shihua had cash and cash equivalents totalling approximately RMB69.0 million (approximately HK$84.7 million) (December 31, 2009: approximately RMB134.8 million (approximately HK$165.4 million)) and no bank borrowings.

Gearing Ratio

As of December 31, 2010, Ningbo Shihua's current ratio (current assets to current liabilities) was 3.7 (December 31, 2009: 11.7) and gearing ratio (total liabilities to total assets) was approximately 10.9% (December 31, 2009: approximately 7.0%).

Capital Expenditures

Capital expenditures amounted to approximately RMB80.7 million (approximately HK$99.0 million) in 2010, primarily for purchases of plant, property and equipment and intangible assets in connection with the construction of Ningbo Shihua's third terminal.

Capital Commitments

As of December 31, 2010, Ningbo Shihua had capital commitments of approximately RMB22.8 million (approximately HK$28.0 million) not provided for in its financial statements, primarily related to contracts for purchases of plant, property and equipment in connection with the construction of Ningbo Shihua's third terminal.

Significant Investments and Material Acquisitions and Disposals

Ningbo Shihua did not make any significant investments or material acquisitions and disposals in 2010.

Contingent Liabilities and Pledged Assets

As of December 31, 2010, Ningbo Shihua did not have any contingent liabilities or pledged assets.

Trade and Other Receivables

As of December 31, 2010, Ningbo Shihua had trade and other receivables of approximately RMB41.9 million (approximately HK$51.4 million) (December 31, 2009: approximately RMB55.8 million (approximately HK$68.5 million)). The decrease was primarily due to a corresponding decrease in revenue for the period. As of December 31, 2010, the amount due from related parties equaled approximately RMB39.6 million (approximately HK$48.6 million), which primarily represented amounts due from certain branch companies of Sinopec Group for port services, logistic services and security services.

Trade and Other Payables

As of December 31, 2010, Ningbo Shihua had trade and other payables of approximately RMB25.6 million (approximately HK$31.4 million) (December 31, 2009: approximately RMB9.9 million (approximately HK$12.1 million)). The increase was primarily due to amounts related to the construction of Ningbo Shihua's third terminal and repair and maintenance of other facilities. As of December 31, 2010, the amount due to related parties equaled approximately RMB1.0 million (approximately HK$1.2 million), which primarily represented port usage fees payable to Ningbo Shihua JV Partner.

Inventories

As of December 31, 2010, Ningbo Shihua had inventories of approximately RMB0.2 million (approximately HK$0.2 million) (December 31, 2009: approximately RMB0.3 million (approximately HK$0.4 million)). The decrease was primarily due to decreased storage of dock operating equipment.

Employees and Emolument Policies

As of December, 2010, Ningbo Shihua had 104 employees. Remuneration packages included salaries, annual bonuses, paid annual leave and contributions to defined contribution retirement plans.

For the Year Ended December 31, 2009

Business Review

Ningbo Shihua generated revenue of approximately RMB145.5 million (approximately HK$178.5 million) and profit and total comprehensive income of approximately RMB84.0 million (approximately HK$103.1 million) in 2009, which represented increases of approximately 14.6% and approximately 17.6%, respectively, compared to 2008.

In 2009, Ningbo Shihua had total cargo throughput of approximately 27.8 million tonnes, an increase of approximately 5.4 million tonnes, or approximately 24.2%, compared to 2008. The increase was due to increased demand from Sinopec Group as a result of increased production volume.

Capital Structure

As of December 31, 2009, Ningbo Shihua had share capital of RMB80.0 million (approximately HK$98.2 million). Operating income provided the main source of capital of Ningbo Shihua. Ningbo Shihua used expenditures primarily to pay dividends and purchase plant, property and equipment in connection with the construction of Ningbo Shihua's third terminal and maintenance of office buildings. As of December 31, 2009, Ningbo Shihua had no outstanding bank borrowings.

Financial Review

Revenue

Ningbo Shihua generated revenue of approximately RMB145.5 million (approximately HK$178.5 million) in 2009 (2008: approximately RMB127.0 million (approximately HK$155.8 million)). The increase was primarily due to increased demand from Sinopec Group. Sinopec Group accounted for approximately 76.4% of Ningbo Shihua's revenue in 2009.

Liquidity and Financial Resources

As of December 31, 2009, Ningbo Shihua had cash and cash equivalents totalling approximately RMB134.8 million (approximately HK$165.4 million) (December 31, 2008: approximately RMB125.7 million (approximately HK$154.2 million)) and no bank borrowings.

Gearing Ratio

As of December 31, 2009, Ningbo Shihua's current ratio (current assets to current liabilities) was 11.7 (December 31, 2008: 25.7) and gearing ratio (total liabilities to total assets) was 7.0% (December 31, 2008: 3.6%).

Capital Expenditures

Capital expenditures amounted to approximately RMB17.8 million (approximately HK$21.8 million) in 2009, primarily for purchases of plant, property and equipment and intangible assets in connection with the construction of Ningbo Shihua's third terminal and maintenance of office buildings.

Capital Commitments

As of December 31, 2009, Ningbo Shihua had capital commitments of approximately RMB123.2 million (approximately HK$151.2 million) not provided for in its financial statements, primarily related to contracts for purchases of plant, property and equipment in connection with the construction of Ningbo Shihua's third terminal and maintenance of office buildings.

Significant Investments and Material Acquisitions and Disposals

Ningbo Shihua did not make any significant investments or material acquisitions and disposals in 2010.

Contingent Liabilities and Pledged Assets

As of December 31, 2009, Ningbo Shihua did not have any contingent liabilities or pledged assets.

Trade and Other Receivables

As of December 31, 2009, Ningbo Shihua had trade and other receivables of approximately RMB55.8 million (approximately HK$68.5 million) (December 31, 2008: approximately RMB50.3 million (approximately HK$61.7 million)). The increase was primarily due to a corresponding increase in revenue for the period. As of December 31, 2009, the amount due from related parties equaled approximately RMB53.8 million (approximately HK$66.0 million), which primarily represented amounts due from certain branch companies of Sinopec Group for port services, logistic services and security services.

Trade and Other Payables

As of December 31, 2009, Ningbo Shihua had trade and other payables of approximately RMB9.9 million (approximately HK$12.1 million) (December 31, 2008: approximately RMB2.3 million (approximately HK$2.8 million)). The increase was primarily due to amounts related to the construction of Ningbo Shihua's third terminal and maintenance of office buildings. As of December 31, 2009, the amount due to related parties equaled approximately RMB0.2 million (approximately HK$0.2 million), which primarily represented port usage fees payable to Ningbo Shihua JV Partner.

Inventories

As of December 31, 2009, Ningbo Shihua had inventories of approximately RMB0.3 million (approximately HK$0.4 million) (December 31, 2008: approximately RMB0.3 million (approximately HK$0.4 million)).

Employees and Emolument Policies

As of December 31, 2009, Ningbo Shihua had 40 employees. Remuneration packages included salaries, annual bonuses, paid annual leave and contributions to defined contribution retirement plans.

For the Year Ended December 31, 2008

Business Review

Ningbo Shihua generated revenue of approximately RMB127.0 million (approximately HK$155.8 million) and profit and total comprehensive income of approximately RMB71.4 million (approximately HK$87.6 million) in 2008.

Ningbo Shihua had total cargo throughput of 22.4 million tonnes in 2008, compared to 25.5 million tonnes in 2007. The decrease was due to decreased demand from Sinopec Group as a result of the global financial crisis in 2008.

Capital Structure

As of December 31, 2008, Ningbo Shihua had share capital of RMB80.0 million (approximately HK$98.2 million). Operating income provided the main source of capital of Ningbo Shihua. Ningbo Shihua used expenditures primarily to purchase plant, property and equipment relating to the repair and maintenance of the second terminal. As of December 31, 2008, Ningbo Shihua had no outstanding bank borrowings.

Financial Review

Revenue

For the year ended December 31, 2008, Ningbo Shihua generated revenue of approximately RMB127.0 million (approximately HK$155.8 million). Sinopec Group accounted for approximately 94.6% of Ningbo Shihua's revenue in 2008.

Liquidity and Financial Resources

As of December 31, 2008, Ningbo Shihua had cash and cash equivalents totalling approximately RMB125.7 million (approximately HK$154.2 million).

Gearing Ratio

As of December 31, 2008, Ningbo Shihua's current ratio (current assets to current liabilities) was 25.7 and gearing ratio (total liabilities to total assets) was 3.6%.

Capital Expenditures

Capital expenditures amounted to approximately RMB21.4 million (approximately HK$26.3 million) in 2008, primarily for purchases of plant, property and equipment and intangible assets in connection with the repair and maintenance of Ningbo Shihua's terminal.

Capital Commitments

As of December 31, 2008, Ningbo Shihua had capital commitments of approximately RMB18.0 million (approximately HK$22.1 million) not provided for in its financial statements, primarily related to contracts for purchases of plant, property and equipment in connection with the construction of Ningbo Shihua's third terminal.

Significant Investments and Material Acquisitions and Disposals

Ningbo Shihua did not make any significant investments or material acquisitions and disposals in 2008.

Contingent Liabilities and Pledged Assets

As of December 31, 2008, Ningbo Shihua did not have any contingent liabilities or pledged assets.

Trade and Other Receivables

As of December 31, 2008, Ningbo Shihua had trade and other receivables of approximately RMB50.3 million (approximately HK$61.7 million). As of December 31, 2008, the amount due from related parties equaled approximately RMB48.4 million (approximately HK$59.4 million), which primarily represented amounts due from certain branch companies of Sinopec Group for port services, logistic services and security services.

Trade and Other Payables

As of December 31, 2008, Ningbo Shihua had trade and other payables of approximately RMB2.3 million (approximately HK$2.8 million). As of December 31, 2008, the amount due to related parties equaled approximately RMB0.3 million (approximately HK$0.4 million), which primarily represented port usage fees payable to Ningbo Shihua JV Partner.

Inventories

As of December 31, 2008, Ningbo Shihua had inventories of approximately RMB0.3 million (approximately HK$0.4 million).

Employees and Emolument Policies

As of December 31, 2008, Ningbo Shihua had three employees. Remuneration packages included salaries, annual bonuses, paid annual leave and contributions to defined contribution retirement plans.

(B) Qingdao Shihua

For the Nine Months Ended September 30, 2011

Business Review

Qingdao Shihua Crude Oil Terminal Company Limited ("Qingdao Shihua") was incorporated in the PRC on February 23, 2006. Qingdao Shihua principally engages in loading and unloading crude oil and refined oil products for Sinopec Group and third-party customers. Qingdao Shihua operates three terminals with four berths in Jiaozhou Bay, Qingdao, Shandong Province, China. Qingdao Shihua's annual design throughput capacity totalling 45.0 million tonnes of crude oil as of September 30, 2011.

Terminal Phase I had an annual design throughput capacity of 10.0 million tonnes of crude oil as of September 30, 2011. It consists of two berths that can accommodate a 20,000-ton vessel and a 50,000-ton vessel, respectively. Terminal Phase I commenced operations in the late 1970s. Qingdao Port Group Co., Ltd. (青島港集團有限公司) transferred Terminal Phase I to Qingdao Shihua as a contribution to the subscribed capital of Qingdao Shihua in March 2006.

Terminal Phase II had an annual design throughput capacity of 17.0 million tonnes of crude oil as of September 30, 2011. It has one berth that can accommodate a 200,000-ton vessel. Terminal Phase II commenced operations in December 1992. Qingdao Port Group Co., Ltd. (青島港集團有限公司) transferred Terminal Phase II to Qingdao Shihua as a contribution to the subscribed capital of Qingdao Shihua in March 2006.

Terminal Phase III had an annual design throughput capacity of 18.0 million tonnes of crude oil as of September 30, 2011. It has one berth that can accommodate a 300,000-ton vessel. Terminal Phase III commenced operations in February 2009.

Qingdao Shihua generated revenue of approximately RMB320.4 million (approximately HK$393.1 million) and profit and total comprehensive income of RMB189.6 million (approximately HK$232.6 million) during the nine months ended September 30, 2011, which represented increases of approximately 3.9% and approximately 1.7%, respectively, compared to the nine months ended September 30, 2010.

Qingdao Shihua has invested substantial amounts to renovate and modernize Terminal Phase I and Terminal Phase II in recent years. For the nine months ended September 30, 2011, Qingdao Shihua invested approximately RMB6.3 million (approximately HK$7.7 million) to purchase plant, property and equipment in connection with the renovation of Terminal Phase I and Terminal Phase II. Qingdao Shihua funded the construction costs from operating income.

Capital Structure

As of September 30, 2011, Qingdao Shihua had share capital of RMB200.0 million (approximately HK$245.4 million). Operating income provided the main source of capital of Qingdao Shihua in the nine months ended September 30, 2011. Qingdao Shihua used expenditures primarily to distribute dividends to shareholders and purchase plant, property and equipment relating to the renovation of Terminal Phase I and Terminal Phase II.

As of September 30, 2011, Qingdao Shihua had no outstanding loans.

Financial Review

Revenue

Qingdao Shihua generated revenue of approximately RMB320.4 million (approximately HK$393.1 million) during the nine months ended September 30, 2011 (nine months ended September 30, 2010: approximately RMB308.3 million (approximately HK$378.3 million)). The increase in revenue was primarily driven by increased demand for crude oil from downstream refineries of Sinopec Group as a result of higher production volumes. Sinopec Group accounted for approximately 83.7% of Qingdao Shihua's revenue during the nine months ended September 30, 2011.

Liquidity and Financial Resources

As of September 30, 2011, Qingdao Shihua had cash and cash equivalents totalling approximately RMB340.3 million (approximately HK$417.5 million) (September 30, 2010: approximately RMB392.5 million (approximately HK$481.6 million)).

Gearing Ratio

As of September 30, 2011, Qingdao Shihua's current ratio (current assets to current liabilities) was 4.5 (December 31, 2010: 4.3) and gearing ratio (total liabilities to total assets) was 7.6% (December 31, 2010: 8.4%).

Capital Expenditures

Capital expenditures amounted to approximately RMB10.8 million (approximately HK$13.3 million) for the nine months ended September 30, 2011, primarily for purchases of plant, property and equipment in connection with the renovation of Terminal Phase I and Terminal Phase II.

Capital Commitments

As of September 30, 2011, Qingdao Shihua had capital commitments of approximately RMB2.3 million (approximately HK$2.8 million) not provided for in its financial statements, primarily related to contracts for purchases of plant, property and equipment in connection with the maintenance of Terminal Phase I, Terminal Phase II and Terminal Phase III.

Significant Investments and Material Acquisitions and Disposals

Qingdao Shihua did not make any significant investments or material acquisitions or disposals during the nine months ended September 30, 2011.

Contingent Liabilities and Pledged Assets

As of September 30, 2011, Qingdao Shihua did not have any contingent liabilities or pledged assets.

Trade and Other Receivables

As of September 30, 2011, Qingdao Shihua had trade and other receivables of approximately RMB23.5 million (approximately HK$28.8 million) (December 31, 2010: approximately RMB5.8 million (approximately HK$7.1 million)). The increase was primarily due to increased port and logistics service fees payable by its customers during this period. As of September 30, 2011, the amount due from related parties equaled approximately RMB7.1 million (approximately HK$8.7 million), which primarily represented amounts due from certain branch companies of Sinopec Group for port services and logistic services.

Trade and Other Payables

As of September 30, 2011, Qingdao Shihua had trade and other payables of approximately RMB20.5 million (approximately HK$25.2 million) (December 31, 2010: approximately RMB10.0 million (approximately HK$12.3 million)). The increase was primarily due to increased port usage fees payable to Qingdao Shihua JV Partner recorded during this period. As of September 30, 2011, the amount due to related parties equaled approximately RMB13.5 million (approximately HK$16.6 million), which primarily represented port usage fees payable to Qingdao Shihua JV Partner.

Inventories

As of September 30, 2011, Qingdao Shihua had inventories of approximately RMB83,000 (approximately HK$0.1 million) (December 31, 2010: approximately RMB0.2 million (approximately HK$0.2 million)). The decrease was primarily due to decreased storage of dock operating equipment.

Exchange Rate Risks

Qingdao Shihua conducts its business primarily in the PRC, where its assets and liabilities are denominated in RMB. As such, the Directors believe that the business of Qingdao Shihua does not face any significant foreign exchange risks.

Employees and Emolument Policies

As of September 30, 2011, Qingdao Shihua had 223 employees, 18 of whom were seconded from Sinopec Group. Remuneration packages included salaries, annual bonuses, paid annual leave and contributions to defined contribution retirement plans. In accordance with PRC legal requirements, Qingdao Shihua participates in employee social security programs operated by the government, including basic pension insurance, medical insurance, housing funds and other social security programs.

For the Year Ended December 31, 2010

Business Review

Qingdao Shihua generated revenue of approximately RMB407.2 million (approximately HK$499.6 million) and profit and total comprehensive income of approximately RMB241.7 million (approximately HK$296.6 million) in 2010, which represented increases of approximately 18.5% and approximately 20.1%, respectively, compared to 2009.

Qingdao Shihua had total cargo throughput of 39.4 million tonnes in 2010, an increase of 7.4 million tonnes, or 23.2%, compared to 2009. The increase was primarily due to Sinopec Group's increased production volume.

Capital Structure

As of December 31, 2010, Qingdao Shihua had share capital of RMB200.0 million (approximately HK$245.4 million). Operating income provided the main source of capital of Qingdao Shihua in 2010. Qingdao Shihua used expenditures primarily to distribute dividends to shareholders and purchase plant, property and equipment relating to the renovation of Terminal Phase I and Terminal Phase II.

As of December 31, 2010, Qingdao Shihua had no outstanding bank borrowings.

Financial Review

Revenue

Qingdao Shihua generated revenue of approximately RMB407.2 million (approximately HK$499.6 million) in 2010 (December 31, 2009: approximately RMB343.5 million (approximately HK$421.5 million)). The increase was primarily due to increased demand from Sinopec Group and Qingdao Shihua's effort to develop third party customers. Sinopec Group accounted for approximately 85.0% of Qingdao Shihua's revenue in 2010.

Liquidity and Financial Resources

As of December 31, 2010, Qingdao Shihua had cash and cash equivalents totalling approximately RMB392.5 million (approximately HK$481.6 million) (December 31, 2009: approximately RMB435.4 million (approximately HK$534.2 million)).

Gearing Ratio

As of December 31, 2010, Qingdao Shihua's current ratio (current assets to current liabilities) was 4.3 (December 31, 2009: 6.8) and gearing ratio (total liabilities to total assets) was 8.4% (December 31, 2009: 5.6%).

Capital Expenditures

Capital expenditures amounted to approximately RMB38.5 million (approximately HK$47.2 million) in 2010, primarily for purchases of property, plant and equipment relating to the renovation of Terminal Phase I and Terminal Phase II.

Capital Commitments

As of December 31, 2010, Qingdao Shihua had capital commitments of approximately RMB6.5 million (approximately HK$8.0 million) not provided for in its financial statements, primarily related to contracts for purchases of plant, property and equipment in connection with the maintenance of Terminal Phase I, Terminal Phase II and Terminal Phase III.

Significant Investments and Material Acquisitions and Disposal

Qingdao Shihua did not make any significant investments or material acquisitions or disposals in 2010.

Contingent Liabilities and Pledged Assets

As of December 31, 2010, Qingdao Shihua did not have any contingent liabilities or pledged assets.

Trade and Other Receivables

As of December 31, 2010, Qingdao Shihua had trade and other receivables of approximately RMB5.8 million (approximately HK$7.1 million) (December 31, 2009: approximately RMB4.9 million (approximately HK$6.0 million)). The increase was primarily due to a corresponding increase in revenue for the period. As of December 31, 2010, the amount due from related parties equaled approximately RMB5.3 million (approximately HK$6.5 million), which primarily represented amounts due from certain branch companies of Sinopec Group for port services and logistic services.

Trade and Other Payables

As of December 31, 2010, Qingdao Shihua had trade and other payables of approximately RMB10.0 million (approximately HK$12.3 million) (December 31, 2009: approximately RMB12.6 million (approximately HK$15.5 million)). The decrease was primarily due to the completion of the construction of an office building. As of December 31, 2010, the amount due to related parties equaled approximately RMB8.1 million (approximately HK$9.9 million), which primarily represented port usage fees payable to Qingdao Shihua JV Partner.

Inventories

As of December 31, 2010, Qingdao Shihua had inventories of approximately RMB0.2 million (approximately HK$0.2 million) (December 31, 2009: approximately RMB0.1 million (approximately HK$0.1 million)). The increase was primarily due to increased storage of dock operating equipment.

Employees and Emolument Policies

As of December 31, 2010, Qingdao Shihua had 211 employees, 18 of whom were seconded from Sinopec Group. Remuneration packages included salaries, annual bonuses, paid annual leave, in-kind benefits and contributions to defined contribution retirement plans.

For the Year Ended December 31, 2009

Business Review

Qingdao Shihua generated revenue of approximately RMB343.5 million (approximately HK$421.5 million) and profit and total comprehensive income of approximately RMB201.2 million (approximately HK$246.9 million) in 2009, which represented increases of approximately 14.8% and approximately 22.1%, respectively, compared to 2008.

Qingdao Shihua had total cargo throughput of 32.0 million tonnes in 2009, an increase of 3.1 million tonnes, or 10.7%, compared to 2008. The increase was primarily due to Sinopec Group's higher production volume and Terminal Phase III commencing full operation.

Capital Structure

As of December 31, 2009, Qingdao Shihua had share capital of RMB200.0 million (approximately HK$245.4 million). Operating income provided the main source of capital of Qingdao Shihua in 2009. Qingdao Shihua used expenditures primarily to purchase plant, property and equipment relating to the renovation of Terminal Phase I and Terminal Phase II. As of December 31, 2009, Qingdao Shihua had no outstanding bank borrowings.

Financial Review

Revenue

Qingdao Shihua generated revenue of approximately RMB343.5 million (approximately HK$421.5 million) in 2009 (December 31, 2008: approximately RMB299.2 million (approximately HK$367.1 million)). The increase in revenue was primarily due to increased demand from Sinopec Group and increased capacity from Terminal Phase III. Sinopec Group accounted for approximately 85.8% of Qingdao Shihua's revenue in 2009.

Liquidity and Financial Resources

As of December 31, 2009, Qingdao Shihua had cash and cash equivalents totalling approximately RMB435.4 million (approximately HK$534.2 million) (December 31, 2008: approximately RMB177.9 million (approximately HK$218.3 million)).

Gearing Ratio

As of December 31, 2009, Qingdao Shihua's current ratio (current assets to current liabilities) was 6.8 (December 31, 2008: 8.9) and gearing ratio (total liabilities to total assets) was 5.6% (December 31, 2008: 2.5%).

Capital Expenditures

Capital expenditures amounted to approximately RMB32.3 million (approximately HK$39.6 million) in 2009, primarily for purchases of plant, property and equipment in connection with the construction of an office building, the renovation of Terminal Phase I and Terminal Phase II.

Capital Commitments

As of December 31, 2009, Qingdao Shihua had capital commitments of approximately RMB16.8 million (approximately HK$20.6 million) not provided for in its financial statements, primarily related to contracts for purchases of plant, property and equipment in connection with the construction of an office building, and the renovation of Terminal Phase I and Terminal Phase II.

Significant Investments and Material Acquisitions and Disposal

Qingdao Shihua did not make any significant investments or material acquisitions or disposals in 2009.

Contingent Liabilities and Pledged Assets

As of December 31, 2009, Qingdao Shihua did not have any contingent liabilities or pledged assets.

Trade and Other Receivables

As of December 31, 2009, Qingdao Shihua had trade and other receivables of approximately RMB4.9 million (approximately HK$6.0 million) (December 31, 2008: approximately RMB21.2 million (approximately HK$26.0 million)). The decrease was primarily due to settlement of prepaid amounts in connection with purchases of equipment. As of December 31, 2009, the amount due from related parties equaled approximately RMB4.6 million (approximately HK$5.6 million), which primarily represented amounts due from certain branch companies of Sinopec Group for port services and logistic services.

Trade and Other Payables

As of December 31, 2009, Qingdao Shihua had trade and other payables of approximately RMB12.6 million (approximately HK$15.5 million) (December 31, 2008: approximately RMB3.8 million (approximately HK$4.7 million)). The increase was primarily due to increased port usage fees payable to Qingdao Shihua JV Partner recorded during this period. As of December 31, 2009, the amount due to related parties equaled approximately RMB10.2 million (approximately HK$12.5 million), which primarily represented port usage fees and construction fees related to an office building payable to Qingdao Shihua JV Partner.

Inventories

As of December 31, 2009, Qingdao Shihua had inventories of approximately RMB0.1 million (approximately HK$0.1 million) (December 31, 2008: approximately RMB0.1 million (approximately HK$0.1 million)).

Employees and Emolument Policies

As of December 31, 2009, Qingdao Shihua had 214 employees, 18 of whom were seconded from Sinopec Group. Remuneration packages included salaries, annual bonuses, paid annual leave and contributions to defined contribution retirement plans.

For the Year Ended December 31, 2008

Business Review

Sinopec Group's decreased production volume in the second half of 2008 as a result of the global financial crisis significantly impacted Qingdao Shihua's throughput. In 2008, Qingdao Shihua had total cargo throughput of 28.9 million tonnes.

Qingdao Shihua generated revenue of approximately RMB299.2 million (approximately HK$367.1 million) and profit and total comprehensive income of approximately RMB164.7 million (approximately HK$202.1 million) in 2008.

Capital Structure

As of December 31, 2008, Qingdao Shihua had share capital of RMB200.0 million (approximately HK$245.4 million). Operating income provided the main source of capital of Qingdao Shihua in 2008. Qingdao Shihua used expenditures primarily to purchase plant, property and equipment in connection with the renovation of Terminal Phase I and Terminal Phase II. As of December 31, 2008, Qingdao Shihua had no outstanding bank borrowings.

Financial Review

Revenue

Qingdao Shihua generated revenue of approximately RMB299.2 million (approximately HK$367.1 million) in 2008. Sinopec Group accounted for approximately 94.9% of Qingdao Shihua's revenue in 2008.

Liquidity and Financial Resources

As of December 31, 2008, Qingdao Shihua had cash and cash equivalents totalling approximately RMB177.9 million (approximately HK$218.3 million).

Gearing Ratio

As of December 31, 2008, Qingdao Shihua's current ratio (current assets to current liabilities) was 8.9 and gearing ratio (total liabilities to total assets) was approximately 2.5%.

Capital Expenditures

Capital expenditures amounted to approximately RMB132.5 million (approximately HK$162.6 million) in 2008, primarily for purchases of property, plant and equipment relating to the renovation of Terminal Phase I and Terminal Phase II.

Capital Commitments

As of December 31, 2008, Qingdao Shihua had capital commitments of approximately RMB1.0 million (approximately HK$1.2 million) not provided for in its financial statements, primarily related to contracts for purchases of property, plant and equipment relating to the renovation of Terminal Phase I and Terminal Phase II.

Significant Investments and Material Acquisitions and Disposal

Qingdao Shihua did not make any significant investments or material acquisitions or disposals in 2008.

Contingent Liabilities and Pledged Assets

As of December 31, 2008, Qingdao Shihua did not have any contingent liabilities or pledged assets.

Trade and Other Receivables

As of December 31, 2008, Qingdao Shihua had trade and other receivables of approximately RMB21.2 million (approximately HK$26.0 million). As of December 31, 2008, the amount due from related parties equaled approximately RMB20.4 million (approximately HK$25.0 million), which primarily represented amounts due from certain branch companies of Sinopec Group for port services and logistic services.

Trade and Other Payables

As of December 31, 2008, Qingdao Shihua had trade and other payable of approximately RMB3.8 million (approximately HK$4.7 million). As of December 31, 2008, the amount due to related parties equaled approximately RMB2.3 million (approximately HK$2.8 million), which primarily represented port usage fees payable to Qingdao Shihua JV Partner.

Inventories

As of December 31, 2008, Qingdao Shihua had inventories of approximately RMB0.1 million (approximately HK$0.1 million).

Employees and Emolument Policies

As of December 31, 2008, Qingdao Shihua had 210 employees, 18 of whom were seconded from Sinopec Group. Remuneration packages included salaries, annual bonuses, paid annual leave and contributions to defined contribution retirement plans.

(C) Tianjin Port Shihua

For the Nine Months Ended September 30, 2011

Business Review

Tianjin Port Shihua Crude Oil Terminal Company Limited ("Tianjin Port Shihua") was incorporated in the PRC on December 19, 2007 and commenced operations on January 1, 2009. Tianjin Port Shihua principally engages in loading and unloading crude oil mainly for certain branch companies of Sinopec Group. Tianjin Port Shihua operates one terminal with one berth that can accommodate a 300,000-ton vessel in Tianjin, China. Tianjin Port Shihua's annual design throughput capacity totalled 20.0 million tonnes of crude oil as of September 30, 2011.

Tianjin Port Shihua generated revenue of approximately RMB90.2 million (approximately HK$110.7 million) and profit and total comprehensive income of approximately RMB26.4 million (approximately HK$32.4 million) during the nine months ended September 30, 2011, which represented decreases of approximately 14.4% and approximately 41.5%, respectively, compared to the nine months ended September 30, 2010.

Tianjin Port Shihua had total throughput of 8.0 million tonnes during the nine months ended September 30, 2011, a decrease of 2.2 million tonnes, or 21.6%, compared to the nine months ended September 30, 2010.

For the nine months ended September 30, 2011, Tianjin Port Shihua invested approximately RMB35.9 million (approximately HK$44.0 million) to purchase plant, property and equipment in connection with Tianjin Port Shihua's dock. In addition, Tianjin Port Shihua plans to invest approximately RMB70.0 million (approximately HK$85.8 million) in removing silt from the harbour to increase its dock depth in 2012. Tianjin Port Shihua expects to fund approximately 70% of the construction costs from a loan from Sinopec Group and the remaining approximately 30% from operating income.

Capital Structure

As of September 30, 2011, Tianjin Port Shihua had share capital of RMB482.7 million (approximately HK$592.3 million). Borrowings and operating income provided the main source of capital of Tianjin Port Shihua. Tianjin Port Shihua used expenditures primarily to repay borrowings and purchase plant, property and equipment relating to the construction of Tianjin Port Shihua's dock and an office building.

As of September 30, 2011, Tianjin Port Shihua had an aggregate of approximately RMB432.7 million (approximately HK$530.9 million) of loans outstanding, consisting of three fixed interest rate loans and three floating interest rate loans. The loans had maturities of between six months and five years. The floating interest rates were linked to the benchmark interest rate of the People's Bank of China, which was between 4.37% and 6.21% during the period.

Financial Review

Revenue

Tianjin Port Shihua generated revenue of approximately RMB90.2 million (approximately HK$110.7 million) during the nine months ended September 30, 2011 (nine months ended September 30, 2010: approximately RMB105.3 million (approximately HK$129.2 million)). Sinopec Group accounted for approximately 95.6% of Tianjin Port Shihua's revenue during the nine months ended September 30, 2011.

Liquidity and Financial Resources

As of September 30, 2011, Tianjin Port Shihua had cash and cash equivalents totalling approximately RMB2.7 million (approximately HK$3.3 million) (December 31, 2010: approximately RMB1.1 million (approximately HK$1.3 million)) and total bank borrowings of approximately RMB432.7 million (approximately HK$530.9 million) (December 31, 2010: approximately RMB461.6 million (approximately HK$566.4 million)). As of September 30, 2011, Tianjin Port Shihua had net current liabilities of approximately RMB483.9 million (approximately HK$593.7 million). Tianjin Port Shihua's net current liability position was principally due to bank borrowings, borrowings from related parties for liquidity purposes, and payables incurred for purchases of plant, property and equipment in connection with the construction of Tianjin Port Shihua's dock and an office building as well as port usage fees payable to Tianjin Port Group Limited.

Gearing Ratio

As of September 30, 2011, Tianjin Port Shihua's current ratio (current assets to current liabilities) was 0.01 (December 31, 2010: 0.02) and gearing ratio (total liabilities to total assets) was 46.5% (December 31, 2010: 50.5%).

Capital Expenditures

Capital expenditures amounted to approximately RMB35.9 million (approximately HK$44.0 million) for the nine months ended September 30, 2011, primarily for purchases of plant, property and equipment in connection with Tianjin Port Shihua's dock.

Capital Commitments

As of September 30, 2011, Tianjin Port Shihua had capital commitments of approximately RMB1.3 million (approximately HK$1.6 million) not provided for in its financial statements, primarily relating to a contract for the purchase of Tianjin Port Shihua's office building.

Significant Investments and Material Acquisitions and Disposals

Tianjin Port Shihua did not make any significant investments or material acquisitions or disposals during the nine months ended September 30, 2011.

Contingent Liabilities and Pledged Assets

As of September 30, 2011, Tianjin Port Shihua did not have any contingent liabilities or pledged assets.

Trade and Other Receivables

As of September 30, 2011, Tianjin Port Shihua had trade and other receivables of approximately RMB2.6 million (approximately HK$3.2 million) (December 31, 2010: approximately RMB6.9 million (approximately HK$8.5 million)). The decrease was primarily due to a corresponding decrease in revenue for the period. As of September 30, 2011, Tianjin Port Shihua did not have any amounts due from related parties.

Trade and Other Payables

As of September 30, 2011, Tianjin Port Shihua had trade and other payables of approximately RMB53.6 million (approximately HK$65.8 million) (December 31, 2010: approximately RMB82.8 million (approximately HK$101.6 million)). The decrease was primarily due to settlement of dock construction expenses during the period. As of September 30, 2011, the amount due to related parties equaled approximately RMB43.3 million (approximately HK$53.1 million), which primarily represented port usage fees payable to Tianjin Port Shihua JV Partner.

Inventories

As of September 30, 2011, Tianjin Port Shihua had inventories of approximately RMB70,000 (approximately HK$86,000) (December 31, 2010: approximately RMB51,000 (approximately HK$63,000)). The increase was primarily due to increased storage of dock operating equipment.

Exchange Rate Risks

Tianjin Port Shihua conducts its business primarily in the PRC, where its assets and liabilities are denominated in RMB. As such, the Directors believe that the business of Tianjin Port Shihua does not face any significant foreign exchange risks.

Employees and Emolument Policies

As of September 30, 2011, Tianjin Port Shihua had 37 employees. Remuneration packages included salaries, annual bonuses, paid annual leave, in-kind benefits and contributions to defined contribution retirement plans. In accordance with PRC legal requirements, Tianjin Port Shihua participates in employee social security programs operated by the government, including basic pension insurance, medical insurance, housing funds and other social security programs.

Except for compensation provided to employees in connection with termination of employment, Tianjin Port Shihua recognizes remuneration payables as liabilities in the accounting period during which an employee renders services.

For the Year Ended December 31, 2010

Business Review

Sinopec Group typically plans Tianjin Port Shihua's cargo throughput at the beginning of each year. In 2010, Tianjin Port Shihua had planned cargo throughput of 12.0 million tonnes based on Sinopec Group's crude oil production plan, compared to 8.0 million tonnes in 2009. This increase was primarily due to Sinopec Group's increased production volume as a result of the overall market recovery from the global financial crisis.

Tianjin Port Shihua generated revenue of approximately RMB133.3 million (approximately HK$163.6 million) and profit and total comprehensive income of approximately RMB45.9 million (approximately HK$56.3 million) in 2010, which represented increases of approximately 56.7% and approximately 936.5%, respectively, compared to 2009.

Tianjin Port Shihua had total cargo throughput of 12.9 million tonnes in 2010, an increase of 4.9 million tonnes, or 61.3%, compared to 2009.

Capital Structure

As of December 31, 2010, Tianjin Port Shihua had share capital of RMB482.7 million (approximately HK$592.3 million). Borrowings and operating income provided the main source of capital of Tianjin Port Shihua. Tianjin Port Shihua used expenditures primarily to repay borrowings and purchase plant, property and equipment relating to dock construction.

As of December 31, 2010, Tianjin Port Shihua had floating interest rate loans totalling RMB461.6 million (HK$566.4 million). The floating interest rate was linked to the benchmark interest rate of the People's Bank of China, which was between 4.37% and 5.60% during the period.

Financial Review

Revenue

Tianjin Port Shihua generated revenue of approximately RMB133.3 million (approximately HK$163.6 million) in 2010 (December 31, 2009: approximately RMB85.1 million (approximately HK$104.4 million)). The increase was primarily due to increased demand from Sinopec Group. Sinopec Group accounted for approximately 95.8% of Tianjin Port Shihua's revenue in 2010.

Liquidity and Financial Resources

As of December 31, 2010, Tianjin Port Shihua had cash and cash equivalents totalling approximately RMB1.1 million (approximately HK$1.3 million) (December 31, 2009: approximately RMB6.9 million (approximately HK$8.5 million)) and total bank borrowings of approximately RMB461.6 million (approximately HK$566.4 million) (December 31, 2009: approximately RMB419.5 million (approximately HK$514.7 million)). As of December 31, 2010, Tianjin Port Shihua had net current liabilities of approximately RMB523.2 million (approximately HK$642.0 million). Tianjin Port Shihua's net current liability position was principally due to bank borrowings, borrowings from related parties for liquidity purposes, and payables incurred for purchases of plant, property and equipment in connection with the construction of Tianjin Port Shihua's dock as well as port usage fees payable to Tianjin Port Group Limited.

Gearing Ratio

As of December 31, 2010, Tianjin Port Shihua's current ratio (current assets to current liabilities) was 0.02 (December 31, 2009: 0.01) and gearing ratio (total liabilities to total assets) was 50.5% (December 31, 2009: 56.5%).

Capital Expenditures

Capital expenditures amounted to approximately RMB146.4 million (approximately HK$179.6 million) in 2010, primarily for purchases of plant, property and equipment relating to Tianjin Port Shihua's dock.

Capital Commitments

As of December 31, 2010, Tianjin Shihua had capital commitments of approximately RMB3.3 million (approximately HK$4.0 million) not provided for in its financial statements, primarily relating to a contract for the purchase of Tianjin Port Shihua's office building.

Significant Investments and Material Acquisitions and Disposals

Tianjin Port Shihua did not make any significant investments or material acquisitions and disposals in 2010.

Contingent Liabilities and Pledged Assets

As of December 31, 2010, Tianjin Port Shihua did not have any contingent liabilities or pledged assets.

Trade and Other Receivables

As of December 31, 2010, Tianjin Port Shihua had trade and other receivables of approximately RMB6.9 million (approximately HK$8.5 million) (December 31, 2009: approximately RMB5,000 (approximately HK$6,000)). The increase was primarily due to a corresponding increase in revenue for the period. As of December 31, 2010, Tianjin Port Shihua did not have any amounts due from related parties.

Trade and Other Payables

As of December 31, 2010, Tianjin Port Shihua had trade and other payables of approximately RMB82.8 million (approximately HK$101.6 million) (December 31, 2009: approximately RMB212.4 million (approximately HK$260.5 million)). The decrease was primarily due to the partial settlement of dock construction expenses in 2010. As of December 31, 2010, the amount due to related parties equaled approximately RMB38.7 million (approximately HK$47.5 million), which primarily represented port usage fees payable to Tianjin Port Shihua JV Partner.

Inventories

As of December 31, 2010, Tianjin Port Shihua had inventories of approximately RMB51,000 (approximately HK$63,000) (December 31, 2009: approximately RMB42,000 (approximately HK$52,000)). The increase was primarily due to increased storage of dock operating equipment.

Employees and Emolument Policies

As of December 31, 2010, Tianjin Port Shihua had 34 employees. Remuneration packages included salaries, annual bonuses, paid annual leave, in-kind benefits and contributions to defined contribution retirement plans.

For the Year Ended December 31, 2009

Business Review

In 2009, Tianjin Port Shihua had planned cargo throughput of 8.0 million tonnes based on Sinopec Group's crude oil production plan and because Tianjin Port Shihua had limited throughput capacity as its dock was not yet fully operational.

Tianjin Port Shihua had revenue of approximately RMB85.1 million (approximately HK$104.4 million) and profit and total comprehensive income of approximately RMB4.4 million (approximately HK$5.4 million) in 2009. Tianjin Port Shihua commenced providing port, logistics, security and other services on January 1, 2009 and did not generate material revenues in 2008.

In 2009, Tianjin Port Shihua had total cargo throughput of 8.0 million tonnes.

Capital Structure

As of December 31, 2009, Tianjin Port Shihua had share capital of RMB482.7 million (approximately HK$592.3 million). Borrowings and operating income provided the main source of capital of Tianjin Port Shihua. Tianjin Port Shihua used expenditures primarily to repay borrowings and purchase plant, property and equipment relating to dock construction. As of December 31, 2009, Tianjin Port Shihua had floating interest rate loans totalling RMB419.5 million (HK$514.7 million). The floating interest rate was linked to the benchmark interest rate of the People's Bank of China, which was between 4.37% and 6.72% during the period.

Financial Review

Revenue

For the year ended December 31, 2009, Tianjin Port Shihua had revenue of approximately RMB85.1 million (approximately HK$104.4 million). Tianjin Port Shihua commenced providing port, logistics, security and other services on January 1, 2009 and did not generate material revenues in 2008. Sinopec Group accounted for approximately 95.3% of Tianjin Shihua's revenue in 2009.

Liquidity and Financial Resources

As of December 31, 2009, Tianjin Port Shihua had cash and cash equivalents totalling approximately RMB6.9 million (approximately HK$8.5 million) (December 31, 2008: approximately RMB0.2 million (approximately HK$0.2 million)) and total bank borrowings of approximately RMB419.5 million (approximately HK$514.7 million) (December 31, 2008: approximately RMB380.5 million (approximately HK$466.9 million)). As of December 31, 2009, Tianjin Port Shihua had net current liabilities of approximately RMB481.7 million (approximately HK$591.0 million). Tianjin Port Shihua's net current liability position was principally due to bank borrowings, borrowings from related parties for liquidity purposes, and payables incurred for purchases of plant, property and equipment in connection with the construction of Tianjin Port Shihua's dock as well as port usage fees payable to Tianjin Port Group Limited.

Gearing Ratio

As of December 31, 2009, Tianjin Port Shihua's current ratio (current assets to current liabilities) was 0.01 (December 31, 2008: 0.0004) and gearing ratio (total liabilities to total assets) was 56.5% (December 31, 2008: 55.0%).

Capital Expenditures

Capital expenditures amounted to approximately RMB95.9 million (approximately HK$117.7 million) in 2009, primarily for purchases of property, plant and equipment in relation to Tianjin Port Shihua's dock.

Capital Commitments

As of December 31, 2009, Tianjin Port Shihua had capital commitments of approximately RMB11.7 million (approximately HK$14.4 million) not provided for in its financial statements, primarily related to contracts for purchases of plant, property and equipment relating to Tianjin Port Shihua's dock.

Significant Investments and Material Acquisitions and Disposals

Tianjin Port Shihua did not make any significant investments or material acquisitions and disposals in 2009.

Contingent Liabilities and Pledged Assets

As of December 31, 2009, Tianjin Port Shihua did not have any contingent liabilities or pledged assets.

Trade and Other Receivables

As of December 31, 2009, Tianjin Port Shihua had trade and other receivables of approximately RMB5,000 (approximately HK$6,000). Tianjin Port Shihua commenced providing port, logistics, security and other services on January 1, 2009 and did not have trade and other receivables as of December 31, 2008. As of December 31, 2009, Tianjin Port Shihua did not have any amounts due from related parties.

Trade and Other Payables

As of December 31, 2009, Tianjin Port Shihua had trade and other payables of approximately RMB212.4 million (approximately HK$260.6 million) (December 31, 2008: approximately RMB210.1 million (approximately HK$257.8 million)). The increase was primarily due to increased dock construction expenses. As of December 31, 2009, the amount due to related parties equaled approximately RMB20.9 million (approximately HK$25.6 million), which primarily represented port usage fees payable to Tianjin Port Shihua JV Partner.

Inventories

As of September 30, 2009, Tianjin Port Shihua had inventories of approximately RMB42,000 (HK$52,000). Tianjin Port Shihua commenced providing port, logistics, security and other services on January 1, 2009 and did not have inventories as of December 31, 2008.

Employee and Emolument Policy

As of December 31, 2009, Tianjin Port Shihua had 34 employees. Remuneration packages included salaries, annual bonuses, paid annual leave, in-kind benefits and contributions to defined contribution retirement plans.

For the Year Ended December 31, 2008

Business Review

Tianjin Port Shihua completed dock construction in October 2008 and commenced providing port, logistics, security and other services on January 1, 2009. Tianjin Port Shihua did not generate material revenue in 2008.

Capital Structure

As of December 31, 2008, Tianjin Port Shihua had share capital of RMB482.7 million (approximately HK$592.3 million). Borrowings provided the main source of capital of Tianjin Port Shihua. Tianjin Port Shihua used expenditures primarily to purchase plant, property and equipment in connection with dock construction and repay borrowings. As of December 31, 2008, Tianjin Port Shihua had floating interest rate loans totalling RMB380.5 million (HK$466.9 million). The floating interest rate was linked to the benchmark interest rate of the People's Bank of China, which was between 5.18% and 6.72% during the period.

Financial Review

Revenue

Tianjin Port Shihua did not generate material revenues in 2008.

Liquidity and Financial Resources

As of December 31, 2008, Tianjin Port Shihua had cash and cash equivalents totalling approximately RMB0.2 million (approximately HK$0.2 million) and total bank borrowings of approximately RMB380.5 million (approximately HK$466.9 million). As of December 31, 2008, Tianjin Port Shihua had net current liabilities of RMB489.1 million (approximately HK$600.1 million). Tianjin Port Shihua's net current liability position was principally due to bank borrowings, payables incurred for purchases of plant, property and equipment in connection with the construction of Tianjin Port Shihua's dock as well as port usage fees payable to Tianjin Port Group Limited.

Gearing Ratio

As of December 31, 2008, Tianjin Port Shihua's current ratio (current assets to current liabilities) was 0.0004 and gearing ratio (total liabilities to total assets) was approximately 55.0%.

Capital Expenditures

Capital expenditures amounted to approximately RMB814.5 million (approximately HK$999.4 million) in 2008, primarily for purchases of property, plant and equipment in connection with dock construction.

Capital Commitments

As of December 31, 2008, Tianjin Port Shihua had capital commitments of approximately RMB75.4 million (approximately HK$92.5 million) not provided for in its financial statements, primarily related to contracts for purchases of plant, property and equipment in connection with dock construction.

Significant Investments and Material Acquisitions and Disposals

Tianjin Port Shihua did not make any significant investments or material acquisitions and disposals in 2008.

Contingent Liabilities and Pledged Assets

As of December 31, 2008, Tianjin Port Shihua did not have any contingent liabilities or pledged assets.

Trade and Other Receivables

As of December 31, 2008, Tianjin Port Shihua did not have any trade and other receivables.

Trade and Other Payables

As of December 31, 2008, Tianjin Port Shihua had trade and other payables of approximately RMB210.1 million (approximately HK$257.8 million). As of December 31, 2008, Tianjin Port Shihua did not have any amounts due to related parties.

Inventories

As of December 31, 2009, Tianjin Port Shihua did not have any inventories.

Employee and Emolument Policy

As of December 31, 2008, Tianjin Port Shihua had 36 employees. Remuneration packages included salaries, annual bonuses, paid annual leave, in-kind benefits and contributions to defined contribution retirement plans.

(D) Rizhao Shihua

For the Period from June 28, 2010 to September 30, 2011

Business Review

Rizhao Shihua Crude Oil Terminal Company Limited ("Rizhao Shihua") was incorporated in the PRC on June 28, 2010 and commenced trial operations since December 2010. Rizhao Shihua principally engages in loading and unloading crude oil mainly for certain branch companies of Sinopec Group. Rizhao Shihua operates one crude oil terminal with one berth, and a crude oil transmission pipeline of 3,100 meters in Rizhao, Shandong Province, China. Rizhao Shihua's annual design throughput capacity totalled 20 million tonnes as of September 30, 2011.

Rizhao Shihua plans to commence constructing a second crude oil terminal in 2012. It expects to incur capital expenditures of approximately RMB500.0 million (approximately HK$613.5 million), which it expects to fund with cash flows from operations and bank borrowings.

Rizhao Shihua generated revenue of approximately RMB1.1 million (approximately HK$1.3 million) and had loss and total comprehensive income of approximately RMB25.5 million (approximately HK$31.3 million) for the nine months ended September 30, 2011. Rizhao Shihua reported loss and total comprehensive income of approximately RMB0.2 million (approximately HK$0.2 million) and approximately RMB3.9 million (approximately HK$4.8 million) for the period from June 28 to September 30, 2010 and the period from June 28 to December 30, 2010, respectively.

Rizhao Shihua had total throughput of 0.1 million tonnes during the nine months ended September 30, 2011.

Capital Structure

As of September 30, 2011 and December 31, 2010, Rizhao Shihua had share capital of RMB800.0 million (approximately HK$981.6 million).

Borrowings provided the main source of capital of Rizhao Shihua for the nine months ended September 30, 2011. Rizhao Shihua used expenditures primarily to purchase plant, property and equipment in connection with its terminal facilities.

Proceeds from issue of share capital provided the main source of capital of Rizhao Shihua for the period from June 28 to September 30, 2010 and the period from June 28 to December 31, 2010. Rizhao Shihua used expenditures primarily to purchase plant, property and equipment in connection with its terminal facilities.

As of September 30, 2011, Rizhao Shihua had four floating interest rate loans totalling RMB200.0 million (approximately HK$245.4 million). The loans had an average maturity of 4.5 years. The floating interest rates were linked to the benchmark interest rate of the People's Bank of China, which was between 6.65% and 6.9% during the period.

As of December 31, 2010, Rizhao Shihua had no outstanding borrowings.

Financial Review

Revenue

Rizhao Shihua generated revenue of approximately RMB1.1 million (approximately HK$1.3 million) during the nine months ended September 30, 2011. Rizhao Shihua commenced providing port and logistics services in the first quarter of 2011 and did not generate material revenue prior to the nine months ended September 30, 2011. Sinopec Group accounted for approximately 67.7% of Rizhao Shihua's revenue during the nine months ended September 30, 2011.

Liquidity and Financial Resources

As of September 30, 2011 and December 31, 2010, Rizhao Shihua had cash and cash equivalents totalling approximately RMB64.7 million (approximately HK$79.4 million) and approximately RMB134.2 million (approximately HK$164.7 million), respectively. As of September 30, 2011 and December 31, 2010, Rizhao Shihua had net current liabilities of approximately RMB56.8 million (approximately HK$69.7 million) and approximately RMB23.2 million (approximately HK$28.5 million), respectively. Rizhao Shihua's net current liability position as of such dates was principally due to amounts payable related to the construction of the terminal facilities.

As of September 30, 2011, Rizhao Shihua had total bank borrowings of approximately RMB200.0 million (approximately HK$245.4 million). Rizhao Shihua did not have any bank borrowings as of December 31, 2010.

Gearing Ratio

As of September 30, 2011, Rizhao Shihua's current ratio (current assets to current liabilities) was 0.62 and gearing ratio (total liabilities to total assets) was 29.7%.

As of December 31, 2010, Rizhao Shihua's current ratio (current assets to current liabilities) was 0.85 and gearing ratio (total liabilities to total assets) was 16.5%.

Capital Expenditures

Capital expenditures totalled approximately RMB255.4 million (approximately HK$313.4 million), approximately RMB199.0 million (approximately HK$244.2 million) and approximately RMB262.4 million (approximately HK$322.0 million) for the nine months ended September 30, 2011, the period from June 28 to September 30, 2010 and the period from June 28 to December 31, 2010, respectively. These capital expenditures were primarily for purchases of plant, property and equipment in connection with the construction, repair and maintenance of terminal facilities.

Capital Commitments

As of September 30, 2011, Rizhao Shihua had capital commitments of approximately RMB0.4 million (approximately HK$0.5 million) not provided for in its financial statements, primarily related to contracts in connection with the construction of terminal facilities.

Significant Investments and Material Acquisitions and Disposals

Rizhao Shihua did not make any significant investments or material acquisitions or disposals from June 28, 2010 to September 31, 2011.

Contingent Liabilities and Pledged Assets

As of September 30, 2011 and December 31, 2010, Rizhao Shihua did not have any contingent liabilities or pledged assets.

Trade and Other Receivables

As of September 30, 2011 and December 31, 2010, Rizhao Shihua had trade and other receivables of approximately RMB0.5 million (approximately HK$0.6 million) and approximately RMB30,000 (approximately HK$37,000)), respectively. The increase primarily resulted from Rizhao Shihua's commencing to offer port and logistics services during the nine months ended September 30, 2011. As of September 30, 2011, the amount due from related parties equaled approximately RMB0.4 million (approximately HK$0.5 million), which primarily represented amounts due from certain branch companies of Sinopec Group for port services and logistic services.

Trade and Other Payables

As of September 30, 2011 and December 31, 2010, Rizhao Shihua had trade and other payables of approximately RMB125.6 million (approximately HK$154.1 million) and approximately RMB157.4 million (approximately HK$193.1 million), respectively. The decrease was primarily due to the repayment of amounts related to the construction of the terminal facilities. As of September 30, 2011, the amount due to related parties equaled approximately RMB20.4 million (approximately HK$25.0 million), which primarily represented amounts payable to Rizhao Shihua JV Partner for the purchase of certain facilities.

Inventories

As of September 30, 2011, Rizhao Shihua had inventories of approximately RMB8,000 (approximately HK$10,000). Rizhao Shihua commenced providing port and logistics services in the first quarter of 2011 and did not have inventories as of December 31, 2010.

Exchange Rate Risks

Rizhao Shihua conducts its business primarily in the PRC, where its assets and liabilities are denominated in RMB. As such, the Directors believe that the business of Rizhao Shihua does not face any significant foreign exchange risks.

Employees and emolument policies

As of September 30, 2011, December 31, 2010 and September 30, 2010, Rizhao Shihua had 50, 40 and 40 employees, respectively. Remuneration packages include salaries, annual bonuses, paid annual leave, benefits-in-kind and contributions to defined contribution retirement plans. In accordance with PRC legal requirements, Rizhao Shihua participates in employee social security programs operated by the government, including basic pension insurance, medical insurance, housing funds and other social security programs.

Except for compensation provided to employees in connection with termination of employment, Rizhao Shihua recognizes remuneration payables as liabilities in the accounting period during which an employee render services.

(E) Tangshan Caofeidian Shihua

From April 22, 2011 to September 30, 2011

Business Review

Tangshan Caofeidian Shihua Crude Oil Terminal Company Limited ("Tangshan Caofeidian Shihua") was incorporated in the PRC on April 22, 2011 and commenced operations on such date. Tangshan Caofeidian Shihua principally engages in loading and unloading crude oil mainly for certain branch companies of Sinopec Group. Tangshan Caofeidian Shihua operates one terminal with one berth in Caofeidian, Tangshan, Hebei Province, China. Tangshan Caofeidian Shihua's annual design throughput capacity totalled 20 million tonnes of crude oil as of September 30, 2011.

Tangshan Caofeidian Shihua generated revenue of approximately RMB52.9 million (approximately HK$64.9 million) and profit and total comprehensive income of approximately RMB31.8 million (approximately HK$39.0 million) from April 22, 2011 to September 30, 2011.

Tangshan Caofeidian Shihua had total throughput of 5.1 million tonnes from April 22, 2011 to September 30, 2011.

Capital Structure

As of September 30, 2011, the share capital of Tangshan Caofeidian Shihua was RMB66.7 million (HK$81.8 million). Proceeds from the issue of share capital and operating income provided the main source of capital of Tangshan Caofeidian Shihua. As of September 30, 2011, Tangshan Caofeidian Shihua had no outstanding bank borrowings.

Financial Review

Revenue

Tangshan Caofeidian Shihua generated revenue of approximately RMB52.9 million (approximately HK$64.9 million) from April 22, 2011 to September 30, 2011. Sinopec Group accounted for approximately 95.4% of Tangshan Caofeidian Shihua's revenue from April 22, 2011 to September 30, 2011.

Liquidity and Financial Resources

As of September 30, 2011, Tangshan Caofeidian Shihua had cash and cash equivalents totalling approximately RMB116.4 million (approximately HK$142.8 million) and no outstanding bank borrowings.

Gearing Ratio

As of September 30, 2011, Tangshan Caofeidian Shihua's current ratio (current assets to current liabilities) was 3.5 and gearing ratio (total liabilities to total assets) was approximately 11.7%.

Capital Expenditures

Capital expenditures amounted to approximately RMB1.5 million (approximately HK$1.8 million) from April 22, 2011 to September 30, 2011, primarily for purchases of office equipment and motor vehicles.

Capital Commitments

As of September 30, 2011, Tangshan Caofeidian Shihua did not have any capital commitments not provided for in its financial statements.

Significant Investments and Material Acquisitions and Disposals

Tangshan Caofeidian Shihua did not make any significant investments or material acquisitions or disposals from April 22, 2011 to September 30, 2011.

Contingent Liabilities and Pledged Assets

As of September 30, 2011, Tangshan Caofeidian Shihua did not have any contingent liabilities or pledged assets.

Trade and Other Receivables

As of September 30, 2011, Tangshan Caofeidian Shihua had trade and other receivables of approximately RMB22.3 million (approximately HK$27.3 million). As of September 30, 2011, the amount due from related parties equaled approximately RMB21.4 million (approximately HK$26.3 million), which primarily represented amounts due from certain branch companies of Sinopec Group for port services and logistic services.

Trade and Other Payables

As of September 30, 2011, Tangshan Caofeidian Shihua had trade and other payables of approximately RMB28.5 million (approximately HK$35.0 million). As of September 30, 2011, Tangshan Caofeidian Shihua did not have any amounts due to related parties.

Inventories

As of September 30, 2011, Tangshan Caofeidian Shihua did not have any inventories.

Exchange Rate Risks

Tangshan Caofeidian Shihua conducts its business primarily in the PRC, where its assets and liabilities are denominated in RMB. As such, the Directors believe that the business of Tangshan Caofeidian Shihua does not face any significant foreign exchange risks.

Employees and Emolument Policies

As of September 30, 2011, Tangshan Caofeidian Shihua had 57 employees, 55 of whom were seconded from Sinopec Group. Remuneration packages included salaries, annual bonuses, paid annual leave, in-kind benefits and contributions to defined contribution retirement plans. In accordance with PRC legal requirements, Sinopec Group participates in employee social security programs operated by the government, including basic pension insurance, medical insurance, housing funds and other social security programs.

Except for compensation provided to employees in connection with termination of employment, Tangshan Caofeidian Shihua recognizes remuneration payables as liabilities in the accounting period during which an employee renders services.

FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.sinopec.com.hk):

- interim report of the Company for the six months ended 30 June 2010 dated 18 August 2011 published on 25 August 2011 (pages 9 – 37);
- annual report of the Company for the year ended 31 December 2010 dated 22 March 2011 published on 31 March 2011 (pages 23-86);
- annual report of the Company for the year ended 31 December 2009 dated 19 March 2010 published on 7 April 2010 (pages 21-85); and
- annual report of the Company for the year ended 31 December 2008 dated 20 March 2009 published on 2 April 2009 (pages 21-77).

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

For the six months ended 30 June 2011 compared to the six months ended 30 June 2010

The Group's turnover decreased by approximately 4.8% from approximately HK$10,385.0 million in the first half of 2010 to approximately HK$9,882.5 million in the first half of 2011, and correspondingly the cost of sales decreased by approximately 5.1% from approximately HK$10,239.2 million in the first half of 2010 to approximately HK$9,713.3 million in the first half of 2011. The Group's gross profit increased by approximately 16.1% from approximately HK$145.7 million in the first half of 2010 to approximately HK$169.2 million in the first half of 2011. During the first half of 2011, China Petroleum & Chemical Corporation Guangzhou Branch, the major client of Huade, carried out planned maintenance for its oil refinery facilities, the unloading volume and pipeline transportation volume of Huade experienced a slight reduction. 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. For the first half of 2011, the distribution expenses, administrative expenses, finance costs and income tax were approximately HK$2.9 million, HK$21.4 million, HK$1.4 million and HK$36.6 million respectively. As a result, the Group's net profit increased by approximately 36.7% from approximately HK$95.7 million in the first half of 2010 to approximately HK$130.8 million in the first half of 2011.

For the year ended 31 December 2010 compared to the year ended 31 December 2009

The Group's turnover decreased by approximately 22.0% from approximately HK$21,281.2 million for the year ended 31 December 2009 to approximately HK$16,592.9 million for the year ended 31 December 2010. Such decrease in turnover was due to the Group's business transformation in 2010. In order to focus on the development of the Group's storage business, the Group ceased the trading of processed oil and petrochemical products, which significantly reduced the revenue from the trading of processed oil and petrochemical products. The Group's cost of sales decreased by approximately 22.3% from approximately HK$20,971.8 million for the year ended 31 December 2009 to approximately HK$16,292.1 million for the year ended 31 December 2010. As a result, the Group's gross profit recorded an decrease of approximately 2.8% from approximately HK$309.4 million for the year ended 31 December 2009 to approximately HK$300.8 million for the year ended 31 December 2010. For the year ended 31 December 2010, the distribution expenses, administrative expenses, finance costs and income tax were approximately HK$6.2 million, HK$45.8 million, HK$15.9 million and HK$56.4 million respectively. The Group's net profit slightly decreased by approximately 0.6% from approximately HK$196.8 million for the year ended 31 December 2009 to approximately HK$195.7 million for the year ended 31 December 2010.

For the year ended 31 December 2009 compared to the year ended 31 December 2008

The Group's turnover decreased by approximately 27.5% from approximately HK$29,350.0 million for the year ended 31 December 2008 to approximately HK$21,281.2 million for the year ended 31 December 2009. The decrease in turnover was due to a more significant drop in the average price of crude oil in 2009 as compared with 2008. The average Brent crude oil price was US$61/barrel in 2009 compared with an average price of US$97/barrel in 2008. The Group's cost of sales decreased by approximately 27.6% from approximately HK$28,969.8 million for the year ended 31 December 2008 to approximately HK$20,971.8 million for the year ended 31 December 2009. As a result, the Group's gross profit recorded an decrease of approximately 18.6% from approximately HK$380.1 million for the year ended 31 December 2008 to approximately HK$309.4 million for the year ended 31 December 2009. For the year ended 31 December 2009, the distribution expenses, administrative expenses, finance costs and income tax were approximately HK$5.6 million, HK$30.9 million, HK$30.0 million and HK$51.6 million respectively. The Group's net profit increased by approximately 35.4% from approximately HK$145.3 million for the year ended 31 December 2008 to approximately HK$196.8 million for the year ended 31 December 2009.

Liquidity, Sources of Finance and Gearing

As at 31 December 2008, 2009, 2010 and 30 June 2011, the Group had current assets of approximately HK$2,216.7 million, HK$3,246.3 million, HK$919.3 million and HK$2,775.0 million respectively.

The Group financed its operation primarily from internally generated resources and interest-bearing borrowings from a fellow subsidiary. As at 31 December 2008, 2009, 2010 and 30 June 2011, the Group had cash on hand and bank balances of approximately HK$50.8 million, HK$28.2 million, HK$724.7 million and HK$752.2 million respectively.

The Group's current ratio is calculated based on current assets over current liabilities. As at 31 December 2008, 2009, 2010 and 30 June 2011, the Group's current ratio was approximately 1.03, 1.12, 3.16 and 1.38 respectively.

The Group's gearing ratio is calculated based on total liabilities divided by total assets. As at 31 December 2008, 2009, 2010 and 30 June 2011, the Group's gearing ratio was approximately 0.50, 0.56, 0.10 and 0.43 respectively.

Loan and Borrowings

As at 31 December 2008, 2009, 2010 and 30 June 2011, the Group had the bank borrowings and/or interest-bearing borrowings of approximately HK$1,668.5 million, HK$1,666.0 million, HK$156.0 million and HK$263.9 million, of which all were short-term borrowings. In 2009, the Group repaid all the bank loans and obtained finance for its trading business from its fellow subsidiary, namely Sinopec Century Bright Capital Investment Limited, which offers more competitive borrowings rates.

Credit Policy

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account the information specific to the customer as well as pertaining to the economic environment to which the customer operates. These receivables are due within 30 to 90 days from the date of billing. Generally, debtors with balances that are more than three months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

Exchange Risk

Save for disclosed in the relevant notes to the financial statements as set out in the respective annual report of 2008, 2009 and 2010 and the interim report of 2011, each entity within the Group was not exposed to significant foreign exchange risk.

Contingent Liabilities

As at 31 December 2008, 2009 and 2010, the Directors do not consider it probable that a claim will be made against the company under any of the guarantees. As at 31 December 2008, the Group had contingent liabilities in respect of banking facilities utilised by certain subsidiaries and guaranteed by the Company amounting to approximately HK$990.7 million, while as at 31 December 2009 and 2010, the maximum liability of the company at the end of the corresponding reporting period under the guarantees issued represented the facilities drawn down by the subsidiaries amounting to approximately HK$1,666.0 million and HK$156.0 million respectively.

Employees and Remuneration Policies

As at 31 December 2008, 2009 and 2010 and 30 June 2011, the Group had a total of 176, 187, 188 and 187 employees respectively. Remuneration packages, including basic salaries, bonuses and benefits-in-kind are structured by reference to market terms, trends in human resources costs in various regions and employees' contributions based on performance appraisals. Subject to the profit for the Group and the performance of the employees, the Group may also provide discretionary bonuses to its employees as an incentive for their further contribution.

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., Ltd. during the period. Please refer to the related announcement of the Group dated 30 November 2010 published on the website of the Stock Exchange for details.

Litigation

As at 30 June 2011, the Group had no material pending litigation.

FINANCIAL AND TRADING PROSPECTS

As disclosed in the annual report of the Company for the year ended 31 December 2010, the Group recorded a profit of approximately HK$195.7 million. After the Acquisition, the Enlarged Group will continue its business focusing on the trading of crude oil, petroleum, and petrochemical products, the operation of crude oil jetties and its ancillary facilities. The Directors believe that the Acquisition would widen the income and customer base of the Group and hence would be able to (i) provide synergy effects to the existing principal business activities of the Group; and (ii) impose positive effect on the profit of the Group in the future. The Directors are optimistic about the future prospects of the Group and the Enlarged Group.

INDEBTEDNESS

As at the close of business on 31 October 2011, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding unguaranteed and unsecured borrowings of approximately HK$223,221,000.

As at 31 October 2011, unguaranteed and unsecured loan facilities amounting to approximately HK$3,900,000,000 was provided by a fellow subsidiary.

Save as aforesaid above, at the close of business on 31 October 2011, the Group did not have any outstanding mortgages, charges, debentures or other loan capital or bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptances or acceptances credits or hire purchase commitments, or any guarantees or any contingent liabilities.

The Directors have confirmed that, save as disclosed above, there has not been any material change in the indebtedness and contingent liabilities of the Group since 31 October 2011.

WORKING CAPITAL

The Directors are of the opinion that taking into account cash balances of the Group and in the absence of unforeseen circumstances, the Group has sufficient working capital for its present requirements (for at least the next twelve months from the date of this circular).

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2010 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

The following is the text of a letter with the valuation certificate received from CBRE HK Limited, an independent property valuer, prepared for the purpose of incorporation in the circular in connection with its valuation as at 30 September 2011.

14 December 2011

The Board of Directors
Sinopec Kantons Holdings Limited (the "Company")
20/F, Office Tower, Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value a portfolio of properties in the PRC, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value of such property interests as at 30 September 2011 (the "date of valuation").

Our valuation is our opinion of Market Value which is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Unless otherwise stated, our valuation is prepared in accordance with the "First Edition of The HKIS Valuation Standards on Properties" published by The Hong Kong Institute of Surveyors (the "HKIS"). We have also complied with all the requirements contained in Paragraph 34(2), (3) of Schedule 3 of the Companies Ordinance (Cap. 32), Chapter 5, Chapter 14, Practice Note 12 and Practice Note 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Our valuation has been made on the assumption that the owner sells the properties on the open market without the benefit or burden of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which would serve to affect the values of the property interests.

Unless otherwise stated, all the property interests are valued by the direct comparison method on the assumption that each property can be sold with the benefit of vacant possession. Comparison is based on prices realized on actual transactions or asking prices of comparable properties. Comparable properties with similar sizes, characters and locations are analyzed, and carefully weighted against all respective advantages and disadvantages of each property in order to arrive at a fair comparison of value.

We have valued the property interests on the basis that the property will be or can be developed and completed in accordance with the Group's latest development schemes provided to us. We have assumed that approvals from relevant authorities for such schemes have been obtained. In arriving at our opinion of value, we have adopted the direct comparison approach by making reference to comparable sales evidence as available in the relevant market to arrive at the capital value of the property as if the property were completed at the date of valuation and have also taken into account of the development costs to be spent to reflect the quality of the completed development. The ''capital value of the property as if completed'' represents our opinion of the aggregate selling prices of the property assuming that it would have been completed at the date of valuation.

In valuing the property interests in Group I, which are held by the Enlarged Group in the PRC, we have valued each of these property interests by both the direct comparison approach and the cost approach.

For the property interests in Group II, which are held by the Group in the PRC, we have valued each of these property interests by both the direct comparison approach and the cost approach.

For the property interests in Group III and IV, which are held by the Group in Hong Kong and Macau, we have valued each of these property interests by the direct comparison approach.

For the property interests in Group V, which are to be contributed by Sinopec Corp. to the Enlarged Group in the PRC, we have valued each of these property interests by the direct comparison approach.

For the property interests in Group VI, which are to be acquired by the Enlarged Group in the PRC, we have valued each of these property interests by the direct comparison approach.

In valuing the property interests in Group VII and VIII, which are rented by the Enlarged Group in the PRC and Hong Kong, we considered they have no commercial value primarily due to the prohibition against assignment or sub-letting and/or due to the lack of substantial profit rent.

In the course of our valuation for the property interests in the PRC, we have relied on the legal opinion provided by the Group's PRC legal adviser, Guantao Law Firm (the "PRC Legal Opinion"). We have been provided with extracts from title documents relating to such property interests. We have not, however, searched for the original documents to verify ownership or existence of any amendment which do not appear on the copies handed to us. All documents have been used for reference only.

We have relied to a considerable extent on information given by the Group, in particular, but not limited to, planning approvals, statutory notices, easements, tenancies and floor areas. No on-site measurement has been taken. Dimensions, measurements and areas included in the valuation certificate are only approximations. We have taken every reasonable care in both inspecting the information provided to us and making relevant enquiries. We have no reason to doubt the truth and accuracy of the information provided to us by the Group, which is material to the valuation. We were also advised by the Group that no material facts have been omitted from the information provided to us.

We have inspected the properties to such extent as for the purpose of this valuation. In the course of our inspection, we did not notice any serious defects. However, we have not carried out any structural survey nor any tests were made on the building services. Therefore, we are not able to report whether the properties are free of rot, infestation or any other structural defects. We have not carried out investigations on the site to determine the suitability of the ground conditions and the services etc. for any future development.

No allowance has been made in our valuation neither for any charges, mortgages or mounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoing of an onerous nature which could affect their values.

Unless otherwise stated, all monetary amounts are stated in Renminbi ("RMB").

We enclose herewith our valuation certificate.

Yours faithfully,
For and on behalf of
CBRE HK Limited
Leo MY LO
MHKIS MRICS RPS(GP)
Director
Valuation & Advisory Services
Greater China

Note: Mr. Lo is a member of Royal Institution of Chartered Surveyors and a member of the Hong Kong Institute of Surveyors. He has over 8 years' valuation experience in Hong Kong, the PRC and Asia Pacific Region.

SUMMARY OF VALUES

	Property Interests	Capital Value in existing state as at 30 September 2011 *(RMB)*	Interests to be acquired by the Group	Capital Value to be acquired by the Group as at 30 September 2011 *(RMB)*
Group I – Property interests held by the Enlarged Group in the PRC				
1.	A petrochemical product terminal with various ancillary buildings and structures located at No. 30 Nanjiang Jetty of Tianjin Port, Tianjin City, the PRC	No commercial Value	50%	No commercial Value
2.	An office building, three petrochemical product terminals with various ancillary buildings and structures located at Liugongdao Road, Huangdao District, Qingdao City, Shandong Province, the PRC	No commercial Value	50%	No commercial Value
3.	An office building, two petrochemical product terminals with various ancillary buildings and structures located at Huandao East Road, Daxie Development Zone, Ningbo City, Zhejiang Province, the PRC	282,700,000	50%	141,400,000
4.	A petrochemical product terminal with various ancillary buildings and structures located at Lanshan North Port Area, Rizhao Port, Rizhao City, Shandong Province, the PRC	No commercial Value	50%	No commercial Value

	Property Interests	Capital Value in existing state as at 30 September 2011 *(RMB)*	Interests to be acquired by the Group	Capital Value to be acquired by the Group as at 30 September 2011 *(RMB)*
Group II – Property interests held by the Group in the PRC				
5.	10 parcels of land, various buildings, a petrochemical product terminal with various ancillary buildings and structures located at Youyi Road, Xiashan District, Zhanjiang City, Guangdong Province, the PRC	700,500,000	50%	350,300,000
6.	11 parcels of land, various buildings, two petrochemical product terminal with ancillary buildings and structures located at Huiyang District, Huizhou City, Guangdong Province, the PRC	894,000,000	100%	894,000,000
Group III – Property interests held by the Group in Hong Kong				
7.	Two office units, Room 1607 and 1608, Citicorp Centre, No.18 Whitfield Road, Causeway Bay, Hong Kong	20,300,000	100%	20,300,000
8.	5 residential units, Room 37A, 32B, 24D, 25H, 25G, Sung Fung Court, No. 3 Fook Yum Road, North Point, Hong Kong	32,400,000	100%	32,400,000

	Property Interests	Capital Value in existing state as at 30 September 2011 *(RMB)*	Interests to be acquired by the Group	Capital Value to be acquired by the Group as at 30 September 2011 *(RMB)*
Group IV – Property interests held by the Group in Macau				
9.	4 residential units, Room L1, K1, H1 and G1, Level 1, Building 5, Kee Kwan Sun Chuen, Areia Preta, Macau	5,000,000	100%	5,000,000
Group V – Property interests to be contributed by Sinopec Corp. to the Enlarged Group in the PRC				
10.	A petrochemical product terminal with various ancillary buildings and structures located at Caofeidian Jetty, Tanghai County, Tangshan Port, Tangshan City, Hebei Province, the PRC	No commercial Value	90%	No commercial Value
Group VI – Property interests to be acquired by the Enlarged Group in the PRC				
11.	4 office units, Block 1# and 2#, Ruiwan International Mansion, No.1 Xingang Road, Tanggu District, Tianjin City, the PRC	No commercial Value	50%	No commercial Value

	Property Interests	Capital Value in existing state as at 30 September 2011 *(RMB)*	Interests to be acquired by the Group	Capital Value to be acquired by the Group as at 30 September 2011 *(RMB)*
Group VII – Property interests rented by the Enlarged Group in the PRC				
12.	No.18 Unit 1 Building 4, Ruihai, Caofeidian, Tangshan City, Hebei Province, the PRC	No commercial Value	90%	No commercial Value
13.	West unit, Level 4, Block C, Jindao Plaza, Caofeidian, Tangshan City, Hebei Province, the PRC	No commercial Value	90%	No commercial Value
14.	17 residential units on Level 12 and Room 409, 410 and 411, No.118 Huanghai Yi Road, Rizhao City, Shandong Province, the PRC	No commercial Value	50%	No commercial Value
Group VIII – Property interests rented by the Group in Hong Kong				
15.	20/F Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong	No commercial Value	100%	No commercial Value

Group I -Property interests held by the Enlarged Group in the PRC

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 September 2011 *(RMB)*
1.	A petrochemical product terminal with various ancillary buildings and structures located at No. 30 Nanjiang Jetty of Tianjin Port, Tianjin City, the PRC	The property comprises a petrochemical product terminal and various ancillary structures erected thereon which were completed between 2008 and 2010. The ancillary buildings mainly include an office building and a operation room. The structures mainly include hydraulic dock, auxiliary platform, ramp bridges, onshore pipes, container tools storage rooms, signboards and lamp posts etc.. The following table indicates the breakdown of the gross floor area of the ancillary buildings in the terminal:	The property was occupied by Tianjin Port Shihua for terminal, office and ancillary uses.	No Commercial Value (50% interests to be acquired by the Group: No Commercial Value)

Ancillary buildings	Approximate Gross Floor Area *(sq.m.)*
Operation	64.00
Office	537.85
Total	**601.85**

Notes:

1. Pursuant to three State-owned Sea Use Rights Certificates（國海證061200010號, 國海證061200011號, 國海證061200020號）, the sea use rights which contain the property, with a total sea area of approximately 51.35 ha., has been granted to Tianjin Port Shihua JV Partner, which is the other equity holder besides the Group holding 50% of equity interest in Tianjin Port Shihua for terminal, terminal basin and transportation use and will be expiring between 28 May 2056 and 16 October 2056.

2. Pursuant to the receipt and payment certificate of the sea premium provided by Tianjin Port Shihua, Tianjin Port Shihua has paid off all the sea premium for the relevant sea area between 2008 and 2010.

3. Tianjin Port Shihua has not obtained any State-owned Land Use Rights or Sea Use Rights Certificate(s) of the property as at 30 September 2011. For the purpose of this valuation report, we have ascribed no commercial value to the property as it cannot be freely transferred as at the date of valuation. Had Tianjin Port Shihua obtained the relevant Sea Use Right Ownership Certificate(s) of the property, we would attribute commercial value as to the Depreciated Replacement Cost for the

property but no account onto the land use rights or sea use rights have taken (if any) and the capital value of the property as at 30 September 2011 was in the sum of RMB830,000,000, (50% interests attributable to the Group: RMB415,000,000)

4. We have been provided with a legal opinion on the property prepared by the Group's legal adviser which contains, inter alia, the following information: Tianjin Port Shihua has obtained from the PRC Government all requisite approvals in respect of the construction of the property and is entitled to occupy, use, usufruct of the property save and except to transfer, mortgage or otherwise dispose of the property.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 September 2011 *(RMB)*
2.	An office building, three petrochemical product terminals with various ancillary buildings and structures located in Liugongdao Road, Huangdao District, Qingdao City, Shandong Province, The PRC	The property comprises an office building with a total gross floor area of approximately 6,454sq.m., three petrochemical product terminals with various ancillary buildings and structures erected thereon. The office building was completed in 2010. Three petrochemical product terminals including 21 blocks of 1-4 storey ancillary buildings with a gross floor areas of approximately 3,521sq.m. and various ancillary structures including roads, docks, trestle bridges, ramp bridges, embankments, pontoons and ditches, bounding walls, etc.were completed in 3 phases between 1976 and 2008. Steel truss bridge structural fortification of the petrochemical product terminal (Phase I) is under construction and is expected to be completed in December 2011. The following table indicates the breakdown of the gross floor area of the ancillary buildings:	The property was occupied by Qingdao Shihua for terminal, office and ancillary uses.	No Commercial Value (50% interests to be acquired by the Group: No Commercial Value)

Ancillary buildings	**Approximate Gross Floor Area** *(sq.m.)*
Guardroom	219
Canteen	38
Ancillary	1,892
Workshop	421
Dock office	754
Warehouse	192
Total	**3,516**

Notes:

1. Pursuant to the Petrochemical Product Terminal Sea Use Right Leasing Contract entered into between Qingdao Shihua JV Partner and Qingdao Shihua, the relevant sea use right (國海證053702019, 國海證053702020, 國海證071100018 and 國海證071100019) where contain part of the property including Terminal Phase I, Phase II and Phase III, (pier, ramp embankment, jetty, dock base) located at Huangdao District, Qingdao City, Shandong Province, the PRC was leased to Qingdao Shihua with a term of 18 years commencing from 1 January 2009 at a total annual rent of RMB497,161.5 for Phase I and Phase II and at a lump sum rent of RMB485,550 for the other part of Phase III (reclamation land) with future adjustment in accordance with the national fee standards.

2. Qingdao Shihua has not obtained any State-owned Land Use Rights Certificate(s), Sea Use Rights Certificate(s) or Building Ownership Certificate(s) as at 30 September 2011. For the purpose of this valuation report, we have ascribed no commercial value to the property as it cannot be freely transferred as at the date of valuation. Had Qingdao Shihua obtained the relevant Land Use Rights Certificate(s), Sea Use Right Certificate(s) and Building Ownership Certificate(s) of the property, we would attribute commercial value as to the Depreciated Replacement Cost for the property but no account onto the sea use rights or land use rights have taken (if any) and the capital value of the property as at 30 September 2011 was in the sum of RMB747,200,000, (50% interests attributable to the Group: RMB373,600,000.

3. We have been provided with a legal opinion on the property prepared by the Group's legal adviser which contains, inter alia, the following information:

   a. Qingdao Shihua has obtained from the PRC Government all requisite approvals in respect of the construction of the property;

   b. In terms of three petrochemical product terminals with various ancillary buildings and structures, Qingdao Shihua is entitled to occupy, use, usufruct of the property save and except to transfer, mortgage or otherwise dispose of the property;

   c. In terms of the office building which is erected on a parcel of land which has been allocated to Qingdao Shihua JV Partner, Qingdao Shihua is entitled to occupy, use, usufruct of the property save and except to transfer, mortgage or otherwise dispose of the property.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 September 2011 *(RMB)*
3.	An office building, two petrochemical product terminals with various ancillary buildings and structures located at Huandao East Road, Daxie Development Zone, Ningbo City, Zhejiang Province the PRC	The property comprises an office building, two petrochemical product terminals with various ancillary buildings and structures erected thereon. The office building has a total gross floor area of approximately 4,836.68 sq.m. occupying a site with a total site area of approximately 4,688.13 sq.m. ("the Site") and was under construction and will be completed in 2012. The two petrochemical product terminals includes 3 blocks of ancillary buildings with a gross floor area of approximately 311.23 sq.m. and various structures including docks, levee and watch boxes etc. which were completed in various stages between 2001 and 2011. The Site is held under a State-owned Land Use Rights Certificate for a term expiring on 30 November 2053 for other commercial service use. The following table indicates the breakdown of the gross floor area of the ancillary buildings:	The property was occupied by Ningbo Shihua for terminal, office and ancillary uses.	282,700,000 (50% interests to be acquired by the Group: RMB141,400,000)

Ancillary buildings	Approximate Gross Floor Area *(sq.m.)*
Office	4,836.68
Admin	276.04
Ancillary	35.19
Total	**5,147.91**

Notes:

1. Pursuant to the State-owned Land Use Rights Certificate（甬國用[2011]第120048號）dated 17 August 2011 issued by Ningbo Government, the land use right which contain the office building of the property, with a total site area of approximately 4,688.13 sq.m., has been granted to Ningbo Shihua for other commercial service use and will be expiring on 30 November 2053.

2. Pursuant to the State-owned Sea Use Rights Certificates（國海證071100003號）dated 15 January 2007, the sea use right which contain part of the property, with a total sea area of approximately 35.62 ha., has been granted to Ningbo Shihua for terminal basin use and will be expiring on 15 January 2057.

3. Pursuant to the State-owned Sea Use Rights Certificates（國海證111100066號）dated 19 August 2011, the sea use right which contain part of the property, with a total sea area of approximately 20.8322 ha., has been granted to Ningbo Shihua for terminal pathway, transportation use and will be expiring on 19 August 2061.

4. In the course of our valuation, we have attributed commercial value as to the Depreciated Replacement Cost for the petrochemical product terminal with various buildings and structures but no account onto the Sea Use Rights have taken (if any).

5. We have been provided with a legal opinion on the property prepared by the Group's legal adviser which contains, inter alia, the following information:

   a. Ningbo Shihua has obtained from the PRC Government all requisite approvals in respect of the construction of the property;

   b. In terms of two petrochemical product terminals with various ancillary buildings and structures, Ningbo Shihua is fully entitled to occupy, use, lease, mortgage, transfer or otherwise dispose of the property;

   c. In terms of the office building, pursuant to the relevant State-owned Land Use Rights Certificate, Ningbo Shihua has acquired the land use rights of the land where contain the office building. During the terms of the land use rights, Ningbo Shihua is entitled to occupy, use, lease, mortgage, transfer or otherwise dispose of the land.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 September 2011 *(RMB)*
4.	A petrochemical product terminal with various ancillary buildings and structures located at Lanshan North Port Area Rizhao Port, Rizhao City, Shandong Province, the PRC	The property comprises a petrochemical product terminal with various ancillary buildings and structures erected thereon which were completed in 2010. The petrochemical product terminal includes 3 ancillary buildings with a gross floor area of approximately 671.57sq.m and various structures include docks, levee and bridge etc.. The following table indicates the breakdown of the gross floor area in the petrochemical product terminal:	The property was occupied by Rizhao Shihua for terminal, office and ancillary uses.	No Commercial Value (50% interests to be acquired by the Group: No Commercial Value)

Ancillary buildings	Approximate Gross Floor Area *(sq.m.)*
Power	92.42
Ancillary	24.75
Control	554.4
Total	**671.57**

Notes:

1. Pursuant to Shandong Non-tax Receipt -sea premium (No:11000036400) provided by Rizhao Shihua, Rizhao Shihua has paid off all the sea premium of RMB621,530 for the relevant sea area where contain the property in 2010.

2. Rizhao Shihua has not obtained any State-owned Land Use Rights or Sea Use Rights Certificate(s) as at 30 September 2011. For the purpose of this valuation report, we have ascribed no commercial value to the property as it cannot be freely transferred as at the date of valuation. Had Rizhao Shihua obtained the relevant Land Use Rights Certificate(s) and Sea Use Right Ownership Certificate(s) of the property, we would attribute commercial value as to the Depreciated Replacement Cost for the property but no account onto the land use rights or sea use rights have taken (if any). The capital value of the property as at 30 September 2011 was in the sum of RMB850,500,000, (50% interests attributable to the Group: RMB425,300,000).

3. We have been provided with a legal opinion on the property prepared by the Group's legal adviser which contains, inter alia, the following information that Rizhao Shihua has obtained from the PRC Government all requisite approvals in respect of the construction of the property and is entitled to occupy, use, usufruct of the property save and except to transfer, mortgage or otherwise dispose of the property.

Group II – Property interests held by the Group in the PRC

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 September 2011 *(RMB)*
5.	10 parcels of land, various buildings, a petrochemical product terminal and ancillary structures located at Youyi Road, Xiashan District, Zhanjiang City, Guangdong Province the PRC	The property comprises 10 parcels of land with a total site area of approximately 474,460.8 sq.m. and various buildings and ancillary structures erected thereon which were completed in various stages between 1963 and 2003. The buildings have a total gross floor area of approximately 18,806.42 sq.m. The structures mainly comprise roads, fire service tanks, gate and etc. The petrochemical product terminal including ancillary control room and machine room was completed in between 1975 and 2009. The land use rights of the property have been granted for a term with expiry dates between 30 September 2050 and 3 September 2057 for industrial, terminal pathway, transportation, storage and fire service uses.	The property is currently occupied by Zhan Jiang Port Petrochemical Terminal Co. for terminal, office and ancillary uses.	700,500,000 (50% interests attributable to the Group: RMB350,300,000)

Notes:

1. Pursuant to 10 State-owned Land Use Rights Certificates (Zhan Guo Yong (2009) Di No. 10046 and Zhan Guo Yong (2010) Nos. 00587, 00588, 00589, 00590, 00591, 00592, 00593, 00594, and 00595), the land use rights of 10 parcel of land with a total site area of approximately 474,460.8 sq.m. have been granted to Zhan Jiang Port Petrochemical Terminal Co. for various terms expiring between 30 September 2050 and 3 September 2057 for industrial use, terminal pathway, transportation pathway, transportation, storage and fire service uses.

2. Pursuant to 3 State-owned Sea Use Rights Certificates（國海證04440803001號, 國海證094408002S號 and 國海證094408003S號）issued by Zhanjiang Government, the sea use rights which contain the property, with a total area of approximately 112.429 ha., have been granted to Zhan Jiang Port Petrochemical Terminal Co. for terminal, terminal basin and transportation, terminal structures use and will be expiring between 1 March 2014 and 31 October 2057.

3. Pursuant to 70 Building Ownership Certificates（粵房地證字第 C0442872, C0442829, C0442847, C0442806, C0442811, C0442807, C0442808, C0442810, C0442812, C0442858, C0442902, C0442850, C0442864, C0442890, C0442889, C0442887, C0442801, C0442841, C0442877, C0442878, C0442821, C0442885, C0442882, C0442903, C0442818, C0442874, C0442819, C0442857, C0442881, C0442870, C0442873, C0442900, C0442805, C0442803, C0442826, C0461129, C0442842, C0442843, C0442892, C0442880, C0442879, C0442804, C0442869, C0442831, C0442833, C0442832, C0442853, C0442834, C0442840, C0442827, C0442851, C0442876, C0442905, C0442852, C0442866, C0442867, C0442823, C0442896, C0442830,

C0442862, C0442820, C0442898, C0442897, C0442895, C0442891, C0442868, C0442871 and C0442888, 粵房地權證湛江 CQ 字第 0100031582 and 0100031583) with a total gross floor area of approximately 15,111.04 sq.m. are held by Zhan Jiang Port Petrochemical Terminal Co..

4. In the course of our valuation, we have attributed commercial value as to the Depreciated Replacement Cost for the petrochemical product terminal but no account onto the sea use rights has taken (if any).

5. We have been provided with a legal opinion on the property prepared by the Group's legal adviser which contains, inter alia, the following information that Zhan Jiang Port Petrochemical Terminal Co. has obtained from the PRC Government all requisite approvals in respect of the construction of the property and is entitled to occupy, use, mortgage, transfer, mortgage or otherwise dispose of the property.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 September 2011 *(RMB)*
6.	11 parcels of land, various buildings, two petrochemical product terminals with ancillary buildings and structures located at Huiyang District, Huizhou City, Guangdong Province the PRC	The property comprises 11 parcels of land with a total site area of approximately 927,579.52 sq.m., various buildings with a total gross floor area of approximately 14,983.33 sq.m., and an office building with a total gross floor area of approximately 2,594.96 sq.m. and two petrochemical product terminals with various ancillary buildings and structures erected thereon which were completed in 1997. The office building was under construction and will be completed in 2012. The petrochemical product terminal with various ancillary buildings and structures mainly comprises docks, levee and operation rooms, equipment rooms, pools, gate, bounding walls, etc. The land use rights of the property have been granted for various terms expiring between 20 March 2045 and 22 January 2053 for storage, petroleum transmission pipeline and way station, pressurization station, commercial and residential uses.	The property was currently occupied by Huade for terminal, warehouse, office, staff dormitory and ancillary uses.	894,000,000 (100% interests attributable to the Group: RMB894,000,000)

Notes:

1. Pursuant to 11 State-owned Land Use Rights Certificates（惠灣國用(2003)第13210300102, 惠灣國用(2002)字第13210300277號, 惠陽國用(98)字第13212200001號, 博府國用(97)字第0100318, 增國用(1996)字第01250400040號, 增國用(1997)字第01250500006號, 增國用(1997)字第01250200116號, 增國用(1997)字第01251500002號, 增國用(1997)字第01250300029號, 增國用(1996)字第01251400084號, 惠灣國用(2007)字第13210300256號）, the land use rights of 11 parcel of land with a total site area of approximately 927,579.52 sq.m. have been granted to Huade for various terms expiring between 2 March 2046 and 22 January 2053 for storage, petroleum transmission pipeline and way station, pressurization station, commercial and residential uses.

2. Pursuant to 2 State-owned Land Other Rights Certificates（惠府他項(1998)字第00010號 and 惠灣國用(2007）字第13210300256號）, the land use rights with a total site area of approximately 78,165sq.m. has been rented by Huade with the latest expiring date on 30 April 2048.

3. Pursuant to 5 State-owned Sea Use Rights Certificates（惠陽府海證(1999)第0701號, 惠陽府海證(1999)第0702號, 國海證091100018, 國海證114413001S, 粵府海證(1999)第102號）dated between 15 January 1999 and 9 March 2011, the sea use rights which contain the property, with a total area of approximately 257.214 ha., have been granted to Huade for terminal, terminal basin and transportation, terminal structures use with the latest expiring date on 23 June 2059.

4. Pursuant to 18 Building Ownership Certificates (粵房地證字第0414611, 0414612, 0414613, 0414614, 0414615, 0414616, 0414617, 0414618, 0414619, C3814572, 1110027651, 1110027646, 1110027652, 1110027644, 1110027645, 1110027647, 1110027648, 1110027643) with a total gross floor area of approximately 14,983.33 sq.m. are held by Huade for warehouses, fire water and protection, power, office, and residential uses.

5. In the course of our valuation, we have attributed commercial value as to the Depreciated Replacement Cost for petrochemical product terminal with ancillary buildings and structures of the property but no account onto the sea use rights have taken (if any).

6. We have been provided with a legal opinion on the property prepared by the Group's legal adviser which contains, inter alia, the following information:

   a. Huade has obtained from the PRC Government all requisite approvals in respect of the construction of the property;

   b. In terms of the ancillary structures erected upon the above-mentioned rented land, Huade is entitled to occupy, use and usufruct save and except to mortgage, transfer and otherwise dispose of this property;

   c. In terms of the other portions of the property, Huade is fully entitled to occupy, use, mortgage, transfer and otherwise dispose of this property.

Group III – Property interests held by the Group in Hong Kong

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 September 2011 *(RMB)*
7.	Two office units, Room 1607 and 1608, Citicorp Centre, No.18 Whitfield Road, Causeway Bay, Hong Kong	The property comprises a office unit with a total saleable floor area of approximately 243 sq.m. (2,619 sq.ft.). The property is held under Government Lease for a term of 75 years renewable for 75 years commencing from 21 March 1904.	The property was currently vacant as at the date of valuation.	20,300,000 (100% interests attributable to the Group: 20,300,000)

Note:

Pursuant to Hong Kong Title Registration, the property is held by Sinomart KTS Development Limited vide Memorial Nos. UB8246565 and UB6184172 dated 25 October 2000 and 1 December 1994 respectively.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 September 2011 *(RMB)*
8.	5 residential units, Room37 A,32 B, 24D, 25H,25G, Sung Fung Court, No.3 Fook Yum Road, North Point, Hong Kong	The property comprises 5 residential units with a total saleable area of approximately 369.35 sq.m.(3,975.66sq.ft.) located at a 40-storey residential tower erected over a retail podium which was completed in 1998. The property is held under three Government Lease for a term of 999 years commencing from 24 February 1896 and one Government Leases for a term of 75 years renewable for 75 years commencing from 31 August 1978.	The property was occupied by the Group for staff dormitory use.	32,400,000 (100% interests attributable to the Group: 32,400,000)

Note:

Pursuant to Hong Kong Title Registration, the property is held by Sinomart KTS Development Limited at a consideration of HK$5,350,000 vide memorial no. UB7908276 dated 7 October 1999.

Group IV – Property interests held by the Group in Macau

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 September 2011 *(RMB)*
9.	4 residential units, Room L1, K1, H1 and G1, Level 1, Building 5, Kee Kwan Sun Chuen, Areia Preta Macau	The property comprises a office unit with a total gross floor area of approximately 220.74 sq.m.(2,376.05 sq.ft.).	The property was leased to Ansheng Enterprise Limited at a monthly rental of HK$ 8,000 from 1 January 2011 to 31 December 2011.	5,000,000 (100% interests attributable to the Group: 5,000,000)

Note:

Pursuant to the Real Estate Ownership Certificate No. 4489S de 1111196 issued by Macau Property Registration Bureau dated 17 October 1996, the property with a total gross floor area of 220.74 sq.m. is held by Sinomart KTS Development Limited.

Group V – Property interests to be contributed by Sinopec Corp. to the Enlarged Group in the PRC

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 September 2011 *(RMB)*
10.	A petrochemical product terminal with various ancillary buildings structures located at Caofeidian Jetty, Tanghai County, Tangshan Port, Tangshan City, Hebei Province, The PRC	The property comprises a petrochemical product terminal with various ancillary buildings and structures erected thereon which were completed in 2008. The petrochemical product terminal includes an administrative building with a total gross floor area of approximately 494.06sq.m. and the structures include ramp bridge and terminal path, etc.	The property was occupied by Tangshan Caofeidian Shihua for terminal, office and ancillary uses.	No Commercial Value (90% interests to be acquired by the Group: No Commercial Value)

Notes:

1. Pursuant to Tangshan Caofeidian Shihua Joint Venture Contract entered into between Sinopec Corp. and Tangshan Caofeidian Shihua JV Partner dated 21 October 2010, Sinopec Corp. agreed to contribute 90% of the equity interest in real assets that is the crude oil terminal in Caofeidian of RMB200,650,000 and in cash of RMB60,000,000 while Tangshan Caofeidian Shihua JV Partner agreed to contribute the other 10% of equity interest in the same amount cash of 10% of the total joint capital.

2. Tangshan Caofeidian Shihua has not obtained any Sea Use Rights Certificate(s) as at 30 September 2011. For the purpose of this valuation report, we have ascribed no commercial value to the property as it cannot be freely transferred as at the date of valuation. Had Tangshan Caofeidian Shihua obtained the relevant Sea Use Rights Certificate(s) of the property, we would attribute commercial value as to the Depreciated Replacement Cost for the property but no account onto the sea use rights have taken (if any). The capital value of the property as at 30 September 2011 was in the sum of RMB196,100,000, (90% interests attributable to the Group: RMB176,500,000).

3. We have been provided with a legal opinion on the property prepared by the Group's legal adviser which contains, inter alia, the following information:

   a. The joint venture contract entered into between two parties is legal, valid and legally binding on both parties;

   b. Tangshan Caofeidian Shihua has obtained from the PRC Government all requisite approvals in respect to setting up the joint venture;

   c. Tangshan Caofeidian Shihua has obtained the consent from Sinopec Corp. by act to occupy, use and usufruct of the property according to Tangshan Caofeidian Shihua Joint Venture Contract and is entitled to occupy, use and usufruct of the property save and except to mortgage, transfer and other dispose of the property as at the date of valuation.

Group VI – Property interests to be acquired by the Enlarged Group in the PRC

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 September 2011 *(RMB)*
11.	4 office units located at Block 1# and 2#, Ruiwan International Mansion, No.1 Xingang Road, Tanggu District Tianjin City, the PRC	The property comprises 4 office units with a total gross floor area of approximately 537.85sq.m..	The property was currently vacant.	No Commercial Value (50% interests to be acquired by the Enlarged Group: No Commercial Value)

Notes:

1. Pursuant to 4 Tianjin Commercial Housing Sales Contracts (2009-0075115, 2009-0075116, 2009-0075117, 2009-0075118), 4 office units with a total gross floor area of 537.85sq.m. was contracted to be sold to 天津港實華原油碼頭有限公司 at a total consideration of RMB7,324,675.

2. 天津港實華原油碼頭有限公司 has not obtained any Building Ownership Certificates of the property as at 30 September 2011. For the purpose of this valuation report, we have ascribed no commercial value to the property as it cannot be freely transferred as at the date of valuation. Had 天津港實華原油碼頭有限公司 obtained the relevant Building Ownership Certificate(s) of the property, the capital value of the property as at 30 September 2011 was in the sum of RMB8,000,000 (50% interests attributable to the Group: RMB4,000,000).

3. We have been provided with a legal opinion on the property prepared by the Group's legal adviser which contains, inter alia, the following information:

   a. The sales contract entered into between two parties is legal, valid and legally binding on both parties;

   b. As the property has not been delivered, 天津港實華原油碼頭有限公司 has not obtained the relevant Building Ownership Certificates of the property and is not entitled to the ownership of the property.

Group VII – Property interests rented by the Enlarged Group in the PRC

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 September 2011 *(RMB)*
12.	No.18 Unit 1 Building 4, Ruihai, Caofeidian Tangshan City, Hebei Province, the PRC	The property comprises a residential unit with a total gross floor area of approximately 2,864.6 sq.m.. The property was currently rented by Tangshan Caofeidian Shihua at a monthly rent of RMB73,047 from 15 June 2011 to 14 June 2012.	The property was leased by the Tangshan Caofeidian Shihua for staff dormitory use.	No Commercial Value (90% interests to be acquired by the Group: No Commercial Value)

Notes:

1. Pursuant to the Property Leasing Contract entered into between 唐山曹妃甸築城物業服務有限公司 and Tangshan Caofeidian Shihua (Contract No.TCSH-2011-2-001), the property use right of the property with gross floor area of approximately 2,864.6 sq.m. located at No.18 Unit 1 Building 4, Ruihai, Caofeidian Tangshan City, Hebei Province, the PRC was leased to Tangshan Caofeidian Shihua commencing from 15 June 2011 to 14 June 2012 at a monthly rent of RMB73,047.

2. We have been provided with a legal opinion on the property prepared by the Group's legal adviser which contains, inter alia, the following information that Tangshan Caofeidian Shihua is entitled to use, occupy and usufruct of the property within the leasing term.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 September 2011 *(RMB)*
13.	West unit, Level 4, Block C, Jindao Plaza, Caofeidian, Tangshan City, Hebei Province, The PRC	The property comprises a office unit with a total gross floor area of approximately 1,360 sq.m.. The property was currently rented by Tangshan Caofeidian Shihua at an annual rent of RMB1,489,200 exclusive of management fee commencing from 5 August 2011 to 4 November 2014.	The property was rented by the Tangshan Caofeidian Shihua for office use.	No Commercial Value (90% interests to be acquired by the Group: No Commercial Value)

Notes:

1. Pursuant to the Property Leasing Contract entered into between 國開曹妃甸投資有限責任公司 and Tangshan Caofeidian Shihua (Contract No.TCSH-2011-Z-002), the property use rights of the property with gross floor area of approximately 1,360 sq.m. located at Level 4, Block C, Jindao Plaza, Caofeidian, Tangshan City, Hebei Province, the PRC was leased to Tangshan Caofeidian Shihua commencing from 5 August 2011 to 4 November 2014 at a monthly rent of RMB1,489,200 exclusive of management fee.

2. We have been provided with a legal opinion on the property prepared by the Group's legal adviser which contains, inter alia, the following information that Tangshan Caofeidian Shihua is entitled to use, occupy and usufruct of the property within the leasing term.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 September 2011 *(RMB)*
14.	17 residential units on Level 12 and Room 409, 410 and 411 located at No.118 Huanghai Yi Road, Rizhao City, Shandong Province, The PRC	The property comprises 17 residential units on Level 12 and Room 409, 410 and 411. The property was currently rented by Rizhao Shihua at an annual rent of RMB173,400 commencing from 1 September 2011 to 31 August 2012.	The property was rented by the Rizhao Shihua for residential use.	No Commercial Value (50% interests to be acquired by the Group: No Commercial Value)

Notes:

1. Pursuant to the Property Leasing Contract entered into between 日照港物業有限公司青年公寓 and Rizhao Shihua dated 1 September 2011, the property use right of the property located at Youth Apartment, No.118 Huanghai Yi Road, Rizhao City, Shandong Province, the PRC was leased to Rizhao Shihua commencing from 1 September 2011 to 31 August 2012 at an annual rent of RMB173,400.

2. We have been provided with a legal opinion on the property prepared by the Group's legal adviser which contains, inter alia, the following information that Rizhao Shihua is entitled to use, occupy and usufruct of the property within the leasing term.

Group VIII – Property interests rented by the Group in Hong Kong

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 September 2011 *(RMB)*
15.	20/F Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong	The property comprises an office unit located at level 20 of Convention Plaza with a total saleable area of approximately 344sq.m.(3,710sq.ft.). The property was currently rented by the Company at a monthly rent of HK$164,800.	The property was rented by the Company for office use.	No Commercial Value (100% interests attributable to the Group: No Commercial Value)

Note:

Pursuant to the Property Leasing Contract entered into between Unipec Asia Company Limited and the Company dated 1 August 2011, the property was leased to the Company commencing from 1 August 2011 to 31 July 2014 at a monthly rent of HK$164,800.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading. App 1-B(2)

2. SHARE CAPITAL App 1-B(22)

Set out below are the authorised and issued share capital of the Company: (i) as at the Latest Practicable Date and; (ii) upon completion of the proposed Right Issue and Increase in Authorised Share Capital.

(i) as at the Latest Practicable Date

Authorised share capital		*HK$*
3,000,000,000	Shares	300,000,000
Issued and fully paid up share capital		*HK$*
1,036,830,000	Shares	103,683,000

(ii) upon completion of the proposed Rights Issue (on the basis of one (1) Rights Share for every one (1) existing Share) and assuming that there is no change in issued share capital for the period between the Latest Practicable Date and the Record Date and Increase in Authorised Share Capital

Authorised share capital		*HK$*
10,000,000,000	Shares	1,000,000,000
Issued and fully paid up share capital		*HK$*
1,036,830,000	Share in issue as at the Latest Practicable Date	103,683,000
1,036,830,000	Rights Shares to be issued pursuant to the proposed Rights Issue	103,683,000
2,073,660,000	Share in issue following completion of the proposed Rights Issue	207,366,000

All the issued Shares rank *pari passu* in all respects as regards dividends, voting rights and return of capital.

No part of the share capital of the Company has been listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed for the Shares to be listed or dealt in on any other stock exchange. App 1-B(9)

3. DIRECTORS' INTERESTS

Directors' Interests and Short Positions

As at the Latest Practicable Date, none of the Directors, nor their associates, had any interest and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance Cap.571 (the "**SFO**")) which were required to be notified to the Company and the Stock Exchange pursuant to section 341 of the SFO (including interests which they are deemed or taken to have under section 344 of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in appendix 10 of the Listing Rules to be notified to the Company and the Stock Exchange or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein. As at the Latest Practicable Date, Mr. Dai Zhao Ming, Mr. Zhu Zeng Qing, Mr. Zhu Jian Min, Mr. Tan Ke Fei, Mr. Zhou Feng and Mr. Ye Zhi Jun, being the executive Directors, are also directors of SKI. App I-B(34) App I-B38(1)

Directors' Interest in Any Asset Acquired, Disposed or Leased

None of the Directors has any material interest, directly or indirectly, in any asset which, since 30 September 2011, being the date to which the latest audited consolidated financial statements of the Group have been made up, had been acquired or disposed of by or leased to any member of the Group or was proposed to be acquired or disposed of by or leased to any member of the Group. App I-B(40(1))

Directors' Service Contracts

As at the Latest Practicable Date, none of the Directors has or is proposed to have a service contract with the Group which does not expire or which is not determinable by the Group within one (1) year without payment of compensation other than statutory compensation. App I-B(40)(2) R14.66(7) App 1-B(39)

Directors' Interest in Contracts and Arrangements

There was no contract or arrangement subsisting as at the date of this circular in which any Director was materially interested and which was significant in relation to any business of the Group. App I-B PartI 40(2)

4. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

So far as the Directors are aware, as at the Latest Practicable Date, Shareholders holding five (5) per cent. or more or a short position of 1% or more of the Company's relevant share capital as recorded in the register of interests in shares and short position maintained by the Company and their reported interests pursuant to provisions of section 336 of the SFO are as follows:

Name of interested party	Number of Shares	Percentage of Shareholding *(%)*
SKI *(Note 1)*	750,000,000	72.34

Note 1: The entire share capital of SKI is held by Unipec. Unipec is a wholly owned subsidiary of Sinopec Corp. which is a subsidiary of Sinopec Group Company.

5. LITIGATION

As at the Latest Practicable Date, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries. App I-B(33)

6. EXPERTS AND CONSENTS

The following are the qualifications of the experts that have given opinion or advice, which are contained in this circular: App I-B(5(1))

Name	Qualification
KPMG	Certified public accountants
Somerley Limited	Independent financial adviser, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
Guantao Law Firm	PRC legal adviser
CBRE HK Limited	Independent Property Valuers

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its reports or letters and references to its name, in the form and context in which they appear. App I-B(5(2))

As at the Latest Practicable Date, none of the above experts had any direct or indirect interest in the share capital of any member of the Group nor do they have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor does it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Group were made up acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. COMPETING INTEREST

Mr. Dai Zhaoming, Mr. Zhu Zengqing, Mr. Zhu Jianmin, Mr. Tan Ke Fei, Mr. Zhou Feng and Mr. Ye Zhi Jun, being executive Directors of the Company, are also directors of Sinopec Kantons International Limited, an immediate controlling shareholder of the Company.

As at the Latest Practicable Date, none of the Directors and their respective associates had any interest, directly or indirectly, in a business which competes or may compete with the business of the Group. R14.66(8)

8. MATERIAL CONTRACTS

Save as disclosed below, there are no material contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Group within 2 years preceding the Latest Practicable Date: App I-B(42)

(a) Acquisition Agreements;

(b) equity transfer agreement dated 27 May 2011 entered into between Zhan Jiang Port (Group) Co., Ltd. as vendor and Sinomart Development as purchaser in connection with the transfer of 50% of equity interests in Zhan Jiang Port Petrochemical Jetty Co; and

(c) financial memorandum dated 27 May 2011 entered into between Zhan Jiang Port (Group) Co., Ltd. and Sinomart Development and supplemental to the equity transfer agreement stated in (b) above.

9. MISCELLANEOUS

(a) The joint secretaries of the Company are Mr. Li Wen Ping and Mr. Lai Yang Chau, Eugene (practicing solicitor). App I-B(35)

(b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the principal place of business of the Company in Hong Kong is at 20/F., Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong. App I-B(36)

(c) The Hong Kong Branch Share Registrar and Transfer Office of the Company is Tricor Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(d) The English text of this circular prevails over its Chinese translation in the case of discrepancy.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents of the Company will be available for inspection at the office of Lister, Lo, Lui & Choy (solicitors in association with Edwards Wildman Palmer LLP), at 2703, 27/F., The Center, 99 Queen's Road Central, Hong Kong during normal business hours from the date of this circular up to and including 31 December 2011:

(a) each of the material contracts as referred to in the paragraph headed "Material Contracts" in this Appendix;

(b) the memorandum of association and bye-laws of the Company;

(c) the Company's annual reports for the three years ended 31 December 2010;

(d) the Company's interim report for the six months ended 30 June 2011;

(e) the letter of advice prepared by Somerley as set out on pages 37 to 87 in this circular;

(f) the letter of independent board committee as set out on pages 35 to 36 in this circular;

(g) report on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix I to this circular;

(h) accountant's reports on the financial information on the Five Joint Ventures as set out in Appendix II to this circular;

(i) valuation report as set out in Appendix V to this circular;

(j) the legal opinion prepared by Guantao Law Firm in respect of the property interests of the Group in the PRC;

(k) letters of consent from KPMG, Somerley, Guantao Law Firm and CBRE HK Limited referred to under "Experts and Consents" in this Appendix; and

(l) this circular.

SINOPEC KANTONS HOLDINGS LIMITED

(中石化冠德控股有限公司) *

(incorporated in Bermuda with limited liability)

(Stock Code: 934)

NOTICE IS HEREBY GIVEN that a special general meeting ("Meeting") of the shareholders ("Shareholders") of Sinopec Kantons Holdings Limited (the "Company") will be held at Boardroom 3-4, Mezzanine Floor, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on Saturday, 31 December 2011 at 10:00 a.m. and at any adjournment thereof to consider and, if thought fit, pass (with or without amendments) the following resolutions:

ORDINARY RESOLUTIONS

1. "**THAT** each of the five acquisition agreements dated 3 December 2011 entered into between (i) Sinopec Corp., the controlling shareholder of the Company, as vendor, and (ii) Sinomart KTS Development Limited, a wholly-owned subsidiary of the Company as purchaser in relation to the sale and purchase of (1) 50% of equity interest in 寧波實華原油碼頭有限公司 (Ningbo Shihua Crude Oil Terminal Company Limited*) at the consideration of RMB173,284,700 (approximately HK$212,619,264 *(Note 1)*); (2) 50% of equity interest in 青島實華原油碼頭有限公司 (Qingdao Shihua Crude Oil Terminal Company Limited*) at the consideration of RMB585,797,600 (approximately HK$718,770,061 *(Note 1)*); (3) 50% of equity interest in 天津港實華原油碼頭有限公司 (Tianjin Port Shihua Crude Oil Terminal Company Limited*) at the consideration of RMB349,546,800 (approximately HK$428,891,779 *(Note 1)*); (4) 50% of equity interest in 日照實華原油碼頭有限公司 (Rizhao Shihua Crude Oil Terminal Company Limited*) at the consideration of RMB427,809,300 (approximately HK$524,993,006 *(Note 1)*); and (5) 90% of equity interest in 唐山曹妃甸實華原油碼頭有限公司 (Tangshan Caofeidian Shihua Crude Oil Terminal Company Limited*) at a consideration of RMB273,308,900 (approximately HK$335,348,344 *(Note 1)*) (collectively the "Acquisition" or "Acquisition Agreements") at the total consideration of RMB1,809,807,300 (approximately HK$2,220,622,454), copies of which have been produced at the Meeting marked "A" and signed by the chairman of the Meeting for identification purpose, with particulars described in the Circular dated 14 December 2011 (the "Circular") despatched by the Company to the Shareholders (a copy of which has been produced at the Meeting marked "B" and signed by the chairman of the Meeting for the purpose of identification) be and is hereby approved, confirmed and ratified, and **THAT** all the transactions contemplated under the Acquisition Agreements be and are hereby approved, confirmed and ratified, and **THAT** any director of the Company (the "Directors") be and is hereby authorised to do such

* *For identification purpose only*

acts and execute such other documents with or without amendments and affix the common seal of the Company thereto (if required) as he may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the Acquisition."

2. "**That** subject to the fulfillment of the conditions in respect of the proposed Rights Issue as set out in the Circular, the issue by way of rights of the ordinary shares of HK$0.10 each in the capital of the Company (the "Rights Shares"), on the following structure and terms, be and is hereby approved:

(i) Type and nominal value of the Rights Shares *(Note 2)*

(ii) Proportion and number of the Rights Shares to be issued *(Note 3)*

(iii) Subscription Price for the Rights Shares *(Note 4)*

(iv) Target subscribers for the proposed Rights Issue *(Note 5)*

(v) Use of proceeds *(Note 6)*

(vi) Authorisation for the proposed Rights Issue *(Note 7)*."

"3. "**THAT**

(A) subject to the completion of the proposed Rights Issue (as set out in Resolution 2 above), and the following provisions of this Resolution 3, the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to allot, issue, grant, distribute or otherwise deal with additional shares of the Company, and to make, issue or grant offers, agreements or options (including warrants, bonds, debentures, or any other securities which carry rights to subscribe for or are convertible into Shares) which will or might require Shares to be allotted, issued, granted, distributed or otherwise dealt with subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;

(B) the approval in sub-paragraph (A) of this Resolution 3 shall authorise the Directors during the Relevant Period to make, issue or grant offers, agreements, or options (including warrants, bonds, debentures, or any other securities which carry rights to subscribe for or are convertible into Shares) which will or might require the exercise of such powers after the end of the Relevant Period;

(C) the aggregate nominal amount of share capital allotted, issued, granted, distributed or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued, granted, distributed or otherwise dealt with (whether pursuant to an option, conversion or otherwise) by the Directors pursuant to the approval in this Resolution 3, otherwise than pursuant to:

(i) a rights issue; or

(ii) any issue of Shares as scrip dividends or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares pursuant to the memorandum of association and bye-laws of the Company from time to time,

shall not exceed the aggregate of:

(a) twenty per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of completion of the proposed Rights Issue (as set out in Resolution 2 above); and

(b) (as if the Directors are so authorised by a separate resolution of the shareholders of the Company) the aggregate nominal amount of share capital of the Company purchased by the Company subsequent to the passing of this Resolution 3 (up to a maximum equivalent to ten per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of completion of the proposed Rights Issue (as set out in Resolution 2 above)), and the said approval shall be limited accordingly;

(D) subject to the said passing of this Resolution 3, any prior approvals of the kind referred to in this Resolution 3 which had been granted to the Directors and which are still in effect be and are hereby revoked; and

(E) for the purposes of this Resolution 3:

(i) "Relevant Period" means the period from (and including) the date of completion of the Rights Issue (as set out in Resolution 2 above) until the earlier of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by Bermuda law or the Company's bye-laws to be held;

(c) the date on which the authority given under this Resolution 3 is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting; and

(ii) "rights issue" means an offer of Shares open for a period fixed by the Directors to holders of Shares on the register of members on a fixed record date in proportion to their then holdings of such Shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any legal or practical restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any jurisdiction or territory applicable to the Company); and

(iii) "Shares" means shares of all classes in the capital of the Company and warrants and other securities which carry a right to subscribe or purchase shares in the Company."

"4. **THAT** (a) the authorised share capital of the Company be increased from HK$300,000,000 (divided into 3,000,000,000 ordinary shares of HK$0.10 each) to HK$1,000,000,000 (divided into 10,000,000,000 ordinary shares of HK$0.10 each) by the creation of 7,000,000,000 new ordinary shares of HK$0.10 each (the "Increase in Authorised Share Capital") ; and (b) **THAT** any Director be and is hereby authorised for and on behalf of the Company to do all such acts and execute all such documents with or without amendments as they may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with the matters contemplated in and for completion of the Increase in Authorised Share Capital."

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

Hong Kong, 14 December 2011

Principal office in Hong Kong:
20th Floor, Office Tower
Convention Plaza
1 Harbour Road, Wanchai
Hong Kong

Notes:

1. In this notice, unless otherwise stated amounts in RMB have been converted into Hong Kong dollars at the rate of HK$1 : RMB$0.815 for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be converted.

2. For further details, please refer to the Circular. Type and nominal value of the Rights Shares to be issued will be the Shares (as defined in the Circular).

3. For further details, please refer to the Circular. Proportion and number of the Rights Shares to be issued will be up to one (1) Rights Share for one (1) existing Share of the Company in issue as at the Record Date (as defined in the Circular). The number of Rights Shares will be subject to final determination by the Board or any other person(s) authorized by the Board in consultation with the Underwriter(s), having regard to the market conditions and pursuant to the authorization of the Meeting.

4. For further details, please refer to the Circular. The Subscription Price (as defined in the Circular) shall be determined by the Board or any other person(s) authorised by the Board in consultation with the underwriter(s) (with reference to the market trading price, having regard to the prevailing market

conditions, including but not limited to, the trading price of the Shares before the publication of a further announcement regarding the proposed Rights Issue and pursuant to the authorisation of the Meeting). As at the Latest Practicable Date (as defined in the Circular), the closing price of the Shares is HK$4.78.

5. For further details, please refer to the Circular. The target subscribers of the Shares to be offered in the proposed Rights Issue (as defined in the Circular) shall be the Qualifying Shareholders (as defined in the Circular) whose names appear on the register of members of the Company on the Record Date (as defined in the Circular).

6. For further details, please refer to paragraph headed "III. The Proposed Rights Issue" as set out in the Circular.

7. The resolution approving the proposed Rights Issue will be valid until 30 April 2012 (i.e. the proposed Rights Issue will need to be completed on or before 30 April 2012). To ensure the smooth implementation of the proposed Rights Issue, the Board shall be authorised, and will designate a board committee set up for this purpose, to handle matters with full discretion regarding the proposed Rights Issue in accordance with the framework and principles approved at the Meeting. The scope of and matters covered under such authorisation include but are not limited to the following:

    (i) to complete such procedures as examination and approval, registration, filing, obtaining clearance and consents with or from the relevant regulatory authorities in connection with the proposed Rights Issue;

    (ii) to execute, perform, amend, supplement, complete, deliver and send out to the relevant regulatory bodies, institutions, stock exchanges, organisations or individuals the relevant agreements, contracts and documents relating to the proposed Rights Issue (including but not limited to announcements, circulars or underwriting agreements);

    (iii) to formulate and implement a concrete plan for the proposed Rights Issue, including but not limited to the definitive basis on which the Rights Shares are to be offered, the number of Rights Shares to be issued, the Subscription Price, the period of closure of the register of members, trading arrangements of the Rights Shares, trading arrangements of the rights to subscribe for the Rights Shares in nil-paid form, the arrangement for excess Rights Shares, the underwriting arrangement, details of the Underwriter and the Underwriting Agreement and the expected timetable of the proposed Rights Issue, based on the actual situation of the implementation, market conditions changes in policies and opinions of regulatory authorities;

    (iv) upon the completion of the proposed Rights Issue, to handle matters relating to the listing of, and permission to deal in the Rights Shares (as defined in the Circular), in both nil-paid and fully-paid forms, on the Stock Exchange (as defined in the Circular); and

    (v) to the extent permitted by the relevant laws and regulations, to handle all such other matters as may be necessary, desirable or appropriate for the proposed Rights Issue.

8. Resolutions 1 and 2 are subject to the approval by the Independent Shareholders (as defined in the Circular) on a vote by way of poll. Resolutions 3 and 4 are subject to approval by the Shareholders (as defined in the Circular) on a vote by way of poll.

9. A form of proxy for use at the meeting is enclosed herewith.

10. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of any officer or attorney authorised to sign the same.

11. Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on its/his/her behalf. A proxy need not be a shareholder of the Company. Results of the poll voting will be published on the Company's website at www.sinopec.com.hk and the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk after the Meeting.

12. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarised copy of such power of attorney or authority, must be lodged at the office of the Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the Meeting or any adjourned meeting thereof (as the case may be).

13. Completion and return of the form of proxy will not preclude a shareholder from attending and voting in person at the Meeting or at any adjourned meeting thereof (as the case may be) should it/he/she so wish, and in such event, the form of proxy shall be deemed to be revoked.

14. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if it/he/she was solely entitled thereto, but if more than one of such joint holders are present at the Meeting, whether in person or by proxy, the joint registered holder present whose name stands on the register of members in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.