HANS ENERGY COMPANY LIMITED
漢思能源有限公司

(incorporated in the Cayman Islands with limited liability) *Stock Code : 554*

annual report
2005

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. David AN *(Chairman)*
Ms. FENG Ya Lei
Mr. ZHOU Nan Zheng
Mr. William W LIU
Mr. FUNG Chi Kwan, Nicholas
Ms. LIU Zhijun
Mr. LI Wai Keung*
Mr. LIU Jian*
Mr. CHAN Chun Wai, Tony*

** Independent non-executive director*

AUDIT COMMITTEE

Mr. LI Wai Keung *(Committee Chairman)*
Mr. LIU Jian
Mr. CHAN Chun Wai, Tony

REMUNERATION COMMITTEE

Mr. LIU Jian *(Committee Chairman)*
Mr. David AN
Mr. LI Wai Keung
Mr. CHAN Chun Wai, Tony

NOMINATION COMMITTEE

Mr. CHAN Chun Wai, Tony *(Committee Chairman)*
Mr. LI Wai Keung
Mr. LIU Jian
Mr. William W LIU

COMPANY SECRETARY

Mr. FUNG Chi Kwan, Nicholas

REGISTERED OFFICE

P.O. Box 309
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands British West Indies

PRINCIPAL OFFICE

Room 2708–12, 27th Floor
Office Tower, Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

Standard Chartered Bank
China Merchants Bank Dongguan Branch
Citic Industrial Bank Guangzhou Branch

AUDITORS

KPMG
Certified Public Accountants

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Hong Kong

WEBSITE

www.hansenergy.com

CHAIRMAN'S STATEMENT

On behalf of the board, I would like to present the annual report of Hans Energy Group for the year 2005. 2005 was a landmark year for the Group since its successful completion of the substantial business restructuring last year. For the year ended 31 December 2005, the Group's results of the core business in Xiao Hu Island Terminal ("XHIT") recorded growth both in turnover and profit. Its turnover scored HK$201.8 million (2004: HK$192.2 million) and the profit attributable to shareholders was HK$121.1 million (2004: HK$108.3 million), representing an increase of 5.0% and 11.8% respectively as compared to last year. However, if we compared the reported profit attributable to shareholders of the Company, there was a decrease from HK$114.8 million to HK$92.6 million. The drop was mainly due to the fact that in 2004, the financial statements were prepared under the reverse acquisition accounting method in accordance with the Hong Kong Accounting Standards. Under the reverse takeover accounting, the 2004 profit reported did not include the operating results of certain companies of the Group. In addition, there was a gain on disposal of subsidiaries in 2004. Furthermore, when acquiring Union Petro-Chemicals (BVI) Company Limited ("UPC") and its subsidiaries (the "UPC Group") last year, a convertible note of HK$681 million was issued as part of the consideration, which bears an interest rate of 1% per annum. However, in accounting for the interest on the convertible note for 2005, the Company could not apply the actual interest payment but had to accrue and charge to profit and loss by adopting effective interest method, which resulting an interest charge higher than the note rate of 1%, in compliance with the new HKFRSs. The effect to the net profit was HK$9.3 million in this regard. Accordingly, the Group's net profit was impacted yet the convertible note holder did not in effect receive any extra interest. If comparing on the same basis as last year, the profit in UPC Group would have been HK$121.1 million for the year 2005.

Last year, after acquiring XHIT as its core business for future business development, the Group has set its clear long-term strategy to become a leading mid-stream player in the energy sector, focusing in the provision of specialized integrated terminalling, storage and logistics facilities and services for oil, gas and petrochemical products. In a serious of transactions, through disposing of its paper product manufacturing business and scaling down the oil and petrochemical product trading activities, the Group transformed itself into an infrastructural and logistic enterprise, in which the Group enjoys a higher profit margin with less risk. The change proved to be a right move to the Group as the operations of XHIT continued strong supported with efficient management and solid customer base established over the years. The Group's future business will be developed along this line with gradual establishment of its oil and liquid petrochemical terminal and storage facilities network, striving to be a leading mid-stream player in the energy sector in the Mainland China.

This year, the Group brought the delighted and encouraging news of being granted by the National Development and Reform Committee the final approval for developing the terminal for oil, gas and liquid petrochemical products in Dongguan. Looking forward to 2006, the Group will focus on the construction of the Dongguan terminal and facilities and establishing the business thereon. Upon completion, which is expected in mid 2007, it is believed that with the aggregate storage capacity and jetty throughput, the Group will play a commanding position in the region and the Group's competitive edge in the provision of specialized integrated terminal services for oil and

CHAIRMAN'S STATEMENT

petrochemical products business will be enhanced. China became the second largest oil importer worldwide in 2004. We believe that with the strong economy in the Mainland, the demand for oil and petrochemical products is expected to continue to grow.

Hans Energy Group is one of the few among Hong Kong listed companies, having its own port for oil, gas and petrochemical products. Our core equipment and facilities form an efficient logistics service chain, delivering quality services to customers. The synergy created through the integration of the wharf jetties and storage tank farm is incomparable by other storage service providers. Furthermore, the port of XHIT has been classified as a Class A open port by PRC authorities. This enables XHIT to cater not only domestic tankers but for foreign cargoes as well, thus creating a competitive edge for the Group to earn port income. XHIT is equipped with top class production facilities and licensed to handle hazardous chemicals, including those classified as Category A Dangerous goods in national standards of the PRC. In addition, Hans Energy Group has established its brand name and reputation with many other competitive advantages, among which includes that the terminal's storage tank farm is registered as a bonded warehouse, good tradition and history established over the years, proven track records in the industry, efficient and systematic approach in management. These all together allow the Group to build up the mutual trust with our customers, establish the long-term partner relationship thus maintain a solid base of high value customers. With this strong foundation, the Group targets to develop as a leading mid-stream player the energy sector thus is planning to launch more terminals in important ports along the coastal cities of the Mainland China in coming years.

The business philosophy of Hans management is simple: get on top of the market; understand and keep close to the need of our customers. Wherever the market demand exists, we will build the facilities to serve our customers. The Dongguan new terminal project perfectly demonstrates our philosophy: it is built to capture the demand opportunities arise in the course of production expansion for adjacent refineries inside the Guangdong province. The Group's current development strategy is "Back on the mainland bases, Stand on Hong Kong establishment, and stride out to the worldwide arena". To achieve, we need to expedite the streamlining of internal organization structure, stregthen management system and skills, and improve operational efficiency by implementing various measures. We believe with the Group's business globalization, Hans' capabilities against risks and uncertainties will be strengthened. We aim to well equip ourselves in order to face the intensified market fluctuations and competitions. Self improvement and taking a pro-active approach will be the positive way to face and win the challenges. In addition, in the course of development and expansion, the Group emphasizes the importance of building skillful and strong human resources. The Group is implementing measures to motivate staff in establishing their self confidence and recognition towards further excellence, dedication and loyalty, hence for the best interests of the Group.

The Group's abilities to maintain a relatively high net profit margin stemmed on the efficiency of operating scale, which successfully reduce the average operating costs. The operation size with sufficient scale improves the efficiency and economic returns. We pay much attention to control costs and minimize unnecessary spending and

CHAIRMAN'S STATEMENT

wastage. Apart from these, we offer high quality service to attract orders of high value-added products. We tailor-make some of our tanks and build features to meet our customers' requirements and special storage environment. In this connection, we are able to obtain long leasing order from our customers, which provides a stable income streams and sufficient operating scale for the Group. However, Hans has established clearly its business strategy of focusing in the core business without involving in other activities such as commodity trading, or product transportation services. We believe this will bring to the shareholders higher return with lower risk. We shall not be distracted from our core businesses merely for higher turnover numbers.

The Group maintains the policy to be a conscientious corporate citizen and active community participant. We believe that high standards in safety, health and environment are the Group's critical success factors. These drive our business excellence and create competitive edge. We place great emphasis on social responsibility and environmental protection and preservation. Externally, all our terminal operations seek to comply with all relevant laws and regulations and to obtain all the necessary licences and permits from the relevant government authorities to operate the business in a safe and lawful manner. Internally, operating teams are motivated for continuous good performance in safety and rewards are hedged to meeting the target of zero accident.

On behalf of the board, I would like to express my heartfelt gratitude for the continuing support of the shareholders and business partners to the Group over the years, as well as the efforts and hard work of all directors, the management and staff of the Group.

David An
Chairman

Hong Kong, 30 March 2006

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP RESULTS

For the year ended 31 December 2005, the Group's results of the core business in XHIT, which was under the UPC Group acquired last year, recorded growth both in turnover and profit. Its turnover scored HK$201.8 million (2004: HK$192.2 million) and the profit attributable to shareholders was HK$121.1 million (2004: HK$108.3 million), representing an increase of 5.0% and 11.8% respectively as compared to last year. The net result margin of XHIT increased to 60.0% as compared to 56.4% of last year.

	2005 (HK$'000)	% of turnover	2004 (HK$'000)	% of turnover
UPC Group				
Turnover	**201,802**	100.0	192,184	100.0
Gross profit	**154,341**	76.5	150,085	78.1
Net results	**121,093**	60.0	108,337	56.4
Non-UPC Group				
Net results	**(28,524)**	(14.1)	6,432	3.3
Group reported results	**92,569**	45.9	114,769	59.7

However, if we compared the reported profit attributable to shareholders of the Company, there was a decrease from HK$114.8 million to HK$92.6 million. The drop was mainly due to the fact that in 2004, the financial statements were prepared under the reverse acquisition accounting method in accordance with the Hong Kong Accounting Standards. Under the reverse takeover accounting, the 2004 profit reported did not include the operating results of certain companies of the Group. In addition, there was a gain on disposal of subsidiaries in 2004. Furthermore, when acquiring UPC Group last year, a convertible note of HK$681 million was issued as part of the consideration, which bears an interest rate of 1% per annum. However, in accounting for the interest on the convertible note for 2005, the Company could not apply the actual interest payment but had to accrue and charge to profit and loss by adopting effective interest method, which resulting an interest charge higher than the note rate of 1%, in compliance with the new HKFRSs. The effect to the net profit was HK$9.3 million in this regard. Accordingly, the Group's net profit was impacted yet the convertible note holder did not in effect receive any extra

MANAGEMENT DISCUSSION AND ANALYSIS

interest. If comparing on the same basis as last year, the profit in UPC Group would have been HK$121.1 million for the years 2005. The following are the key financial figures of the Group for the two years ended 31 December 2005:

	2005 (HK$'000)	2004 (HK$'000)	Increase/ (decrease)
Turnover	**201,802**	192,184	5.0%
Earnings before interest and tax ("EBIT")	**129,800**	136,666	(5.0)%
Profit for the year	**92,561**	114,769	(19.3)%
EBITDA	**155,965**	162,021	(3.7)%
Earnings per share (HK cents)	**3.86**	20.81	
Diluted earnings per share (HK cents)	**2.80**	19.09	
EBIT Margin	**64.3%**	71.1%	
Net profit margin	**45.9%**	59.7%	

The basic and diluted earnings per share ("EPS") for the year were 3.86 Hong Kong cents and 2.80 Hong Kong cents (2004: 20.81 Hong Kong cents and 19.09 Hong Kong cents respectively). The decreases of both basic and diluted EPS were mainly attributable to the significant increase in number of ordinary shares issued by the Company during the year. The weighted average numbers of shares for the year ended 31 December 2005 in calculating basic and diluted EPS were 2,397,534,247 and 3,870,273,973 (2004: 551,639,344 shares and 601,256,830 shares respectively).

BUSINESS REVIEW

The Group's core business remained the operations of the oil and petrochemical terminal located in Xiao Hu Island of Nasha, Panyu, Guangdong Province in the PRC. The operational results of XHIT were as follows:

Operational Statistics	**2005**	2004	Increase/ (decrease)
Total number of vessels visited	**3,078**	3,405	(9.6)%
Foreign vessels berthed for unloading cargoes	**309**	379	(18.5)%
Number of trucks served to pick up cargoes	**40,386**	21,377	88.9%
Number of drums filled	**44,519**	45,385	(1.9)%
Port jetty throughput (million metric ton)	**4.96**	4.66	6.4%
Tank farm throughput (million metric ton)	**5.70**	5.04	13.1%

MANAGEMENT DISCUSSION AND ANALYSIS

XHIT is a comprehensive terminal and storage complex in Nansha Economic & Technological Development Zone, Panyu, Guangdong Province, the PRC, specialized in oil and liquid petrochemical products which comprises of a wharf with 5 docking spaces of capacity ranging from 500 deadweight ton ("dwt") to 30,000 dwt. Apart from the wharf jetties, XHIT, after installing 4 more tanks during the year, currently has a total 86 tanks making the tank farm with a total storage capacity of 330,450 cubic metres. During the year, all of 86 storage tanks have been operating at close to full occupancy. Almost all the statistics in 2005 showed that the operations were busier than last year in terms of throughput of the port and the tank farm. Meanwhile, XHIT reported 309 and 379 foreign tankers berthed for unloading cargoes and total throughput of 4,960,000 metric tons and 4,660,000 metric tons in its terminal for the two years ended 31 December 2005. The decrease in number of foreign tankers berthed for unloading in 2005 was attributable to the rocketing of international oil price since last year. As international oil price stood high, refined oil importers reduced their volume of oils shipped into China as the margin between the import price and the domestic retail or wholesales price was very thin, not to mention that they had to face the negative margins at some of the time in 2005. The costs of holding cargoes were therefore relatively high. In this connection, fewer foreign tankers visited the Pearl River Delta, including XHIT during 2005. Nevertheless, the total throughputs for 2005 increased as the long-term lease entered into between XHIT and China Petroleum & Chemical Corporation Guangdong Branch ("Sinopec Guangdong") commenced operation during the year. Sinopec Guangdong utilized the tanks in XHIT for the distribution of oils in the Pearl River Delta region markets; thus the frequency in using our port and tanks by them was higher than that of other customers. Furthermore, there were four petrochemical storage tanks built during the year and became fully operational in the second half of the year, which contributed some of the increase in throughput of petrochemical products of the terminal as well.

Revenue Breakdown

The following is the breakdown of major revenue items and its related percentage of the XHIT for the two years ended 31 December 2005:

	2005		2004	
	(HK$'000)	**%**	(HK$'000)	%
Terminalling, storage services and transshipment services	**182,982**	**90.7**	168,525	87.7
Port income	**18,820**	**9.3**	23,632	12.3
Trading of oil petrochemical products	**—**	**—**	27	—

Segment results of XHIT

For the year ended 31 December 2005, turnover from the provision of transshipment and storage facilities segment increased from HK$168.5 million to HK$183.0 million, representing an increase of 8.6% whereas the segment profit for the same period increased from HK$129.0 million to HK$138.8 million, representing an increase

MANAGEMENT DISCUSSION AND ANALYSIS

of 7.6%. The increase in both turnover and segment profit was in line with the increase in throughput in 2005 and was attributable to the leasing of 4 new petrochemical products storage tanks built and completed in second half of 2005. The change in type of products stored in the tank farm as a result of the new tanks also accounted for the improvement in turnover and profit of the segment.

For the year ended 31 December 2005, turnover from port income dropped approximately 20.4% from HK$23.6 million to HK$18.8 million and the segment profit decreased from approximately HK$21.0 million to HK$15.5 million, representing an decrease of 26.1%. Port income mainly comprises the port charge for every metric ton cargoes discharged at XHIT. This port charge is provided for under the relevant laws and regulations of the PRC, and a subsidiary of the Group, Guangdong (Panyu) Petrochemical Storage & Transportation Ltd. ("GD (Panyu)") is authorized by the relevant government authorities to collect this fee on their behalf. Since GD (Panyu) is the owner and the operator of wharf terminal, GD (Panyu) is entitled to receive part of proceeds of port charge and recognizes them as port income. The rates of port charges applicable to foreign cargoes are normally higher than domestic cargoes. The decrease in turnover and profit for this segment was in line with the decrease in number of foreign tankers berthed in XHIT during the year.

Outlook

The Group continues its long-term business development strategy of being a midstream player in the energy sector, providing specialized integrated terminalling, storage and logistics services for oil and liquid petrochemical products in the PRC as well as identifying other oil-industry areas for growth. To this end, the Group plans to develop the Pearl River Delta project as outlined below as well as other projects both inside and outside China.

- ***Business Development in XHIT***

  It is the Group's strategy to maintain its competitiveness within the region. XHIT will continue to improve its capabilities with state-of-art equipment and professional management skills. Four petrochemical tanks with a total capacity of 4,700 cubic metres were commissioned in June this year and started to bring additional revenue to the Group. At the same time, the Group has also development plans for further expansion within the site area including improvement in the capacity of truck loading stations, an information system enhancement project, as well as further jetty upgrading. It is perceived that the supply of storage space in the region will increase in the coming years. XHIT will concentrate to improve its internal work process in order to reduce its operating costs, provide incremental value to customers without incurring extra costs, and eliminate unnecessary work steps. On the other hand, XHIT has initiated programs to maximize the utilization of the storage space for additional storage rental. Furthermore, XHIT will concentrate to develop international customers to keep, in our tank farm, their high value products which usually require special skills and experience to handle, thus the rental and the associated services are more profitable to the Group. We believe that with the advance equipment, skillful production knowledge, experienced terminal operation

MANAGEMENT DISCUSSION AND ANALYSIS

management, professional customer-oriented approach services, high safety standards in handling dangerous and hazardous products, XHIT has the abilities to derive new businesses and maximize the utilization of the terminal and storage capacity.

China is now a substantial net oil importer and became the second largest oil importer worldwide in 2004. With the strong economy of the Pearl River Delta and its position as an industrial base, demand for oil and petrochemical products is expected to continue to grow. The Company therefore believes XHIT will continue to command a key position in the provision of specialised integrated terminalling, storage and logistics services for oil and petrochemical products in the Pearl River Delta region.

- ***Dongguan Terminal Project (Previously known as Pearl River Delta project)***

On 21 October 2005, the Group received the notice from Dongguan Development and Reform Bureau confirming that the National Development and Reform Council of the PRC had officially granted an approval to the Group's project of developing a new oil, gas and liquid petrochemical storage facility, including jetty terminal with a capability to accommodate tankers with capacity up to 80,000 deadweight tons, in Dongguan Humen Port Shatian Harbour Area in the PRC. Since then, the pre-construction preparation works including land formation tests, site clean-up, harbour under-water landscape scanning, jetty terminal design and storage tank farm design have been completed. It is currently anticipated that the early phases of the new facility will become operational in second half of 2007. According to the current design, the storage tank farm may have a capacity of 910,000 cubic metres, and the terminal may have 12 jetties with docking capacities ranging from 500 dwt to 80,000 dwt. With the construction of the new facilities, the Group's storage capacity will increase by approximately 275% (from 330,450 cubic metres to 1,240,450 cubic metres) and annual docking capacity will increase by approximately 166% (from 7,210,000 metric tons to 19,210,000 metric tons per annum).

In establishing the business for this new operation, the Management will share the successful experience in XHIT, by all effort, to secure stable leasing orders for the storage tanks with the solid customer base established over the years. We are confident in this respect as the development of the Dongguan Terminal was originally aimed to capture the opportunity of the growing demand of storage facilities as the result of the expansion plan of adjacent refineries within the region. The Group's capital investment in the project is estimated to be in excess of RMB800 million. It is currently anticipated that the early phases of the new facility will become operational in second half of 2007. The Company believes that the Group's competitive strength in the Pearl River Delta region will be considerably enhanced once the facility becomes operational.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Capital structure, liquidity and gearing

The capital structure of the Group changed during the year. During the period, 1,000 million new ordinary shares were issued, as a result of the exercising of the right by the Convertible Note holder to convert HK$300 million note into ordinary shares. In this regard, the balance due under the Convertible Note reduced from HK$681 million at the beginning of the period to HK$339.6 million and an equity component of HK$41.9 million as at 31 December 2005, which was reclassified in compliance with the new Hong Kong Financial Reporting Standard ("HKFRS"). In addition, another 100 million new shares were issued during the year.

As at 31 December 2005, the Group had a cash balance of HK$354 million (2004: HK$497 million). Most of the funds were held in HK$, RMB and US$.

As at 31 December 2005, the Group had a current ratio of 1.78 (31 December 2004: 1.12). The improvement in current ratio was mainly due to the repayment of short-term bank borrowings, the reduction of trade payables and amount due to related companies during the year.

The Group's gearing ratio of as at 31 December 2005 was 1.11 (31 December 2004: 1.67) (defined as total liabilities to total assets). The decrease of the ratio was attributable to the fact that the debt associated with the Convertible Note was reduced, first by way of the conversion of HK$300 million into share capital. Secondly, HK$74.8 million of the Convertible Note was reclassified as an equity component in compliance with the new HKFRS. Thirdly, the bank loans of HK$160.2 million and amount due to related companies of HK$103.5 million were settled during the year. Furthermore, HK$97.4 million was received from the issuance of new shares.

Financial resources

The Group has fully settled the bank borrowings brought forward from last year and due for repayment during the year. In this regard, the credit facilities, which were available until March 2005, have not been extended by the Group, and the assets originally pledged for the facilities were released.

The current cash reserves and recurrent operating cash flow is sufficient for the daily requirements for current operations. However, the Group will consider to raise external financing for development of new businesses, if required. Due attention will be paid to the capital and debt markets as well as the latest developments of the Group in order to ensure the efficient use of financial resources.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance cost

Despite the repayment of bank borrowings during the period, the Convertible Note of HK$681 million issued on 24 December 2004 started to accrue interest this year. According to the new HKFRS, interest was accrued and charged to profit and loss by effective interest method. The total finance cost increased by HK$10 million to HK$19 million.

Taxation

The Group had no assessable profit subject to Hong Kong Profits Tax for the year. On the other hand, this year is the second year that GD (Panyu), the PRC subsidiary of the Group, is subject to PRC Enterprise Income Tax at the concessional rate of 7.5% (normal tax rate is 15%). This relief will continue to be available to GD (Panyu)'s XHIT business conducted in the Nansha Economic Development Zone until 2009.

Exposure to fluctuation in exchanges rate and related hedge

The Group's cash and cash equivalents are held predominately in HK$, RMB and US$. Operating outgoings incurred by the Group's subsidiary in the PRC are mainly denominated in RMB, which usually receives revenue in RMB as well. The management is of the opinion that the Group's exposure to foreign exchange rate risks is not significant, and hedging by means of derivative instruments is considered unnecessary.

Charge on Group assets

As at 31 December 2005, bank deposits of approximately HK$600,000 were pledged against credit card facilities granted by a bank. Other than the above, none of the assets of the Group was pledged to creditors.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. David An, aged 46, joined the Company as Chairman in 2002. He is also the director of UPC, Guangdong Petro-Chemicals Company Limited ("GDPC") and GD (Panyu). He has many years of experience in China trade particularly in the trading of petroleum products and petrochemicals, properties investments and developments in China. He is the sole director of Vand Petro-Chemicals (BVI) Company Ltd ("Vand Petro-Chemicals") and Extreme Wise Investments Limited ("Extreme Wise"), substantial shareholders of the Company.

Ms. Feng Ya Lei, aged 52, joined the Company as executive director in 2002. She is also the director of GDPC and GD (Panyu), and is an acting general manager of GD (Panyu). She has 15 years of experience in relation to human resources field. From 1987 to 1993, she was the supervisor of human resources for China International Culture Exchange Centre and then she worked as the supervisor of human resources for Beijing Hotel from 1993 to 1999.

Mr. Zhou Nan Zheng, aged 57, joined the Company as executive director in 2002. Mr. Zhou had his college education in the PRC. He had worked for China Ocean and Aviation Company Limited from 1985 to 1991 and also San Jiu Commercial Limited, which is one of the branch company of San Jiu Group from 1993 to 2002. He has over 17 years of experiences in management and trading.

Mr. William W Liu, aged 41, joined the Company as independent non-executive director in 2004, and was re-designated as executive director on 23 May 2005. He is a director of China Metal & Technologies (H.K.) Ltd. ("China Metal") and has over 10 years of experience in corporate banking and corporate finance activities. Prior to joining China Metal, Mr. Liu was the regional head of an American investment firm engaged in hi-tech and media business in China and Hong Kong. Mr. Liu holds a Master's degree in Business Administration from the University of San Francisco.

Mr. Fung Chi Kwan, Nicholas, aged 46, joined the Company as Chief Financial Officer and Company Secretary on 1 June 2005. Mr. Fung is an associate member of the Institute of Chartered Accountants in England and Wales and a fellow member of the Hong Kong Institute of Certified Public Accountants. He has over 20 years of experience in financial management for multinational corporations and listed companies and has worked in major international accounting firms.

Ms. Liu Zhijun, aged 38, is the financial controller of GDPC and GD (Panyu), and a director of GD (Panyu). Ms. Liu graduated from Zhongshan University in 1989 with a Bachelor's degree in Economics. She joined GDPC in 1997 and has more than 16 years of experience in financial management. Ms. Liu holds the auditor qualification certificate of speciality and technology issued by the Ministry of Personnel of the People's Republic of China.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Wai Keung, aged 49, joined the Company as independent non-executive director in 2002. He is also the Chairman of the Audit Committee of the Company. Mr. Li graduated from Hong Kong Polytechnic. Mr. Li holds a Master's degree in Business Administration from the University of East Asia. He is also a fellow member of The Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants. Mr. Li has held a number of positions with companies including Sino Land Company Limited and Henderson Land Development Company Limited. Mr. Li is now a director and financial controller of GDH Limited, and also a director of Guangdong Investment Limited and an independent non-executive director of Shenzhen Investment Limited.

Mr. Liu Jian, aged 52, joined the Company as independent non-executive director in 2002. Mr. Liu is currently a director of CITIC Capital Markets Ltd. Mr. Liu previously worked for China state-owned enterprises including China Resources Holdings Company Limited and Ministry of Foreign Trade and Economic Cooperation, the PRC. He is also the independent non-executive director of Long Far Pharmaceutical Holdings Limited. Mr. Liu has over 10 years of investment banking experience and over 18 years of experience in China business management. He graduated from Jiaotong University, Shanghai.

Mr. Chan Chun Wai, Tony, aged 34, is a Certified Public Accountant (Practicing) of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. He now works as a director in a CPA practice. He has extensive experience in audit assurance and business advisory services with clients operating in a variety of industries in both Hong Kong and the PRC. Moreover, Mr. Chan has over 10 years of experience in public listings in Hong Kong and Singapore, mergers and acquisition as well as corporate finance. Before commencing his own practice, Mr. Chan has worked in major international accounting firms and a listed company. Mr. Chan was also a visiting lecturer of the Hong Kong Polytechnic University.

SENIOR MANAGEMENT

Mr. Chen Yi You, aged 56, is a director and deputy general manager of GD (Panyu). Before he joined GD (Panyu) in 1992, Mr. Chen was a deputy factory manager for a large petrochemical company in Guangzhou, the PRC. Mr. Chen has many years of experience in the management of storage operations for petrochemical products.

Mr. Deng Zhi Gang, aged 32, is a deputy general manager of GD (Panyu). Mr. Deng obtained his Master's degree in Business Administration from University of San Francisco. He joined GD (Panyu) in 1996, and has many years of experience in trading and marketing in the business of storage for petrochemical products.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Huang Ji Lin, aged 58, is a director and deputy general manager of GD (Panyu). Mr. Huang graduated from 廣東省機械學校 in the PRC in 1960's and obtained a Certificate of Graduation in the Senior Advanced Course in Business Management from Shenzhen University in 1994. Mr. Huang joined GD (Panyu) in 1992 and is experienced in project management. Mr. Huang is also a mechanical engineer in the PRC.

Li Xiao Hui, aged 37, is a deputy general manager of GD (Panyu) responsible for the technical operation of XHIT. Mr. Li joined GD (Panyu) in 1994 and has extensive knowledge and experience in technology and operations management. Mr. Li is also an on-job postgraduate in corporate management.

CORPORATE GOVERNANCE REPORT

The Company is committed to a high standard of corporate governance practices appropriate to the conduct and growth of its business.

The Company's corporate governance practices are based on the principles ("Principles") and the code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules"). The Company has complied with most of the Code Provisions save for certain deviations from the Code Provisions in respect of Code Provisions A.4.1 and A.4.2, details of which are explained below. The Company regularly reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

The Company acknowledges the important role of its Board of Directors ("Board") in providing effective leadership and direction of the Company towards its objectives and ensuring transparency and accountability of all operations.

The key corporate governance principles and practices of the Company are summarised as follows:

THE BOARD

Responsibilities

The Company has formalised and adopted written terms on the division of functions reserved to the Board and delegated to the management.

The Board provides leadership and approves strategic policies and plans with a view to enhance shareholder interests while the day-to-day operations of the Company are delegated to the management.

The Board reserves for its decisions all major matters of the Company, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

CORPORATE GOVERNANCE REPORT

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

Composition

The Board has in its composition a balance of skills and experience necessary for independent decision making and fulfilling its business needs.

The Board of the Company comprises the following directors:

Executive Directors
Mr. David An (Chairman of the Board and Chief Executive Officer)
Ms. Feng Ya Lei
Mr. Zhou Nan Zheng
Mr. William W Liu
Mr. Fung Chi Kwan, Nicholas (appointed on 7th April, 2006)
Ms. Liu Zhijun (appointed on 7th April, 2006)

Independent Non-Executive Directors
Mr. Li Wai Keung (Chairman of Audit Committee and Member of Nomination Committee and Remuneration Committee)
Mr. Liu Jian (Chairman of Remuneration Committee and Member of Audit Committee and Nomination Committee)
Mr. Chan Chun Wai, Tony (Chairman of Nomination Committee and Member of Audit Committee and Remuneration Committee)

None of the members of the Board is related to one another.

During the year ended 31 December 2005, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

CORPORATE GOVERNANCE REPORT

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The independent non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive directors make various contributions to the effective direction of the Company.

Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Although the independent non-executive directors do not have a specific term of appointment, all the existing directors of the Company retire by rotation once every three years. There was no new director appointed to fill a casual vacancy during the year.

In order to ensure full compliance of the Company's Articles of Association with Code Provisions A.4.1 and A.4.2 of the CG Code, a special resolution will be proposed at the forthcoming annual general meeting of the Company to amend the Company's Articles of Association so that all directors (including the Managing Director or Joint Managing Director) will be subject to retirement by rotation once every three years and any new director appointed to fill a causal vacancy shall be subject to re-election by shareholders at the first general meeting after appointment.

Training for Directors

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

CORPORATE GOVERNANCE REPORT

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary.

Board Meetings

Number of Meetings and Directors' Attendance

Four Board meetings were held during the year.

The individual attendance (either in person or through other electronic means of communication) record of each director at the meetings of the Board, the Nomination Committee, the Remuneration Committee and the Audit Committee during the year ended 31 December 2005 is set out below:

	Attendance/Number of Meetings held during the tenure of directorship			
Directors	**Board**	**Nomination Committee**	**Remuneration Committee**	**Audit Committee**
Executive Directors				
David An (Chairman of the Board and Chief Executive Officer)	4/4	N/A	1/1	N/A
Feng Ya Lei	4/4	N/A	N/A	N/A
Zhou Nan Zheng	4/4	N/A	N/A	N/A
William W Liu*	4/4	1/1	N/A	1/1
Kwan Po Wan (resigned on 31 May 2005)	1/1	N/A	N/A	N/A
Independent Non-Executive Directors				
Li Wai Keung (Chairman of audit committee)	3/4	1/1	1/1	3/3
Liu Jian (Chairman of remuneration committee)	4/4	1/1	1/1	3/3
Chan Chun Wai, Tony (Chairman of nomination committee) (appointed on 23 May 2005)	3/3	1/1	1/1	2/2

* *re-designated from Independent Non-Executive Director to Executive Director on 23 May 2006*

Practices and Conduct of Meetings

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

CORPORATE GOVERNANCE REPORT

Agenda and Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior executives whenever necessary.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Articles of Association also contain provisions requiring directors to abstrain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority. The respective responsibilities of the Chairman and the Chief Executive Officer are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

The position of the Chairman is held by Mr. David An while the position of the Chief Executive Officer was held by Mr. David Charles Parker during the period from 25 April 2005 to 19 October 2005. Subsequent to the resignation of Mr. David Charles Parker, the position of the Chief Executive Officer is also held by the Chairman of the Board. However, the Board considers this temporary arrangement will not impair the balance of power and authority between the Board and the management of the Company.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Board has established three committees, namely, the Nomination Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and are available to shareholders upon request.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Nomination Committee

All the three independent non-executive directors together with Mr. William W Liu are the members of the Nomination Committee and Mr. Chan Chun Wai, Tony is the chairman of the committee.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessment of the independence of the independent non-executive directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

The Nomination Committee met once during the year ended 31 December 2005 and reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

The Nomination Committee has recommended the appointment of Mr. Fung Chi Kwan, Nicholas and Ms. Liu Zhijun as additional Executive Directors of the Company and the Board appointed these two candidates as Executive Directors of the Company on 7 April 2006.

Mr. Fung Chi Kwan, Nicholas and Ms. Liu Zhijun together with Mr. Chan Chun Wai, Tony, who was appointed as an additional director by the Board on 23 May 2005, shall retire and being eligible, offer themselves for re-election by shareholders at the forthcoming annual general meeting pursuant to Article 99 of the Company's Articles of Association. In addition, Mr. David An and Ms. Feng Ya Lei shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting pursuant to Article 116.

CORPORATE GOVERNANCE REPORT

The Nomination Committee recommended the re-appointment of the directors standing for re-election at the forthcoming annual general meeting of the Company.

The Company's circular dated 26 April 2006 contains detailed information of the directors standing for re-election and appointment.

Remuneration Committee

The Chairman of the Board and the three independent non-executive directors are the members of the Remuneration Committee and Mr. Liu Jian is the chairman of the committee.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior executives. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets towards the end of each year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior executives and other related matters. The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the remuneration committee for consideration. The Remuneration Committee consults the Chairman and/or the Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee met once during the year ended 31 December 2005 and reviewed the remuneration policy and structure of the Company and remuneration packages of the executive directors and the senior executives for the year under review.

Audit Committee

The Audit Committee comprises the three independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise) and Mr. Li Wai Keung is the chairman of the committee. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

CORPORATE GOVERNANCE REPORT

The main duties of the Audit Committee include the following:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer (if any) or external auditors before submission to the Board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, and risk management system and associated procedures.

The Audit Committee held three meetings during the year ended 31 December 2005 to review the financial results and reports, financial reporting and compliance procedures and the re-appointment of the external auditors.

There is no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2005.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

CORPORATE GOVERNANCE REPORT

Responsibilities in respect of the Financial Statements and Auditors' Remuneration

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other financial disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2005.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Report of the Auditors" on page 33.

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2005 was disclosed on page 61.

Internal Controls

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets, and reviewing the effectiveness of such on an annual basis.

The Company has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibility and authority to the senior management.

The Group's internal control framework, covering all material controls including financial, operational and compliance controls is established. The internal control framework also provides for identification and management of risk.

The management is accountable to the Board for operating and monitoring the system of internal control and for providing assurance to the Board that it has done so. The Board forms its own view on effectiveness after due and careful enquiry based on the information and assurancess provided to it.

CORPORATE GOVERNANCE REPORT

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Articles of Association. Details of such rights and procedures are included in all circulars to shareholders convening shareholders' meetings and will be explained during the proceedings of meetings. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained.

Poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the websites of the Company and of the Stock Exchange.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee, or in their absence, other members of the respective committees, and where applicable, the independent Board committee, are available to answer questions at the shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

To promote effective communication, the Company also maintains a website at www.hansenergy.com, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.

DIRECTORS' REPORT

The directors have pleasure in presenting their annual report and the audited financial statements of the Group for the year ended 31 December 2005.

CHANGE OF NAME

Pursuant to a special resolution passed at an extraordinary general meeting held on 10 January 2005, the name of the Company was changed from Wisdom Venture Holdings Limited to Hans Energy Company Limited.

CHANGES OF FINANCIAL YEAR END DATE

On 10 January 2005, the Company changed its financial year end date from 31 March to 31 December. The financial statements for the year of 2004 were prepared to cover the twelve months period from 1 January 2004 to 31 December 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 15 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 34.

The directors do not recommend the payment of a final dividend for the year ended 31 December 2005 (2004: 1.0 Hong Kong cent).

SHARE CAPITAL

On 24 March 2005, the Company issued 100,000,000 ordinary shares, bearing a nominal value of HK$10,000,000, to Extreme Wise, a company wholly-owned by Mr. David An, a director of the Company, for a consideration of HK$97 million. The closing price of the Company's share was HK$0.88 quoted on the Stock Exchange on 24 March 2005. Details in movement in share capital of the Company are set out in note 26 to the financial statements.

RESERVES

The amounts and particulars of material transfers to and from reserves of the Company and of the Group during the year are set out on the Consolidated Statement of Changes in Equity and in note 27 to the financial statements.

DIRECTORS' REPORT

DISTRIBUTABLE RESERVES

At 31 December 2005, the Company's reserve available for distribution amounted to HK$384.4 million (2004: HK$137.6 million).

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 28 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements of property, plant and equipment during the year are set out in note 13 to the financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors

David An *(Chairman)*
Feng Ya Lei
Zhou Nan Zheng
William W Liu (re-designated as executive director on 23 May 2005)
Kwan Po Wan (resigned on 31 May 2005)

Independent non-executive directors

Li Wai Keung
Liu Jian
Chan Chun Wai, Tony (appointed on 23 May 2005)

In accordance with Articles 116 and 99 of the Company's Articles of Association, Mr. David An, Ms. Feng Ya Lei (Article 116) and Mr. Chan Chun Wai, Tony (Article 99) will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The term of office of each of the independent non-executive directors is the period up to his retirement as required by the Company's Articles of Association.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REPORT

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2005, the interest and short positions of directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules on the Stock Exchange were as follows:

Ordinary shares of HK$0.10 each of the Company

Name of director	Nature of interest	Number of shares: Long position	Number of shares: Short position	Approximate percentage to the issued share capital of the Company
Mr. David An	Corporate	1,642,291,980 *(note 1)*	Nil	62.68%
	Corporate	1,270,000,000 *(note 2)*	Nil	48.47%

Notes:

1. The shares are held directly as to 209,773,980 shares by Extreme Wise and 1,432,518,000 shares by Vand Petro-Chemicals both companies are wholly-owned by Mr. David An. By virtue of SFO, Mr. David An is deemed to have corporate interest in the 1,642,291,980 shares.

2. 1,270,000,000 shares (subject to adjustment) will be issued to Vand Petro-Chemicals upon its exercise of the conversion rights under the convertible notes held by it. By virtue of SFO, Mr David An is deemed to have corporate interests in the 1,270,000,000 shares.

Save as disclosed above, as at 31 December 2005, none of the directors or chief executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' REPORT

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share option scheme detailed in note 28 to the financial statements and the convertible notes held indirectly by Mr. David An, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debts securities (including debentures) of, the Company or any other body corporate and none of the directors, their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

CONNECTED TRANSACTIONS

There were no transactions which were required to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed under the heading "Connected transactions', there were no contracts of significance to which the Company, or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisting at the end of the year or at any time during the year.

CORPORATE GOVERNANCE

The Company is committed to a high standard of corporate governance. The Company's corporate governance practices are based on the Principles and the Code Provisions as set out in the CG Code contained in Appendix 14 of the Listing Rules. The Company regularly reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code. Throughout the year 2005, the Company has complied with the CG Code except as set out in the Corporate Governance Report on pages 16 to 25.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY

At 31 December 2005, shareholders (other than directors of the Company) who had interests and short positions in the shares and underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Ordinary shares of HK$0.10 each of the Company

	Number of shares		Approximate percentage to the issued share capital
Name of shareholders	**Long position**	**Short position**	**of the Company**
Extreme Wise	209,773,980	Nil	8.01%
Vand Petro-Chemicals	1,432,518,000	Nil	54.67%
	1,270,000,000 *(Note)*	Nil	48.47%

Note: 1,270,000,000 shares (subject to adjustment) will be issued to Vand Petro-Chemicals upon its exercise of the conversion rights under the convertible notes held by it. By virtue of SFO, Mr. David An is deemed to have corporate interests in the 1,270,000,000 shares.

Save as disclosed above, the Company has not been notified by any persons (other than directors of the Company) who, as at 31 December 2005, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 66.28% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 42.78% of the Group's total sales. The aggregate purchases attributable to the Group's five largest suppliers comprised approximately 62.71% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 31.22% of the Group's total purchases.

DIRECTORS' REPORT

Saved as disclosed above, none of the directors, their associates or any shareholder which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital had any interest in the share capital of any of the five largest customers or suppliers of the Group.

BORROWINGS

Details of movements in the Group's bank borrowing and promissory note during the year are set out in notes 21 and 23 to the financial statements respectively.

CONVERTIBLE NOTE

In 2004, the Company issued a convertible note amounting HK$681 million as part of the consideration for the acquisition of UPC. Further details of the convertible note are set out in note 22 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association although there is no restriction against such rights under the laws in the Cayman Islands.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2005, the Group had a workforce of 255 employees, 227 of which worked for the terminal. Every year, the Group devises a budget which states total salary and bonus plan for the year to encourage the Group's employees to contribute their best efforts and to make maximum economic benefits to the Group. In accordance with the relevant government regulations in the PRC, the Group is required to cover social insurance, including but not limited to retirement, medical, workman compensation and unemployment insurance as well as housing fund for every qualified employee in the PRC. With these insurance policies and staff benefits, the Group hopes to provide a reasonable welfare for each qualified employee.

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

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

PUBLIC FLOAT

For the year ended 31 December 2005, based on the information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained the prescribed public float under the Listing Rules.

DIRECTORS' REPORT

LITIGATION

As at 31 December 2005, there were no material contingent liabilities in respect of outstanding litigation or legal proceedings that need to be disclosed.

AUDITORS

KPMG were first appointed as auditors of the Company in 2005 upon the resignation of Deloitte Touche Tohmatsu.

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board
David An
Chairman

Hong Kong, 30 March 2006

AUDITORS' REPORT

Auditors' Report to the shareholders of Hans Energy Company Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 34 to 95 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

Hong Kong, China, 30 March 2006

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2005

(Expressed in Hong Kong dollars)

	Note	**2005 '000**	2004 '000 (restated)
Turnover	*3*	**$201,802**	$192,184
Cost of sales		**(47,461)**	(42,099)
Gross profit		**$154,341**	$150,085
Other net income	*4*	**8,787**	1,785
Administrative expenses		**(33,328)**	(15,204)
Profit from operations		**$129,800**	$136,666
Finance costs	*5(a)*	**(19,060)**	(9,060)
Gain on disposal of subsidiaries		**—**	6,432
Profit before taxation	*5*	**$110,740**	$134,038
Income tax	*6*	**(7,631)**	(9,699)
Profit for the year		**$103,109**	$124,339
Attributable to:			
Equity shareholders of the Company		**$92,569**	$114,769
Minority interests		**10,540**	9,570
Profit for the year		**$103,109**	$124,339
Dividends payable to equity shareholders of the Company attributable to the year:	*10*		
Interim dividend declared during the year		**$—**	$ 50,000
Final dividend proposed after the balance sheet date		**—**	26,200
		—	76,200
Earnings per share	*11*		
— basic		**3.86 cents**	20.81 cents
— diluted		**2.80 cents**	19.09 cents

The notes on pages 43 to 95 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 31 December 2005

(Expressed in Hong Kong dollars)

	Note	2005 '000	2004 '000 (restated)
Non-current assets			
Fixed assets	*13(a)*		
— Property, plant and equipment		**$300,307**	$295,422
— Construction in progress		**32,760**	29,800
— Interests in leasehold land held for own use under operating leases		**22,164**	23,125
Intangible assets	*14*	**5,904**	—
		$361,135	$348,347
Current assets			
Interests in leasehold land held for own use under operating leases		**$1,425**	$1,425
Inventories — consumable parts		**2,152**	2,067
Trade and other receivables	*16*	**15,092**	40,090
Pledged bank deposits	*33*	**600**	8,523
Cash and cash equivalents	*17*	**354,234**	497,369
		$373,503	$549,474
Current liabilities			
Trade and other payables	*18*	**$16,814**	$30,612
Deferred revenue	*19*	**85,918**	86,388
Amounts due to related companies	*20*	**615**	103,533
Current taxation		**1,216**	5,855
Promissory notes	*23*	**105,000**	105,000
Bank loans	*21*	**—**	160,174
		$209,563	$491,562
Net current assets		**$163,940**	$57,912
Total assets less current liabilities		**$525,075**	$406,259

CONSOLIDATED BALANCE SHEET (Continued)

at 31 December 2005

(Expressed in Hong Kong dollars)

	Note	**2005 ’000**	2004 ’000 (restated)
Non-current liabilities			
Deferred revenue	*19*	**$261,666**	$326,981
Convertible notes	*22*	**339,578**	681,000
Deferred tax liabilities	*24*	**7,249**	—
		$608,493	$1,007,981
Net liabilities		**$(83,418)**	$(601,722)
Capital and reserves			
Share capital	*26*	**$262,000**	$152,000
Reserves		**(364,789)**	(762,235)
Total equity attributable to equity shareholders of the Company		**$(102,789)**	$(610,235)
Minority interests		**19,371**	8,513
Total equity		**$(83,418)**	$(601,722)

Approved and authorised for issue by the board of directors on 30 March 2006

David An
Chairman

William W Liu
Executive Director

The notes on pages 43 to 95 form part of these financial statements.

BALANCE SHEET

at 31 December 2005

(Expressed in Hong Kong dollars)

	Note	2005 '000	2004 '000
Non-current assets			
Fixed assets	*13(d)*	**$1,663**	$—
Investments in subsidiaries	*15*	**1,078,463**	1,070,382
		$1,080,126	$1,070,382
Current assets			
Other receivables		**$946**	$—
Cash and cash equivalents	*17*	**61,191**	12,504
		$62,137	$12,504
Current liabilities			
Other payables	*18*	**$2,049**	$7,311
Promissory notes	*23*	**105,000**	105,000
		$107,049	$112,311
Net current liabilities		**$(44,912)**	$(99,807)
Total assets less current liabilities		**$1,035,214**	$970,575
Non-current liabilities			
Convertible notes	*22*	**$339,578**	$681,000
Deferred tax liabilities	*24*	**7,249**	—
		$346,827	$681,000
Net assets		**$688,387**	$289,575

BALANCE SHEET (Continued)

at 31 December 2005

(Expressed in Hong Kong dollars)

	Note	**2005** **'000**	2004 '000
Capital and reserves			
Share capital	*26*	**$262,000**	$152,000
Reserves	*27*	**426,387**	137,575
Total equity		**$688,387**	$289,575

Approved and authorised for issue by the board of directors on 30 March 2006

David An
Chairman

William W Liu
Executive Director

The notes on pages 43 to 95 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2005

(Expressed in Hong Kong dollars)

	Share capital '000	Share premium *(note (a))* '000	Special reserve *(note (b))* '000	Translation reserve *(note (c))* '000	PRC statutory reserve *(note (e))* '000	Accumulated profits/ (losses) '000	Total '000	Minority interests '000	Total equity '000
At 1 January 2004	$1	$—	$—	$(526)	$5,165	$95,123	$99,763	$52,096	$151,859
Exchange adjustment	—	—	—	—	—	—	—	345	345
Exchange differences arising from translation of operations outside Hong Kong	—	—	—	2,676	—	—	2,676	—	2,676
Acquisition of subsidiaries	151,999	202,986	(251,428)	—	—	(881,000)	(777,443)	—	(777,443)
Transfers	—	—	—	—	16,909	(16,909)	—	—	—
	$152,000	$202,986	$(251,428)	$2,150	$22,074	$(802,786)	$(675,004)	$52,441	$(622,563)
Profit for the year	—	—	—	—	—	114,769	114,769	9,570	124,339
Dividend	—	—	—	—	—	(50,000)	(50,000)	—	(50,000)
At 31 December 2004									
— as previously reported	$152,000	$202,986	$(251,428)	$2,150	$22,074	$(738,017)	$(610,235)	$62,011	$(548,224)
Reclassification of payable to minority shareholders	—	—	—	—	—	—	—	(53,498)	(53,498)
— as reclassified	$152,000	$202,986	$(251,428)	$2,150	$22,074	$(738,017)	$(610,235)	$8,513	$(601,722)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

for the year ended 31 December 2005

(Expressed in Hong Kong dollars)

	Share capital '000	Share premium *(note (a))* '000	Special reserve *(note (b))* '000	Translation reserve *(note (c))* '000	Capital reserve *(note (d))* '000	PRC statutory reserve *(note (e))* '000	Accumulated profits/ (losses) '000	Total '000	Minority interests '000	Total equity '000
At 1 January 2005										
— as reclassified before opening balance	$152,000	$202,986	$(251,428)	$2,150	$—	$22,074	$(738,017)	$(610,235)	$8,513	$(601,722)
— opening balance adjustment — HKAS 39	—	—	—	—	74,813	—	—	74,813	—	74,813
At 1 January 2005, after opening balance adjustment	$152,000	$202,986	$(251,428)	$2,150	$74,813	$22,074	$(738,017)	$(535,422)	$8,513	$(526,909)
Exchange adjustment	—	—	—	—	—	—	—	—	318	318
Exchange differences arising from translation of operations outside Hong Kong	—	—	—	205	—	—	—	205	—	205
Issue of shares on exercise of convertible notes	100,000	201,631	—	—	(32,957)	—	—	268,674	—	268,674
Issue of shares	10,000	87,385	—	—	—	—	—	97,385	—	97,385
Profit for the year	—	—	—	—	—	—	92,569	92,569	10,540	103,109
Dividend	—	—	—	—	—	—	(26,200)	(26,200)	—	(26,200)
At 31 December 2005	$262,000	$492,002	$(251,428)	$2,355	$41,856	$22,074	$(671,648)	$(102,789)	$19,371	$(83,418)

Notes:

(a) The application of the share premium account is governed by the Companies Law (Revised) of the Cayman Islands.

(b) The special reserve arose from the reverse acquisition in December 2004.

(c) The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(s).

(d) The capital reserve comprises the value of the unexercised equity component of convertible notes issued by the Company recognised in accordance with the accounting policy adopted for convertible notes in note 1(j).

(e) According to the articles of association and board resolution of GD (Panyu), 0%–10% of the profit before taxation may be transferred to a PRC statutory reserve at the discretion of GD (Panyu)'s directors.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2005

(Expressed in Hong Kong dollars)

	Note	2005 '000	2004 '000
Operating activities			
Profit before taxation		**$110,740**	$134,038
Adjustments for:			
— Interest income		**(7,342)**	(502)
— Finance costs		**19,060**	9,060
— Gain on disposal of subsidiaries		**—**	(6,432)
— Depreciation and amortisation		**26,165**	25,355
— Loss on disposal of property, plant and equipment		**93**	604
Operating cash flows before changes in working capital		**$148,716**	$162,123
Increase in inventories — consumable parts		**(85)**	(136)
Decrease/(increase) in trade and other receivables		**25,799**	(9,633)
(Decrease)/increase in trade and other payables		**(27,769)**	1,933
(Decrease)/increase in deferred revenue		**(65,785)**	398,780
Exchange differences		**(5,843)**	—
Cash generated from operations		**$75,033**	$553,067
PRC Enterprises Income Tax paid		**(14,309)**	(3,844)
Net cash generated from operating activities		**$60,724**	$549,223
Investing activities			
Disposal of investments in subsidiaries (net of cash and cash equivalents disposed of)		**$—**	$(62,338)
Additions of property, plant and equipment		**(24,351)**	(24,124)
Decrease/(increase) in pledged bank deposit		**7,923**	(7,923)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	*29*	**(3,468)**	83,829
Repayment of amount due from a related company		**8,171**	37,878
Interest received		**7,342**	502
Proceeds from disposal of property, plant and equipment		**341**	191
Purchase of intangible assets		**(935)**	—
Net cash (used in)/generated from investing activities		**$(4,977)**	$28,015

CONSOLIDATED CASH FLOW STATEMENT (Continued)

for the year ended 31 December 2005

(Expressed in Hong Kong dollars)

	2005 '000	2004 '000
Financing activities		
Repayment of bank loans	**$(160,174)**	$(113,064)
Repayment of loans due to related companies	**(103,533)**	(94,651)
Interest paid	**(6,094)**	(9,060)
New bank loans raised	**—**	113,064
Advances from related companies	**—**	2,535
Dividend paid	**(26,200)**	—
Proceeds from issue of new shares	**97,385**	—
Net cash used in financing activities	**$(198,616)**	$(101,176)
Net (decrease)/increase in cash and cash equivalents	**$(142,869)**	$476,062
Cash and cash equivalents at beginning of the year	**497,369**	21,446
Effect of foreign exchange rate changes	**(266)**	(139)
Cash and cash equivalents at end of the year	**$354,234**	$497,369

The notes on pages 43 to 95 form part of these financial statements.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable 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"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 2.

(b) Basis of preparation of the financial statements

On 5 October 2004, Vand Petro-Chemicals, the Company and Mr David An ("Mr An"), a director and a substantial shareholder of the Company, entered into a sale and purchase agreement (the "Acquisition Agreement"). Pursuant to the Acquisition Agreement, the Company conditionally agreed to purchase Vand Petro-Chemicals's entire interest in UPC for an aggregate consideration of $1,040,000,000 (the "Acquisition").

The aggregate consideration for the acquisition, which amounted to $1,040,000,000, was satisfied:

(a) as to $200,000,000, by the issue of promissory note ("Promissory Notes") by the Company to Vand Petro-Chemicals;

(b) as to $159,000,000, by the allotment and issue of 530,000,000 new ordinary shares of $0.1 each ("Consideration Share") by the Company to Vand Petro-Chemicals, credited as fully paid at an issue price of $0.30 per new share; and

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements (Continued)

(c) as the remaining $681,000,000, by the issue of a convertible notes ("Convertible Notes") by the Company to Vand Petro-Chemicals.

The Acquisition was completed in December 2004.

Vand Petro-Chemicals is wholly-owned by Mr An and Mr An is a director and a controlling shareholder of the Company and hence a connected person of the Company under the Listing Rules. The Acquisition constitutes a connected transaction under the Listing Rules for the Company and was approved by shareholders of the Company in an extraordinary general meeting held on 23 December 2004.

The Acquisition has been accounted for as a reverse acquisition because the issuance of the Consideration Shares and Convertible Notes in exchange for the entire interest in UPC resulted in Vand Petro-Chemicals becoming the controlling shareholder of the Company. For accounting purposes, UPC Group is treated as the acquirer while the Company and its subsidiaries is deemed to have been acquired by the UPC Group. Along this principle, the consolidated financial statements in 2004 have been prepared as a continuation of the consolidated financial statements of the UPC Group and accordingly,

(a) the assets and liabilities of the UPC Group are recognised and measured at the date of acquisition at their historical carrying values prior to the Acquisition;

(b) the share capital and share premium accounts reflect the legal equity structure of the Company. Any difference between the Company's legal equity and that of UPC is accounted for as a special reserve;

(c) the other equity balances recognised in these financial statements are the other equity balances of the UPC Group.

The consolidated financial statements for the year ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements (Continued)

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and 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 sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 38.

(c) Subsidiaries and controlled entities

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital or controls more than half the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled 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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries and controlled entities (Continued)

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(g)), unless the investment is classified as held for sale.

(d) Fixed assets

(i) Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(g)).

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 appropriate proportion of production overheads and borrowing costs (see note 1(t)).

Gains or losses arising from the retirement or 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. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Fixed assets (Continued)

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

Buildings	30 years
Dock, processing and storage facilities	5–37 years
Office equipment	5–10 years
Motor vehicles	5–10 years
Leasehold improvement	Over the term of the lease

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation 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.

(ii) Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(f)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(g)). Depreciation is provided over its estimated useful lives on a straight-line basis, after taking into account their estimated residual values. Estimated useful life of the investment property is 20 years.

(iii) Construction in progress represents dock and storage facilities under construction and pending installation, and is stated at cost less impairment losses (note 1(g)). Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the periods of construction.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. No depreciation is provided in respect of construction in progress.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Intangible assets

Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and impairment losses (see note 1(g)). Intangible assets with indefinite useful lives that are acquired by the Group are stated in the balance sheet at cost less impairment losses (see note 1(g)).

Both the period and method of amortisation and any conclusion that the useful life of an intangible asset is indefinite are reviewed annually.

(f) Leased assets

(i) *Classification of assets leased to the Group*

Assets that are held by Group under leases which transfer to the Group 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 Group are classified as operating leases, with the following exception:

— 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 Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

(ii) *Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Company or Group will obtain ownership of the asset, the life of the asset, as set out in note 1(d). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(g). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(f) **Leased assets** (Continued)

(iii) *Operating lease charges*

Where the Group 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 asset. 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 except where the property is classified as an investment property.

(g) **Impairment of assets**

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

— fixed assets;

— intangible assets; and

— investments in subsidiaries.

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

For intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairment of assets (Continued)

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using the 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 whenever 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. An impairment loss in respect of goodwill is not reversed.

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 the profit or loss in the year in which the reversals are recognised.

For current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Inventories

Inventories represent consumable parts and are stated at cost less any provision for obsolescence.

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(g)), 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 impairment losses for bad and doubtful debts (see note 1(g)).

(j) Convertible notes

Convertible Notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition the liability component of the convertible notes is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the notes are converted or redeemed.

If the notes are converted, the capital reserve, together with the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the notes are redeemed, the capital reserve is released directly to retained profits.

(k) 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 cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter 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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(n) Employee benefits

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

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits 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) *Share based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date after taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Employee benefits (Continued)

(ii) *Share based payments* (Continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(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 directly in equity, in which case they are recognised in equity.

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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Income tax (Continued)

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 profits that may support the recognition of deferred tax assets arising from deductible temporary differences include 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 asset 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 limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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 balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits 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 profits 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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Income tax (Continued)

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 or the Group 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 or the Group 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 liabilities of uncertain timing or amount when the Group or 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 expenditures 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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Deferred revenue

Deferred revenue represents unearned rental income received in advance, which is recognised as revenue in profit or loss in equal instalments over the periods covered by the lease term (see note 1(r)(i)).

(r) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss account as follows:

(i) Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(ii) Port income is recognised in the profit or loss account upon performance of the services.

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

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains or losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated using the foreign exchange rates ruling at the transactions dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Translation of foreign currencies (Continued)

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(t) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being 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.

(u) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Segment reporting (Continued)

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period. Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

(w) Dividends

Dividends are recognised as a liability in the period in which they are declared.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group and Company after the adoption of these new and revised HKFRSs have been summarised in note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 39).

(a) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders (the equity shareholders of the Company).

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements) (Continued)

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the Company. Further details of the new policy are set out in note 1(c). These changes in presentation have been applied retrospectively with comparatives restated.

(b) Leasehold land and buildings held for own use (HKAS 17, Leases)

In prior year, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and impairment losses.

With effect from 1 January 2005, in order to comply with HKAS 17, the Group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the cost of the interest in any buildings situated on the leasehold land could be measured separately from the cost of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Further details of the new policy are set out in notes 1(f).

(c) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)

With effect from 1 January 2005, in order to comply with HKAS 32 and HKAS 39, the Group has changed its accounting policies relating to financial instruments to those as set out in notes 1(i), (j), and (l). Further details of the changes on convertible notes are as follows:

In prior years, convertible notes issued were stated at amortised cost (including transaction costs).

With effect from 1 January 2005, and in accordance with HKAS 32 and HKAS 39, convertible notes issued are split into their liability and equity components at initial recognition. The liability component is subsequently carried at amortised cost. The equity component is recognised in the capital reserve until the note is either converted (in which case it is transferred to share premium) or redeemed (in which case it is released directly to retained profits). Further details of the new policies are set out in note 1(j).

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(c) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement) (Continued)

The changes in accounting policies relating to convertible notes were adopted by way of opening balance adjustments to capital reserves and deferred tax liabilities as at 1 January 2005. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

(d) Definition of related parties (HKAS 24, Related party disclosures)

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties as disclosed in note 1(u) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, Related party disclosures, still been in effect.

3 TURNOVER

The principal activities of the Group are provision of terminalling, transshipment and storage facilities services for oil and petrochemical products.

Turnover represents port income and storage and transshipment income. The amount of each significant category recognised in turnover during the year is as follows:

	2005	2004
	’000	’000
Port income	**$18,820**	$23,632
Storage and transshipment income	**182,982**	168,525
Others	**—**	27
	$201,802	$192,184

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

4 OTHER NET INCOME

	2005 '000	2004 '000
Interest income	**$7,342**	$502
Rental receivable from investment properties	**136**	—
Others	**1,309**	1,283
	$8,787	$1,785

5 PROFIT BEFORE TAXATION

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

		2005 '000	2004 '000
(a)	Finance costs:		
	Interest on bank borrowings wholly repayable within five years	**$3,140**	$9,060
	Interest on convertible notes	**15,920**	—
		$19,060	$9,060
(b)	Staff costs:		
	Contributions to defined contribution retirement plans	**$706**	$468
	Salaries, wages and other benefits	**22,072**	12,256
	Total staff costs	**$22,778**	$12,724
(c)	Other items:		
	Depreciation and amortisation	**$26,165**	$25,355
	Auditors' remuneration		
	— audit services	**1,080**	921
	— review services	**370**	—
	— under provision in prior year	**170**	—
	Net foreign exchange gain	**(248)**	(106)
	Operating lease charges: minimum lease payments — buildings	**2,005**	1,382

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

6 TAXATION

Taxation in the consolidated income statement represents:

	2005 **'000**	2004 '000
Current tax — PRC Enterprise Income Tax for the year	**$10,205**	$9,699
Over-provision in prior years	**(535)**	—
Deferred tax — reversal of temporary differences *(note 24)*	**(2,039)**	—
	$7,631	$9,699

No Hong Kong Profits Tax was provided as the Group sustained a loss for Hong Kong Profits Tax purposes for the year.

The subsidiary in the PRC, GD (Panyu) is entitled to exemption from PRC Enterprise Income Tax for five years starting from its first profit-making year, followed by a 50% relief for the five years thereafter, in accordance with the approval from the PRC authority issued in 2002 regarding its port operation business. The full PRC Enterprise Income Tax rate applicable to GD (Panyu) is 15% and the reduced rate is 7.5%. The first year of GD (Panyu) subject to PRC Enterprise Income Tax at the reduced rate of 7.5% commenced from 1 January 2004.

Reconciliation between tax expense and accounting profit at applicable tax rate:

	2005 **'000**	2004 '000
Profit before taxation	**$110,740**	$134,038
Tax at the applicable tax rate of 15%	**$16,611**	$20,106
Tax effect of expenses not deductible for tax purpose	**1,488**	108
Tax effect of income not taxable for tax purpose	**(1,202)**	(1,075)
Tax effect of tax losses not recognised	**1,963**	260
Over-provision in prior years	**(535)**	—
Effect of tax relief granted to a PRC subsidiary	**(10,694)**	(9,700)
Taxation charge for the year	**$7,631**	$9,699

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

7 DIRECTORS' REMUNERATION

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

2005

	Directors' fee '000	Salaries, allowances and benefits in kind '000	Discretionary bonuses '000	Retirement scheme contributions '000	Total '000
Executive directors					
David An	$—	$923	$—	$30	$953
Feng Ya Lei	—	585	40	—	625
Zhou Nan Zheng	—	585	40	12	637
Kwan Po Wan	—	405	180	5	590
William W Liu	30	662	—	7	699
Independent non-executive directors					
Li Wai Keung	120	—	—	—	120
Liu Jian	120	—	—	—	120
Chan Chun Wai, Tony	70	—	—	—	70
	$340	$3,160	$260	$54	$3,814

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

7 DIRECTORS' REMUNERATION (Continued)

2004

	Directors' fee '000	Salaries, allowances and benefits in kind '000	Discretionary bonuses '000	Retirement scheme contributions '000	Total '000
Executive directors					
David An	$—	$938	$—	$30	$968
Feng Ya Lei	—	—	—	—	—
Zhou Nan Zheng	—	—	—	—	—
Kwan Po Wan	—	—	—	—	—
Independent non-executive directors					
Li Wai Keung	—	—	—	—	—
Liu Jian	—	—	—	—	—
William W Liu	—	—	—	—	—
	$—	$938	$—	$30	$968

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2004: one) were directors of the Company whose emolument is included in the disclosure in note 7 above. The emoluments of the remaining three (2004: four) individuals are as follows:

	2005 **'000**	2004 '000
Salaries and other benefits	**\$4,748**	\$1,091
Retirement benefits scheme contributions	**46**	52
	\$4,794	\$1,143

The emoluments of the three (2004: four) individuals with the highest emoluments are within the following bands:

$	**2005** **Number of individuals**	2004 Number of individuals
Nil–1,000,000	**2**	4
1,000,000–3,000,000	**—**	—
3,000,000–3,500,000	**1**	—

9 RESULT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of \$15,951,000 (2004: \$nil) which has been dealt with in the financial statements of the Company.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

10 DIVIDEND

	2005 '000	2004 '000
Interim dividend paid	$—	$50,000
Proposed final dividend of $nil per share (2004: $1.0 Hong Kong cent per share)	—	26,200
	$—	$76,200

The interim dividend in 2004 represents dividend paid by UPC to its then shareholder prior to the acquisition in December 2004.

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $92,569,000 (2004: $114,769,000) and the weighted average of 2,397,534,247 (2004: 551,639,344) ordinary shares in issue during the year, calculated as follows:

	2005 '000	2004 '000
Issued ordinary shares at 1 January	1,520,000	530,000
Effect of issue of shares on exercise of Convertible Notes	800,000	—
Effect of issue of shares	77,534	21,639
Weighted average number of ordinary shares at 31 December	2,397,534	551,639

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

11 EARNINGS PER SHARE (Continued)

(b) Diluted earnings per share

The calculation of the diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $108,489,000 (2004: $114,769,000) and the weighted average of 3,870,273,973 (2004: 601,256,830) ordinary shares in issue during the year, calculated as follows:

	2005 ’000	2004 ’000
Profit attributable to ordinary equity shareholders (basic)	**$92,569**	$114,769
Effect of interest on liability component of Convertible Notes	**15,920**	—
Profit attributable to ordinary equity shareholders (diluted)	**$108,489**	$114,769

	Number of shares ’000	Number of shares ’000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**2,397,534**	551,639
Effect of conversion of Convertible Notes	**1,472,740**	49,618
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**3,870,274**	601,257

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING

Business segments

For management purposes, the Group's operations are organised into two operating divisions, namely, provision of transshipment and storage facilities and port income. These divisions are the basis on which the Group reports its primary segment information.

Business segment information about these business is presented below:

2005

	Provision of transshipment and storage facilities '000	Port income '000	Consolidated '000
Turnover			
External sales	**$182,982**	**$18,820**	**$201,802**
Results			
Segment results	**$138,807**	**$15,534**	**$154,341**
Interest income			**7,342**
Unallocated corporate income			**1,445**
Unallocated corporate expenses			**(33,328)**
Profit from operations			**$129,800**
Finance costs			**(19,060)**
Profit before taxation			**$110,740**
Income tax			**(7,631)**
Profit for the year			**$103,109**

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING (Continued)

Business segments (Continued)

Business segment information about these business is presented below: (Continued)

2005 (Continued)

	Provision of transshipment and storage facilities '000	Port income '000	Consolidated '000
Assets			
Segment assets	$366,121	$3,456	$369,577
Unallocated corporate assets			365,061
Total assets			$734,638
Liabilities			
Segment liabilities	$349,061	$1,526	$350,587
Unallocated corporate liabilities			467,469
Total liabilities			$818,056
Other information			
Capital expenditure	$26,740	—	$26,740
Depreciation and amortisation			
Segment depreciation and amortisation	$26,054	—	$26,054
Unallocated depreciation and amortisation			111
Total depreciation and amortisation			$26,165
Loss on disposal of property, plant and equipment	$93	—	$93

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING (Continued)

Business segments (Continued)

Business segment information about these business is presented below: (Continued)

2004

	Trading of petro-chemical products '000	Provision of transshipment and storage facilities '000	Port income '000	Consolidated '000
Turnover				
External sales	$27	$168,525	$23,632	$192,184
Results				
Segment results	$27	$129,027	$21,031	$150,085
Interest income				502
Unallocated corporate income				1,283
Unallocated corporate expenses				(15,204)
Profit from operations				$136,666
Finance costs				(9,060)
Gain on disposal of subsidiaries				6,432
Profit before taxation				$134,038
Income tax				(9,699)
Profit for the year				$124,339

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING (Continued)

Business segments (Continued)

Business segment information about these business is presented below: (Continued)

2004 (Continued)

	Trading of petro-chemical products '000	Provision of transshipment and storage facilities '000	Port income '000	Consolidated '000
Assets				
Segment assets	$—	$368,904	$18,222	$387,126
Unallocated corporate assets				510,695
Total assets				$897,821
Liabilities				
Segment liabilities	$303	$416,139	$8,812	$425,254
Unallocated corporate liabilities				1,074,289
Total liabilities				$1,499,543
Other information				
Capital expenditure	—	$177,019	—	$177,019
Depreciation and amortisation	—	$25,355	—	$25,355
Loss on disposal of property, plant and equipment	—	$604	—	$604

The Group is engaged in the provision of transshipment and storage facilities services. More than 90% of the Group's turnover are derived from operations in the PRC (other than Hong Kong).

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING (Continued)

Business segments (Continued)

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2005	2004	**2005**	2004
	'000	'000	**'000**	'000
PRC (other than Hong Kong)	**$626,523**	$834,065	**$26,515**	$176,184
Hong Kong	**108,115**	63,756	**225**	835
	$734,638	$897,821	**$26,740**	$177,019

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 FIXED ASSETS

(a) The Group

	Buildings '000	Investment property '000 (note (b))	Dock and storage facilities '000	Office equipment '000	Motor vehicles '000	Leasehold improvements '000	Sub-total '000	Construction in progress '000	Interests in leasehold land held for own use under operating leases '000 (note (c))	Total Fixed assets '000
Cost:										
At 1 January 2005	$11,445	$—	$407,418	$2,522	$7,064	$1,109	$429,558	$29,800	$35,582	$494,940
Exchange adjustments	231	—	8,222	42	135	18	8,648	604	720	9,972
Additions	—	—	2,569	1,215	3,219	18	7,021	17,330	—	24,351
Acquisition of subsidiaries	291	2,036	—	62	—	—	2,389	—	—	2,389
Disposals	—	—	—	—	(682)	(996)	(1,678)	—	—	(1,678)
Transfer	249	—	14,725	—	—	—	14,974	(14,974)	—	—
At 31 December 2005	$12,216	$2,036	$432,934	$3,841	$9,736	$149	$460,912	$32,760	$36,302	$529,974
Accumulated depreciation and amortisation:										
At 1 January 2005	$2,897	$—	$125,718	$1,794	$3,140	$587	$134,136	$—	$11,032	$145,168
Exchange adjustments	64	1	2,905	37	77	12	3,096	—	244	3,340
Charge for the year	365	59	22,787	348	1,028	30	24,617	—	1,437	26,054
Written back on disposals	—	—	—	—	(646)	(598)	(1,244)	—	—	(1,244)
At 31 December 2005	$3,326	$60	$151,410	$2,179	$3,599	$31	$160,605	$—	$12,713	$173,318
Net book value:										
At 31 December 2005	$8,890	$1,976	$281,524	$1,662	$6,137	$118	$300,307	$32,760	$23,589	$356,656

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 FIXED ASSETS (Continued)

(a) The Group (Continued)

	Buildings '000	Dock and storage facilities $'000	Plant and machinery $'000	Office equipment $'000	Motor vehicles $'000	Leasehold improvements '000	Sub-total '000	Construction in progress '000	Interests in leasehold land held for own use under operating leases '000 *(note (c))*	Total Fixed assets '000
Cost:										
At 1 January 2004	$11,376	$403,936	$—	$2,281	$5,873	$971	$424,437	$9,871	$35,367	$469,675
Exchange adjustments	69	2,435	—	13	34	6	2,557	60	215	2,832
Additions	—	2,134	—	81	2,040	—	4,255	19,869	—	24,124
Acquired on acquisition of subsidiaries	85,210	—	62,173	1,682	698	3,132	152,895	—	—	152,895
Disposals	—	(1,087)	—	(153)	(883)	—	(2,123)	—	—	(2,123)
Eliminated on disposal of subsidiaries	(85,210)	—	(62,173)	(1,382)	(698)	(3,000)	(152,463)	—	—	(152,463)
At 31 December 2004	$11,445	$407,418	$—	$2,522	$7,064	$1,109	$429,558	$29,800	$35,582	$494,940
Accumulated depreciation and amortisation:										
At 1 January 2004	$2,538	$103,209	$—	$1,688	$2,983	$389	$110,807	$—	$9,545	$120,352
Exchange adjustments	17	677	—	10	20	3	727	—	62	789
Charge for the year	342	22,465	—	225	703	195	23,930	—	1,425	25,355
Written back on disposals	—	(633)	—	(129)	(566)	—	(1,328)	—	—	(1,328)
At 31 December 2004	$2,897	$125,718	$—	$1,794	$3,140	$587	$134,136	$—	$11,032	$145,168
Net book value:										
At 31 December 2004	$8,548	$281,700	$—	$728	$3,924	$522	$295,422	$29,800	$24,550	$349,772

(b) Investment property represents certain floors of the Company's office building rented out under the terms of operating leases.

The fair value of the investment property of the Group as at 31 December 2005 is estimated by the directors to be approximately $2 million by reference to market conditions. The investment property has not been valued by an external independent valuer.

(c) The Group was granted the rights to use the land by the PRC authorities with lease terms of 50 years. The net book value as at 31 December 2005 included an amount of HK$1,425,000 (2004: 1,425,000) which is disclosed as interest in leasehold land held for own use under operating leases under current assets.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 FIXED ASSETS (Continued)

(d) The Company

	Office equipment '000	Motor vehicles '000	Total '000
Cost			
At 1 January and 31 December 2004	$—	$—	$—
Additions	647	1,274	1,921
At 31 December 2005	$647	$1,274	$1,921
Accumulated depreciation and amortisation:			
At 1 January and 31 December 2004	$—	$—	$—
Exchange adjustment	1	2	3
Charge for the year	70	185	255
At 31 December 2005	$71	$187	$258
Net book value:			
At 31 December 2004	—	—	—
At 31 December 2005	$576	$1,087	$1,663

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14 INTANGIBLE ASSETS

		The Group	
	Club membership '000	Terminal development rights '000	Total '000
Cost:			
At 1 January and 31 December 2004	$—	$—	$—
Additions	935	—	935
Acquisition of subsidiary *(note 29)*	—	5,080	5,080
At 31 December 2005	$935	$5,080	$6,015
Accumulated amortisation:			
At 1 January and 31 December 2004	$—	$—	$—
Charge for the year	47	64	111
At 31 December 2005	$47	$64	$111
Net book value:			
At 31 December 2004	$—	$—	$—
At 31 December 2005	$888	$5,016	$5,904

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2005	2004
	’000	’000
Unlisted equities	**$1,051,500**	$1,051,500
Amounts due from subsidiaries	**26,963**	18,882
	$1,078,463	$1,070,382

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date and are therefore shown in the balance sheet as non-current.

The following list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group financial statements.

Details of the Company’s principal subsidiaries at 31 December 2005 are as follows:

Name of subsidiary	Place of operation	Place of incorporation/ establishment	Particulars of issued and paid up share capital/registered capital	Attributable equity interest Directly	Attributable equity interest Indirectly	Principal activities
GDPC	Hong Kong	Hong Kong	Ordinary shares — $20,000,000	—	100%	Provision of administrative services
Oriental Point International Limited	Hong Kong	Hong Kong	Ordinary shares — $1,000,000	—	100%	Inactive
Timeslink Development Limited	Hong Kong	Hong Kong	Ordinary shares — $10,000	100%	—	Provision of administrative services
UPC	Hong Kong	British Virgin Islands	Ordinary shares — US$100	100%	—	Investment holding
GD (Panyu)	PRC	PRC	RMB80,000,000	—	92%	Storage and transshipment
廣州中穗石油化工發展有限公司 (“中穗石化”)	PRC	PRC	RMB4,820,800	—	92%	Investment holding

Note: GD (Panyu) is a sino-foreign equity joint venture company and 中穗石化 is a limited company.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

16 TRADE AND OTHER RECEIVABLES

Subject to negotiation, credit is generally only available for major customers with well-established trading records. The Group allows an average credit period of 30 to 90 days to its trade customers.

Included in trade and other receivables are trade receivables of $8,860,000 (2004: $19,564,000). The aged analysis of trade receivables at the balance sheet date is as follows:

	The Group	
	2005	2004
	'000	'000
Due within 30 days	**$8,860**	$19,292
31–60 days	**—**	120
61–90 days	**—**	143
Over 90 days	**—**	9
	$8,860	$19,564

Included in trade and other receivables, amounts denominated in United States Dollars were US$355,000 (2004: nil).

17 CASH AND CASH EQUIVALENTS

Included in cash and cash equivalents in the balance sheets are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group				The Company			
	2005		2004		**2005**		2004	
		'000		'000		**'000**		'000
United States dollar		**USD4,390**		USD6,121		**USD—**		USD—
Effective interest rate:								
Time deposit	**3.0%**	**$191,555**	1.8%	$374,752	**3.0%**	**$59,628**	—	—
Other cash and cash equivalents	**1.2%**	**$162,679**	0.5%	$122,617	**1.2%**	**$1,563**	0.5%	$12,504

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

18 TRADE AND OTHER PAYABLES

There were no trade payables at 31 December 2005. At 31 December 2004, included in trade and other payables were trade payable of $303,000. The aged analysis of trade payables at the balance sheet date is as follows:

	The Group	
	2005	2004
	'000	'000
Due within 30 days	**$—**	$—
31–90 days	**—**	—
Over 90 days	**—**	303
	$—	$303

19 DEFERRED REVENUE

	The Group	
	2005	2004
	'000	'000
Within one year	**$85,918**	$86,388
More than one year, but not exceeding two years	**77,580**	81,745
More than two years, but not exceeding five years	**184,086**	245,236
	$347,584	$413,369
Less: Amount due within one year shown under current liabilities	**(85,918)**	(86,388)
Amount due after one year	**$261,666**	$326,981

On 29 December 2004, the Group entered into a lease agreement (the "Lease Agreement") with a third party (the "Lessee") for the lease of certain oil storage tanks of the Group (the "Oil Storage Tanks") and the non-exclusive use of related transshipment, docking, loading and unloading facilities for a period of 20 years from the date of delivery of the use of the Oil Storage Tanks at an annual rental of approximately $80 million. Pursuant to the Lease Agreement, the Group received five years' rentals of approximately $410 million on signing of the Lease Agreement and was obliged to pass the right to use part of the Oil Storage Tanks to the Lessee on 1 January 2005.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

20 AMOUNTS DUE TO RELATED COMPANIES

Details of the amounts due to related companies are as follows:

	The Group	
Name of company	**2005**	2004
	’000	’000
Vand Petro-Chemicals	**$—**	$50,035
廣州市粵盈石油化工發展有限公司(“粵盈石化”)	**615**	—
Guangdong Lianyang Petrochemcal Company Limited (“GD Lianyang”)	**—**	53,498
	$615	$103,533

The amount due to Vand Petro-Chemicals was unsecured, interest free and was fully repaid during the year.

粵盈石化 and GD Lianyang are companies controlled by a director of a subsidiary of the Company. The amount due to 粵盈石化 is unsecured, interest free and repayable on demand. The amount due to GD Lianyang was unsecured, interest free and was fully repaid during the year.

21 BANK LOANS

The banks loans at 31 December 2004 were secured and repayable as follows:

	The Group
	2004
	’000
Within one year	$160,174
More than one year, but not exceeding two years	—
	$160,174
Less: Amount due within one year shown under current liabilities	(160,174)
Amount due after one year	$—

The bank loans were repaid during the year ended 31 December 2005.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

22 CONVERTIBLE NOTES

On 24 December 2004, the Company issued Convertible Notes with a principal amount of $681,000,000 to Vand Petro-Chemicals as part of the consideration for the acquisition of UPC.

The Convertible Notes bear interest at 1% per annum and is redeemable at par on 24 December 2009. The holder of the convertible notes has the rights to convert all or any portion of the convertible notes into ordinary shares of the Company at an initial conversion price of $0.30 per share, subject to adjustment. The conversion rights can be exercised at any time from the date of issue until the repayment of the Convertible Notes, provided that the public float of the Company will not be less than 25% immediately after such conversion.

On 15 March 2005, Vand Petro-Chemicals exercised its rights to convert part of the Convertible Notes with a principal amount of $300 million for the issue of 1,000 million ordinary shares of $0.10 each at the conversion price of $0.30 each.

23 PROMISSORY NOTES

On 24 December 2004, the Company issued Promissory Notes with a principal amount of $200,000,000 to Vand Petro-Chemicals as part of the consideration for the acquisition of UPC. $95,000,000 of the Promissory Notes were repaid during 2004. The Promissory Notes are interest free and were repayable on demand on or before 24 June 2006.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

24 DEFERRED TAX LIABILITIES

The movements of deferred tax liabilities during the year are as follows:

Deferred tax arising from:	The Group and the Company Convertible Notes '000
At 1 January and 31 December 2004,	
— before opening balance adjustment	$—
— opening balance adjustments — HKAS 39	15,869
At 1 January 2005, after opening balance adjustment	$15,869
Credited to reserves	(6,581)
Credited to income statement *(note 6)*	(2,039)
At 31 December 2005	$7,249

In accordance with the accounting policy set out in note 1(o), the Group has not recognised deferred tax assets in respect of the cumulative tax losses of approximately $40 million (2004: $25 million) as it is not probable that future taxable profits against which the losses can be utilised will be available. The tax losses do not expire under the current tax legislation.

25 EMPLOYEE RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

The employees of GD (Panyu) and 中穗石化 are members of a state-managed retirement benefit scheme operated by the PRC government. GD (Panyu) and 中穗石化 are required to contribute a certain percentage of the salaries, bonuses and certain allowances of its staff to the retirement scheme. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contribution under the scheme. The Group has no other material obligation for the payment of pension benefits associated with this scheme beyond the annual contributions described above.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

26 SHARE CAPITAL

	The Company	
	Number of ordinary shares '000	**Amount '000**
Ordinary shares of $0.10 each:		
Authorised:		
At 1 January 2004	5,000,000	$500,000
Increase in authorised share capital	5,000,000	500,000
At 31 December 2004 and 2005	10,000,000	$1,000,000
Issued and fully paid:		
At 1 January 2004	990,000	$99,000
Issue of new shares	530,000	53,000
At 31 December 2004	1,520,000	$152,000
At 1 January 2005	1,520,000	$152,000
Issue of shares on exercise of Convertible Notes *(note 22)*	1,000,000	100,000
Issue of shares	100,000	10,000
At 31 December 2005	2,620,000	$262,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

27 RESERVES

The Company

	Share premium '000	Translation reserve '000	Capital reserve '000	Accumulated losses '000	Total '000
At 31 March 2004	$96,986	$—	$—	$(2,085)	$94,901
Issue of shares	106,000	—	—	—	106,000
Loss for the period	—	—	—	(63,326)	(63,326)
At 31 December 2004	$202,986	$—	$—	$(65,411)	$137,575
At 1 January 2005					
— as previously reported	$202,986	$—	$—	$(65,411)	$137,575
— opening balance adjustment					
— HKAS 39	—	—	74,813	—	74,813
At 1 January 2005 after opening balance adjustment	$202,986	$—	$74,813	$(65,411)	$212,388
Issue of shares on exercise of convertible notes	201,631	—	(32,957)	—	168,674
Issue of shares	87,385	—	—	—	87,385
Dividend paid	—	—	—	(26,200)	(26,200)
Exchange difference	—	91	—	—	91
Loss for the year	—	—	—	(15,951)	(15,951)
At 31 December 2005	$492,002	$91	$41,856	$(107,562)	$426,387

The Company's reserves available for distribution to its shareholders comprise share premium and accumulated losses which in aggregate amounted to approximately $384.4 million as at 31 December 2005 (2004: $137.6 million). Under the Companies Law (Revised) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its memorandum and articles of association and provided that immediately following the payment of distribution or dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's articles of association, distributions shall be payable out of the profits or other reserves, including the share premium account, of the Company.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

28 SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed on 16 December 2002, the Company adopted a share option scheme (the "scheme") for the purpose of enabling the Company to recruit and retain high-calibre employees and attract resources that are available to the Group and to provide the Company with a means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to such persons who contribute or may bring benefit to the Group. The scheme will remain in force for a period of 10 years from adoption of such scheme and will expire on 15 December 2012.

Under the Scheme, the board of directors of the Company (the "directors") may at their discretion grant options to (i) any director of the Company or any company in which the Company holds an equity interest; or (ii) any employee of the Company or any company in which the Company owns any equity interest; (iii) any consultant, agent, business affiliate, professional and other advisor, business partner, joint venture partner, strategic partner, or any supplier or provider of goods or services to the Company or any subsidiaries of the Company as may be determined by the directors from time to time to subscribe for the shares of the Company (the "shares").

Options granted must be taken up within 21 days of the date of grant, upon payment of $1 per option. The maximum number of shares in respect to which options may be granted under the scheme shall not exceed 10% of the issued share capital of the Company on the date of adopting the scheme. The limit may be refreshed at any time provided that the new limit must not be in aggregate exceed 10% of the issued share capital of the Company as at the date of the shareholders' approval in general meeting. However, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the scheme and any other scheme of the Company must not in aggregate exceed 30% of the shares in issue from time to time. The maximum number of shares in respect of which options may be granted to any individual in any 12-month period shall not exceed 1% of the shares in issue on the last date of such 12-month period unless approval of the shareholders of the Company has been obtained in accordance with the Listing Rules. Options granted to substantial shareholders or independent non-executive directors in excess of issued share capital of the Company or with a value in excess of $5 million must be approved in advance by the shareholders of the Company.

Options may be exercised at any time from date of grant of the share option to the 10th anniversary of the date of grant as may be determined by the directors. The exercise price is determined by the directors, and will not be less than the higher of the closing price per share as stated in the Stock Exchange's daily quotation sheets on the date of the grant of the options and the average closing price per share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of the grant of the options.

No option was granted by the Company under the scheme since its date of adoption.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29 ACQUISITION OF A SUBSIDIARY

In October 2005, the Group acquired 92% interest in 中穗石化, a company registered in PRC. The assets and liabilities acquired and consideration are as below:

	2005 '000
Net assets of the subsidiary acquired:	
— Property, plant and equipment	**$2,389**
— Amount due from a related party	**8,171**
— Trade and other receivables	**801**
— Cash and cash equivalents	**1,973**
— Intangible assets *(note 14)*	**5,080**
— Trade and other payable	**(12,358)**
	$6,056
Satisfied by:	
Cash consideration paid	**$5,441**
Loan from a related party	**615**
	$6,056

30 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

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

At the balance sheet date, the Group has a certain concentration of credit risk as 30% (2004: 35%) of the total trade and other receivables was due from the Group's five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

30 FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Company's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities to meet its liquidity requirements in the short and longer term.

(c) Interest rate risk

The interest rates and terms of repayment of convertible notes are disclosed in note 22.

(d) Foreign currency risk

Except for certain amount of operations which were transacted in United States dollar ("US dollar"), most of the revenue generating operations of the Group are transacted in Renminbi. With the authorisation from the PRC government, the People's bank of China announced that the PRC government reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies on 21 July 2005. The exchange rate of US dollars against RMB was adjusted to 8.11 yuan per US dollar with effect from the time of 19:00 on 21 July 2005.

Other than the amounts as disclosed in notes 16 and 17, the amounts of other financial assets and liabilities of the Group are substantially denominated in the functional currency of respective entities of the Group.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

30 FINANCIAL INSTRUMENTS (Continued)

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2005 and 2004 except as follows:

The Group and the Company	**2005** Carrying amount '000	**2005** Fair value '000	2004 Carrying amount '000	2004 Fair value '000
Convertible Notes	**$339,578**	**$326,960**	$681,000	$590,049

The fair value of convertible notes is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

The fair value of cash and cash equivalents, trade and other receivables, bank deposits, trade and other payables, amounts due to related companies and promissory notes are not materially different from their carrying amounts.

31 OPERATING LEASE ARRANGEMENTS

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings, which fall due as follows:

	The Group		**The Company**	
	2005 '000	2004 '000	**2005 '000**	2004 '000
Within one year	**$3,399**	$2,372	**$1,905**	$—
In the second to fifth year inclusive	**3,909**	3,672	**2,540**	—
More than five years	**—**	389	**—**	—
	$7,308	$6,433	**$4,445**	$—

Operating lease payments represent rentals payable by the Group for its warehouses, office premises and directors' quarters. Leases are negotiated for an average term of two to five years with fixed rentals.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 OPERATING LEASE ARRANGEMENTS (Continued)

The Group as lessor

Rental income earned during the year was approximately $183 million (2004: $168 million). The leases are negotiated for a lease term of 1 to 20 years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	The Group	
	2005	2004
	'000	'000
Within one year	**$111,204**	$80,616
In the second to fifth year inclusive	**331,274**	111,603
More than five years	**1,086,166**	1,226,179
	$1,528,644	$1,418,398

32 CAPITAL COMMITMENTS

At 31 December 2005, the Group had capital expenditure contracted for but not provided in the financial statements in respect of acquisition of port facilities amounted to $375,000 (2004: $11,587,000).

At 31 December 2005, the Group had capital expenditure not contracted for but approved by the board and not provided in the financial statements in respect of terminal development and acquisition of storage facilities amounted to approximately $600 million (2004: Nil).

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

33 PLEDGED ASSETS

At the balance sheet date, assets pledged against banking facilities granted by certain banks to the Group are as follows:

	The Group	
	2005	2004
	'000	'000
Property, plant and equipment	**$—**	$306,249
Pledged bank deposits	**$600**	$8,523

34 CONTINGENT LIABILITIES

	The Group and the Company	
	2005	2004
	'000	'000
Guarantees given to a supplier in respect of credit facilities extended to a subsidiary	**$—**	$7,800

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

35 MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group entered into the following significant transactions with connected persons and related parties:

(a) Connected persons

During 2004, the Group completed the acquisition and the disposal with connected persons. Details of the connected transactions are set out in a circular of the company dated 7 December 2004.

(b) Related parties, other than connected persons

Name of party	Nature of transactions	Note	The Group 2005 '000	The Group 2004 '000
廣州粵聯萬達石油化工有限公司 ("粵聯萬達")	Storage income received	*(i)*	**—**	$28,069
Vand Petro-Chemicals	Interest paid or payable on convertible notes	*(ii)*	**$4,567**	—

Notes:

(i) Storage income was charged at market price or, where no market price was available, in accordance with the terms of the agreement entered into between the relevant parties.

(ii) Interest paid was charged at 1% on the principal amount of the convertible notes.

粵聯萬達 and Vand Petro-Chemicals are companies under common control by a director of the Company.

Details of the balances with related companies are set out in note 20.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

35 MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(c) Key management personnel remuneration

Remuneration for key management personnel, 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:

	2005 **'000**	2004 '000
Short-term employee benefits	**$9,423**	$2,029
Post-employment benefits	**155**	82
	$9,578	$2,111

36 COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies. Further details are discussed in note 2.

37 PARENT COMPANY AND ULTIMATE HOLDING COMPANY

At 31 December 2005, the directors consider the parent and ultimate controlling party of the Group to be Vand Petro-Chemicals, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

38 ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

38 ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

Impairments

If circumstances indicate that the carrying value of fixed assets and receivables may not be recoverable, the assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36 'Impairment of Assets". The carrying amounts of fixed assets and receivables 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 recoverable amount. The recoverable amount of fixed assets is the greater of the net selling price and the value in use. The recoverable amount of receivables is the estimated future cash flows discounted at the current market rate of return of similar assets. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group 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 sale volume, selling price and amount of operating costs.

Depreciation

Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the assets. The Group 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 depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

39 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2005

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2005 and which have not been adopted in these financial statements.

		Effective for accounting periods beginning on or after
HKFRS 6	Exploration for and evaluation of mineral resources	1 January 2006
HK(IFRIC) 4	Determining whether an arrangement contains a lease	1 January 2006
HK(IFRIC) 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	1 January 2006
HK(IFRIC) 6	Liabilities arising from participating in a specific market — Waste electrical and electronic equipment	1 December 2005
Amendments to HKAS 19	Employee benefits — Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
Amendments to HKAS 39	Financial instruments:	
	Recognition and measurement:	
	— Cash flow hedge accounting of forecast intragroup transactions	1 January 2006
	— The fair value option	1 January 2006
	— Financial guarantee contracts	1 January 2006

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

39 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2005 (Continued)

		Effective for accounting periods beginning on or after
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:		
— HKAS 1	Presentation of financial statements	1 January 2006
— HKAS 27	Consolidated and separate financial statements	1 January 2006
— HKFRS 3	Business combinations	1 January 2006
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the Group's financial statements for the period beginning 1 January 2006.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of HKFRS 6 and HK(IFRIC) 5 and the amendments to HKAS 1, HKAS 27 and HKFRS 3 made as a result of the Hong Kong Companies (Amendment) Ordinance 2005 are not applicable to any of the Group's operations and that the adoption of the rest of them is unlikely to have a significant impact on the Group's results of operations and financial position.

FIVE YEAR FINANCIAL SUMMARY

	Year ended 31 December				
	2001	2002	2003	2004	**2005**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Turnover	232,329	241,926	165,712	192,184	**201,802**
Profit before taxation	72,670	92,627	93,942	134,038	**110,740**
Taxation	(12)	(4)	—	(9,699)	**(7,631)**
Profit attributable to equity shareholders of the Company	66,694	84,959	86,315	114,769	**92,569**
Profit attributable to minority interests	5,964	7,664	7,627	9,570	**10,540**
Profit for the year	72,658	92,623	93,942	124,339	**103,109**

	At 31 December				
	2001	2002	2003	2004	**2005**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total assets	607,185	679,595	439,249	897,821	**734,638**
Total liabilities	634,491	616,999	287,390	1,499,543	**818,056**
Minority interests	37,681	45,037	52,096	8,513	**19,371**
Total equity attributable to equity shareholders of the Company	(64,987)	17,559	99,763	(610,235)	**(102,789)**

Note: Under accounting principles generally accepted in Hong Kong, the acquisition of the entire interest in UPC in December 2004 has been accounted for as a reverse acquisition. Accordingly, the above financial information represents those of the UPC Group.