ANNUAL REPORT

HANS ENERGY COMPANY LIMITED

漢思能源有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 554

CORPORATE **INFORMATION**

BOARD OF DIRECTORS

Mr. David AN *(Chairman)*
Ms. FENG Ya Lei
Mr. ZHOU Nan Zheng
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

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

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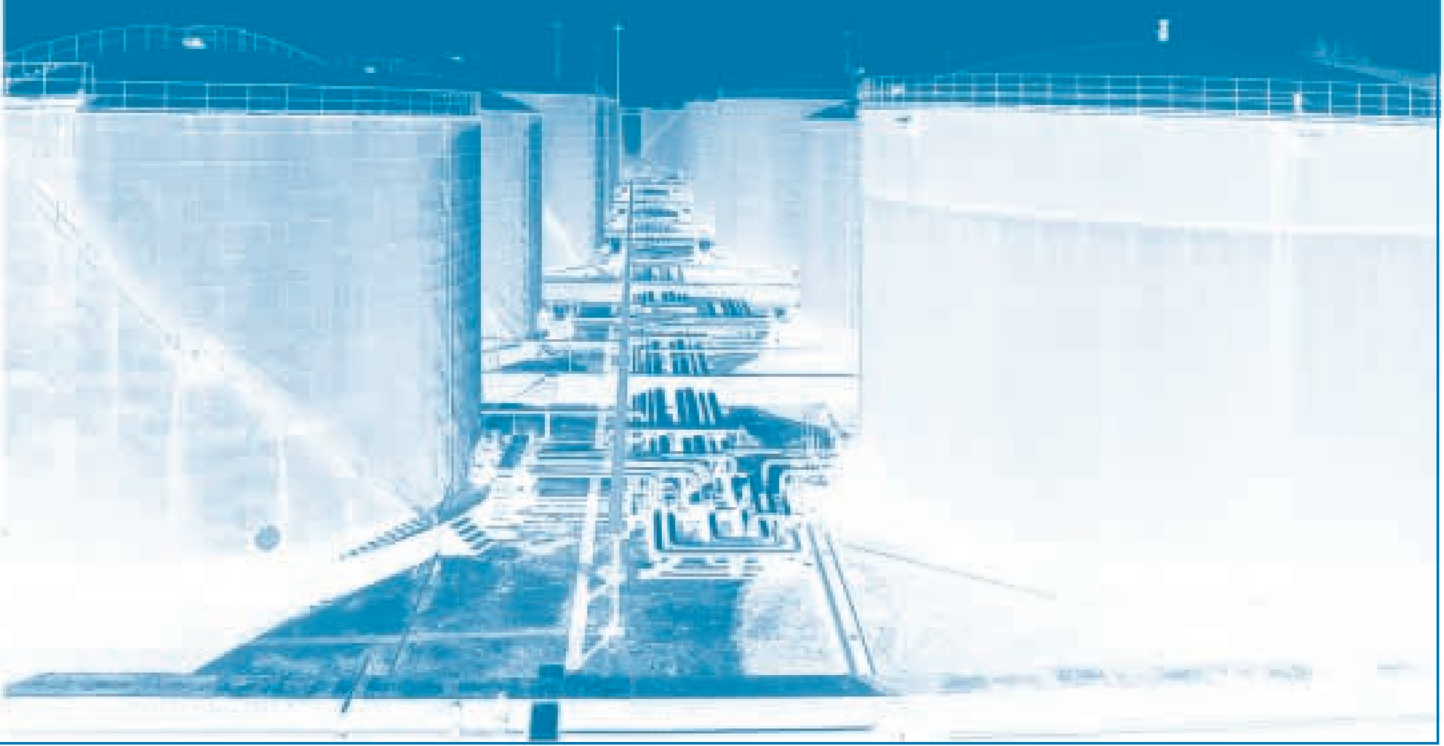

CHAIRMAN'S **STATEMENT**

On behalf of the board, I would like to present the annual report of Hans Energy Company Limited and its subsidiaries (the "Hans Energy Group" or "Group") for the year 2006. For the year ended 31 December 2006, the Group recorded turnover of HK$166.9 million (2005: HK$201.8 million) and the profit attributable to shareholders was HK$134.2 million (2005: HK$92.6 million), representing a decrease of 17.3% and an increase of 45.0% respectively. The drop in turnover was mainly due to the fact that the operation of XHIT was influenced and hindered by the construction works of a terminal with a docking capacity of 50,000 tons (the "Adjacent Terminal"), which was built by China Petroleum & Chemical Corporation Guangdong Branch (中石化廣東省公司) ("Sinopec Guangdong") in the neighbouring area of XHIT. Notwithstanding, the Group attained a considerable net profit growth. This was attributable to stable source of income was generated from the Group's previous long-term leases. Lease rentals were not impacted by the cargo storage volume within the region. In addition, the Group has received a compensation payment as the operation of XHIT was affected by the construction works of the Adjacent Terminal. As such, material gains were brought for the Group's bottom line. To smooth the operation of the two terminals, the Group has entered into negotiations with Sinopec Guangdong for collaborative cooperation. Basic understanding has been reached, and an agreement relating to the joint management of such terminal with a docking capacity of 50,000 tons is expected to be secured within this year. Coupled with pipelines connecting the two terminals, the operating capacity of XHIT will be enhanced to a new height. Competitive strengths will be reinforced in order to seek for synergies on a "win-win" basis.

Taping into the blooming market opportunities arising from the PRC economic growth and worldwide economic globalization, the Group's core business in the provision of specialized integrated terminal, storage and logistics facilities and services will play an important role in international trade and energy sector supply chain. It will keep up its pace with the fast moving track. The construction and development of the terminal for oil, gas and liquid petrochemical products in Dongguan and the business establishment therefor have been undergone smoothly. We look forward to the completion of the construction of the Dongguan terminal and its commencement of operations in 2008. The increase in total capacity will enable the Group to dominate the industry with a higher share of the market in the profitable region. We believe the Group will be able to maintain a relatively high net profit margin stemmed on the efficiency of operating scale, which in turn reduces the average operating costs with satisfactory economic returns.

Under the support of government policies of the PRC, the petrochemical production industry has flourished with robust development in the country. Domestic or foreign enterprises are either constructing new oil refineries or expanding production capacity of their current oil refineries. Furthermore, the international demand for crude oil has been constantly surging and the

international refinery capacities have been increasing. Thus, the domestic and international demand for storage ancillary facilities and service in respect of crude oil terminals continues to surge. Moreover, there is an international trend of increasing scale of refined oil transportation (VLCC). At present, supply of large-scale modernized crude oil terminals and storage ancillary facilities in the Asia Pacific region and China are inadequate. In order to sustain the leadership of the Group in the industry, and the development of the Group's core business, increase our market share and strengthen ourselves through expansion, the Group has set up a sizable and systematic plan to explore and construct a deep water crude oil terminal which is to be arranged in Southern China zone. We will expand our bonded storage and transportation business in order to extend our coverage into the Asia Pacific region through loading and unloading of a wide range of oil products including gasoline and diesels, and by connecting with the pipeline network of large refineries within the region. We hope to implement the plan this year to strive for substantial return to shareholders by capitalizing on this golden opportunity and leveraging on robust growth of the industry.

As a listed company in Hong Kong having its own port and providing specialized integrated terminal, storage and logistic services for oil, gas and petrochemical products, Hans Energy will focus its development of an efficient logistic service chain, delivering quality services to customers. The synergy and capabilities created through the integration of the wharf jetties and storage tank farm is incomparable by other storage service providers. We shall maintain the value of our brand name, reputation and competitive edge for the Group established over the years. We believe our effort in this regard will eventually bring values to our shareholders.

The Group recognizes that safety and environmental protection and preservation are the critical success factors of our business. We shall maintain our policy to ensure the compliance of all relevant laws and regulations at high standard level. These are the drivers of our business excellence and create value to the shareholders. We place great emphasis on social responsibility and environmental conscience.

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, 28 March 2007

MANAGEMENT
DISCUSSION AND ANALYSIS

GROUP RESULTS

For the year ended 31 December, 2006, the Group's turnover was HK$166.9 million (2005: HK$201.8 million) and the profit attributable to equity shareholders was HK$134.2 million (2005: HK$92.6 million), representing a decrease of 17.3% and an increase of 45.0% respectively as compared to last year. The basic and diluted earnings per share ('EPS') for the year were 5.17 Hong Kong cents and 3.82 Hong Kong cents (2005: 3.86 Hong Kong cents and 2.80 Hong Kong cents respectively). The increases of both basic and diluted EPS were attributable to the significant increase in profit attributable to equity shareholders of the year.

	2006 (HK$'000)	2005 (HK$'000)	Changes
Turnover	**166,936**	201,802	-17.3%
Earnings before interest and tax (EBIT)	**175,278**	129,800	+35.0%
Profit attributable to equity shareholders of the Company	**134,218**	92,569	+45.0%
Earnings before interest, tax, depreciations and amortisation (EBITDA)	**204,779**	155,965	+31.3%
Net profit margin	**80.4%**	45.9%	
Earnings per share (HK cents)	**5.17**	3.86	+33.9%
Diluted earnings per share (HK cents)	**3.82**	2.80	+36.4%

BUSINESS REVIEW

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

Operational Statistics	**2006**	2005	Changes
Number of vessels visited			
– foreign	**270**	309	-12.6%
– domestic	**2,752**	2,769	-0.6%
Number of trucks served to pick up cargoes	**25,023**	40,386	-38.0%
Number of drums filled	**48,053**	44,519	+7.9%
Transhippment volume (metric ton)			
– oils	**15,524**	266,332	-94.2%
– petrochemicals	**214,999**	184,532	+16.5%
Port jetty throughput (metric ton)	**4,328,000**	4,960,070	-12.7%
Tank farm throughput (metric ton)	**4,774,000**	5,696,000	-16.2%

Xiao Hu Island Terminal ("XHIT") continues to contribute the major source of revenue to the Group. During the year, it recorded that 270 foreign tankers berthed for unloading cargoes (2005: 309) and total throughput of 4,328,000 metric tons (2005: 4.960,000 metric tons) in XHIT. The number of foreign tankers berthed for unloading in 2006 was still hampered by the hanging-high international oil price and shrinken importation of fuel oil into Guangdong province.

Results of XHIT

The breakdown of major revenue items of the Group were as follows:

	2006		2005	
	(HK$'000)	**%**	(HK$'000)	%
Terminal, storage and transshipment services	**152,113**	**91.1**	182,982	90.7
Port income	**14,823**	**8.9**	18,820	9.3

For the year ended 31 December, 2006, turnover from the provision of terminal storage and transshipment facilities segment decreased from HK$183.0 million to HK$152.1 million, representing an drop of 16.9% whereas the segment profit for the same period decreased from HK$138.8 million to HK$103.5 million, representing a decrease of 25.4%. Turnover and segmental profit decreased. The major reason was that the construction works of the terminal with a docking capacity of 50,000 tons, which was built by Sinopec Guangdong in the neighbouring area of XHIT, have affected and hindered the operation of XHIT. Accordingly, compensations were made by Sinopec Guangdong for any loss of gains arising from the interrupted operation of XHIT as a result of those works.

For the year ended 31 December, 2006, turnover from port income dropped approximately 21.2% from HK$18.8 million to HK$14.8 million and the segment profit decreased from approximately HK$15.5 million to HK$12.8 million, representing an decrease of 17.7%. Port income mainly comprises the port charge for every metric ton cargoes discharged at XHIT. The decrease in turnover and profit for this segment was in line with the decrease in port throughput and the drop in number of foreign tankers berthed in XHIT during the year.

Other income

The item mainly comprised of a payment of HK$88 million from Sinopec Guangdong to compensate Guangdong (Panyu) Petrochemical Storage & Transportation Ltd. ("GD (Panyu)") for the loss of revenue relating to the interruption and inconvenience it might have caused to XHIT port operations during the construction period of a terminal developed by them adjacent to XHIT.

OUTLOOK

The Group continued to focus its core business in the midstream of the energy sector, providing specialized integrated terminal, storage and logistics services for oil and liquid petrochemical products in the PRC as well as identifying other oil-industry areas for growth. Since the China retail market of product oils has been opened to foreign investors and operators since late 2006, sizeable renowned international oil players have prepared to enter into this promising and exciting market. In this connection, the demand for product oil storage and terminal facilities is expected to surge in coming years. Furthermore, the opening of the retail market would catalyze the reform of retail oil pricing structure with less control measures. To capture this golden opportunity, the Group has commenced expanding its operating capacity through the development of the Dongzhou project in Dongguan. The Group has planned as well as other projects both inside and outside China.

- **XHIT Terminal Business**

Following several phases of expansion since it became operational, XHIT has reached it full strength in both docking capacity and storage capacity. There are limitations for further expansion in respect of land and space available in the area located.

Although there is limited room for further expansion in storage capacity, XHIT has completed the upgrading on one of its docking space. The upgrade will enhance XHIT's throughput capacity and capabilities to cater larger vessels. Nevertheless, XHIT is among the very few terminals in the Pearl River Delta region that can provide specialized and integrated terminal with facilities of its size. The Group is confident that XHIT will maintain a leading position in the provision integrated terminal and logistics services for oil and petrochemical products in the region. Since the commencement of the operating lease of oil tanks with aggregated storage capacity of 241,000 cubic metres in 2005, Sinopec Guangdong has been using XHIT terminal as a centre for distributing its refined oils from refineries to cover retail outlets and sales destinations, such as gas stations, power stations and factories in the Pearl River Delta, including cities like Guangzhou, Shenzhen, Dongguan, etc. The abilities of XHIT in providing such services and facilities distinguish it as a sizable port to distribute large volume frequent flows of oil products from other storage service providers. It is expected that business development will forge toward the same direction in the future.

In order to boost the competitiveness and operating capacity of XHIT, the Group is currently negotiating with adjacent terminals for fostering further cooperation. Basic understanding has been reached, and an agreement relating to the joint management of such terminal with a throughput capacity of 50,000 tons is expected to be signed with Sinopec Guangdong within this year, thereby enhancing the operating capacity of XHIT to a new height. Competitive strengths will also be reinforced. Riding on the vast pool of resources of Sinopec Guangdong, together with the support of efficient usage of the newly constructed terminal facilities and resources, network connection of inter-systems, highly efficient management of XHIT, profound market operation experience and high quality storage services and technology, the throughput capacity and capabilities of XHIT will be upgraded to cater for larger vessels. These will invite higher rate of utilization of our port capacity from our customers, hence providing additional operating income for both parties. Synergies will be created on a "win-win" solution.

Following the formal commissioning of the extensive refined oil channel network of Sinopec Guangdong, the handling pressures of XHIT will be remarkably relieved, thereby enhancing the transshipment capabilities of the terminal of XHIT. This will be the new growth points for the future business and profit of XHIT.

- **Dongzhou International Terminal project ("DZIT")**

The Group has started the construction of a new terminal for oil, gas and liquid petrochemical products, which is located in the newly development zone of Dongguan city designated as an integrated industrial and logistic zone for oils and petrochemicals. As economic globalization has become a tendency, ports are playing a more important role in international trade. Dongguan, as a highly export oriented industrial structure, not only becomes a world manufacturing base, but also a distribution centre and a logistic hub for raw materials, energy resources and finished products. The total annual volume of goods transported both from water and land has reached more than 60 million tons. It brings the regional economy into the chain of international economy. The logistic development zone is targeted to cover not only the Guangdong province and the adjacent regions, but will radiate to economies of Hong Kong and Macau. DZIT, upon completion, will be a comprehensive terminal and storage complex in Dongguan Humen Port in Guangdong Province of the PRC, specialized in oil and liquid petrochemical products, which will comprise of a wharf with 12 docking spaces of capacity ranging from 500 dwt to 80,000 dwt. Apart from the wharf jetties, DZIT will build a tank farm with a total storage capacity of 960,000 cubic metres. The Group's capital investment in the project is estimated to be in excess of RMB800 million.

During the year, the development and construction works have been pushed forward. The contracts to acquire land and coastal line have been signed with the Dongguan Humen Port Government and all the preparation works have been completed. The required Government permits in respect of the construction and design of the jetty pier and storage tank farm have been obtained, especially regarding environmental preservation, safety measures. Construction works have been commenced in all directions with full speed and it is anticipated that the terminal will become operational in early next year. The terminal will be equipped with state-of-the-art machinery for loading-unloading, transshipment, and storage facilities plus technologies to maintain high standard of environmental protection and safety measures. It will become a corner stone foundation of the Group's core business development.

Meanwhile, the works to solicit customers and secure leasing orders for the new terminal have been undergoing during the period. The response is positive and encouraging. Enquiries have been received from potential customers who have indicated their interests in utilizing our terminal facilities. A number of customers have entered into lease memorandums with us. The Management is confident of executing long-term leases with those customers during the year. We are now screening quality customers by giving preference to stable supply of goods and long tenure of leases. The Management will share the successful experience in XHIT, to secure stable leasing orders for the storage tanks with the customer base established over the years as well as new customers from overseas. The management is confident in this respect to capture the opportunity of the growing demand of storage and distribution facilities.

- **New Development Plans**

The Group has plans to connect the two operation systems between DZIT and XHIT to strengthen its overall competitiveness and consolidate its position as an oil and petrochemical products terminal service provider as well as a logistics centre for distribution of such products. It is believed that with the aggregate jetty throughput storage capacity and inter-system connection, 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 petrochemical products business will be enhanced.

- **Deep Water Crude Oil Terminal**

  Under the support of government policies of the PRC, the petrochemical production industry has flourished with robust development in the country. Domestic or foreign enterprises are either constructing new oil refineries or expanding production capacity of their current oil refineries. Furthermore, the international demand for crude oil has been constantly surging and the international refinery capacities have been increasing. Thus, the domestic and international demand for storage ancillary facilities and service in respect of crude oil terminals continues to surge. Moreover, there is an international trend of increasing scale of refined oil transportation (VLCC). At present, supply of large-scale modernized crude oil terminals and storage ancillary facilities in the Asia Pacific region and China are inadequate. In order to sustain the leadership of the Group in the industry, and the development of the Group's core business, increase our market share and strengthen ourselves through expansion, the Group has set up a sizable and systematic plan to explore and construct a deep water crude oil terminal which is to be arranged in Southern China zone. We will expand our bonded storage and transportation business in order to extend our coverage into the Asia Pacific region through loading and unloading of a wide range of oil products including gasoline and diesels, and by connecting with the pipeline network of large refineries within the region. We hope to implement the plan this year to strive for substantial return to shareholders by capitalizing on this golden opportunity and leveraging on robust growth of the industry.

FINANCIAL REVIEW

Capital structure, liquidity and gearing

The Company repurchased from the market 142,854,000 shares of the Company thus the capital structure of the Group changed during the year. Accordingly, the share capital account was reduced by HK$14.3 million. And the share premium account also decreased by HK$49.1 million.

As at 31 December 2006, the Group had a cash balance of HK$213 million (2005: HK$354 million). Most of the funds were held in HK$, RMB and US$.

As at 31 December 2006, the Group had a current ratio of 1.90 (31 December 2005: 1.78). The improvement in current ratio was mainly due to the repayment of promissory note of HK$105 million during the year.

The Group's gearing ratio of as at 31 December 2006 was 1.01 (31 December 2005: 1.11) (defined as total liabilities to total assets).

Financial resources

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.

Finance costs

The finance cost for the year ended 31 December 2006 decreased by HK$5.5 million from HK$19.1 million to HK$13.6 million. The drop was attributable to the fact that both the interest bearing bank loans were repaid and HK$300 million worth Convertible note was converted in the first half of 2005.

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 subsidiaries of the Group, is subject to PRC Enterprise Income Tax at the concession 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.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which will take effect on 1 January 2008. Pursuant to the approval by the Tax authorities in 2002, the applicable income tax rate of one of the subsidiaries in PRC is 15%. However, the detailed implementation rules regarding the specific tax policies for port operation business have yet to be made public under the new tax law. Consequently, the Group is not able to make an estimate of the expected financial effect of the new tax law on its deferred tax liabilities. The expected financial effect of the new tax law, if any, will be reflected in the Group's 2007 financial statements. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

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 2006, none of the assets of the Group was pledged.

Capital Commitments and contingent liabilities

Details of capital commitments are set out in notes 28 to the financial statements.

At 31 December 2006, the Group has no material contingent liabilities.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. David An, aged 47, joined the Company as Chairman in 2002. He is also the directors of Guangdong Petro-Chemicals Company Limited ("GDPC") and GD (Panyu). He has many years of experience in China business particularly in the provision of terminal services for and trading of petroleum products and petrochemicals, properties investments and developments in China.

Ms. Feng Ya Lei, aged 53, joined the Company as executive director in 2002. She is also the directors of GDPC and GD (Panyu). She has 16 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 58, 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 18 years of experiences in management and trading.

Mr. Fung Chi Kwan, Nicholas, aged 47, joined the Company as Chief Financial Officer and Company Secretary in 2005 and was appointed as Executive Director of the Company in April 2006. 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 39, was appointed as Executive Director of the Company in April 2006. She 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 17 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Wai Keung, aged 50, 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 and 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 and chief financial officer of Guangdong Investment Limited and an independent non-executive director of Shenzhen Investment Limited.

Mr. Liu Jian, aged 53, joined the Company as independent non-executive director in 2002. Mr. Liu is currently a managing director of CITIC Securities (HK) 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 was 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 35, 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 11 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. Zhang Lei, aged 41, joined the Company as chief operating officer, PRC in 2006. Mr. Zhang is also the director of GD (Panyu). Mr. Zhang graduated from Dongbei University of Finance and Economics and obtained the qualification of engineer. Mr. Zhang has many years of experience in petrochemical industry. He has expertise in petrochemical specialized technology and is familiar with financial accounting policy and system of the PRC. Mr. Zhang also has in-depth knowledge in large petrochemical project management. He had served China Petrochemical Corporation and held various key positions such as the chief financial officer of the Singapore branch, deputy general manager and chief financial officer of the Hong Kong branch.

Mr. Chen Yi You, aged 57, 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 33, 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.

Mr. Huang Ji Lin, aged 59, 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.

Mr. Li Xiao Hui, aged 38, 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 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 fully complied with the Code Provisions. 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 in providing effective leadership and direction of the Company towards its objectives and ensuring transparency and accountability of all operations.

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.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive 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 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. 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 2006, 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.

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.

Although the independent non-executive directors do not have a specific term of appointment, all the existing directors of the Company retire by rotation at least once every three years.

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 was passed at the annual general meeting of the Company on 25 May 2006, 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 at least 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.

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 2006 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	2/2	N/A
Feng Ya Lei	3/4	N/A	N/A	N/A
Zhou Nan Zheng	3/4	N/A	N/A	N/A
William W Liu (resigned on 11 September 2005)	2/3	1/1	N/A	1/1
Fung Chi Kwan, Nicholas (appointed on 7 April 2006)	3/3	N/A	N/A	N/A
Liu Zhijun (appointed on 7 April 2006)	2/3	N/A	N/A	N/A
Independent Non-Executive Directors				
Li Wai Keung (Chairman of audit committee)	3/4	3/3	2/2	2/2
Liu Jian (Chairman of remuneration committee)	4/4	3/3	2/2	1/2
Chan Chun Wai, Tony (Chairman of nomination committee)	3/3	3/3	2/2	2/2

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.

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 abstain 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

Code Provision A.2.1 stipulates that roles of Chairman of the Board and Chief Executive should be separate and should not be performed by the same individual.

The Company supports the division of responsibility to ensure the balance of power and authority. However, in view of the fact that the Group's core business is carried out singularly by its subsidiary, GD(Panyu), and the fact that the Chief Operating Officer, China (de facto Chief Executive), who managed the core business, is a separate person, the Board consider there is no necessity to a separate Chief Executive at the Group level.

The Board has full confidence in Mr. David An and believes that his appointment of the posts of chairman and chief executive is beneficial to the business prospects of the Company.

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 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 three times during the year ended 31 December 2006 to ensure that the Board has a balance of expertise, skills and experience appropriate to meet the requirements of the business of the Company.

The Nomination Committee has accepted the resignation of Mr. William W. Liu and the Board accepted this resignation on 11 September 2006.

The Nomination Committee has also recommended the appointment of Mr. Zhang Lei as Chief Operating Officer, China of the Company and the Board appointed this candidate as Chief Operating Officer, China on 29 September 2006.

Pursuant to Article 116, Mr. Zhou Nan Zheng, Mr. Li Wai Keung and Mr. Liu Jian shall retire by rotation. In addition, Ms. Feng Ya Lei shall retire at the forthcoming annual general meeting according to the terms of her appointment. Ms. Feng Ya Lei, Mr. Zhou Nan Zheng, Mr. Li Wai Keung and Mr. Liu Jian offer themselves for re-election at the forthcoming annual general meeting

The Nomination Committee recommended the re-appointment of Ms. Feng Ya Lei, Mr. Zhou Nan Zheng, Mr. Li Wai Keung and Mr. Liu Jian standing for re-election at the forthcoming annual general meeting of the Company.

The Company's circular dated 10 April 2007 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 twice during the year ended 31 December 2006 and approved bonus payments recommended by the management of the Company and the Board approved such payments on 15 April and 29 August 2006.

The Remuneration Committee approved the employment contract of Mr. Zhang Lei and the Board approved the contract on 29 September 2006.

Audit Committee

The Audit Committee comprises the three independent non-executive directors (including two independent nonexecutive 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.

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, reappointment 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 two meetings during the year ended 31 December 2006 to review the financial results and reports, financial reporting and compliance procedures.

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.

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 2006.

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.

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 2006.

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 30 to 31.

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 2006 was disclosed on page 56.

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.

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 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 14 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 32.

Taking into account of tremendous ongoing capital commitment of the Group for those undergoing construction works, the directors do not recommend the payment of a final dividend for the year ended 31 December 2006 (2005: Nil). However, the Board of Directors will determine dividend distribution policies once the Group has secured long-term stable income by successfully entering into sizeable long-term leases with our customers during the year.

SHARE CAPITAL

Details in movement in share capital of the Company are set out in note 23 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 24 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's reserve available for distribution amounted to 313.3 million (2005: HK$384.4 million).

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 25 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements of property, plant and equipment during the year are set out in note 12 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
Fung Chi Kwan, Nicholas (appointed on 7 April 2006)
Liu Zhijun (appointed on 7 April 2006)
William W Liu (resigned on 12 September 2006)

Independent non-executive directors

Li Wai Keung
Liu Jian
Chan Chun Wai, Tony

In accordance with Articles 116 of the Company's Articles of Association, Mr. Zhou Nan Zheng, Mr. Li Wai Keung and Mr. Liu Jian shall retire by rotation. In addition, Ms. Feng Ya Lei shall retire at the forthcoming annual general meeting according to the terms of her appointment. Ms. Feng Ya Lei, Mr. Zhou Nan Zheng, Mr. Li Wai Keung and Mr. Liu Jian 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' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2006, 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**		**Approximate percentage to the issued share capital of the Company**
		Long position	**Short position**	
Mr. David An *(note 3)*	Corporate	1,643,659,980 *(note 1)*	Nil	66.35%
	Corporate	1,270,000,000 *(note 2)*	Nil	51.27%

Notes:

1. The shares are held directly as to 209,773,980 shares by Extreme Wise Investments Ltd ("Extreme Wise") and 1,433,886,000 shares by Vand Petro-Chemicals (BVI) Company Ltd ("Vand Petro-Chemicals"), both of which are wholly-owned by Mr. David An. By virtue of SFO, Mr. David An is deemed to have corporate interest in the 1,643,659,980 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.

3. Mr. David An, being a director of the Company, is also acting as the Chief Executive of the Company.

Save as disclosed above, as at 31 December 2006, none of the directors nor 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' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share option scheme detailed in note 25 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

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 2006, the Company has complied with the CG Code as set out in the Corporate Governance Report on pages 13 to 21.

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

At 31 December 2006, 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

Name of shareholders	Number of shares Long position	Number of shares Short position	Approximate percentage to the issued share capital of the Company
Extreme Wise *(Note 1)*	209,773,980	Nil	8.47%
Vand Petro-Chemicals *(Note 1)*	1,433,886,000	Nil	57.88%
	1,270,000,000 *(Note 2)*	Nil	51.27%

Note: 1. Both Extreme Wise and Vand Petro-Chemicals are wholly-owned by Mr. David An.

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.

Save as disclosed above, the Company has not been notified by any persons (other than directors of the Company) who, as at 31 December 2006, 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 62.79% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 46.51% of the Group's total sales. The aggregate purchases attributable to the Group's five largest suppliers comprised approximately 55.78% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 25.42% of the Group's total purchases.

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 promissory note during the year are set out in note 20 to the financial statements respectively.

CONVERTIBLE NOTE

In 2004, the Company issued a convertible note amounting HK$681 million. Further details of the convertible note are set out in note 19 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 2006, the Group had a workforce of 264 employees, 247 of which worked for the terminals. 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, the Company repurchased its shares through the Stock Exchange as follows:

Month of purchase	Number of ordinary shares repurchased	Price per share		Aggregate consideration paid
		Highest	Lowest	
		HK$	*HK$*	*HK$'000*
September 2006	54,948,000	0.430	0.385	23,179
October 2006	27,272,000	0.425	0.395	11,301
November 2006	21,654,000	0.485	0.425	9,595
December 2006	38,980,000	0.500	0.460	19,298
	142,854,000			63,373

The repurchased shares were cancelled, and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares and related expenses, in the amount of HK$49,088,000, was charged to the share premium account.

The repurchase of the Company's shares during the year were effected by the directors pursuant to the mandate from shareholders received at the previous annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Except as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

PUBLIC FLOAT

For the year ended 31 December 2006, 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.

LITIGATION

As at 31 December 2006, there were no material contingent liabilities in respect of outstanding litigation or legal proceedings that need to be disclosed.

AUDITORS

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.

Delotte Touche Tohmatsu were auditors of the Company until 15 February 2005. KPMG has been appointed as auditors of the Company since 2005.

On behalf of the Board
David An
Chairman

Hong Kong, 28 March 2007

INDEPENDENT AUDITOR'S REPORT

KPMG

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HANS ENERGY COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Hans Energy Company Limited (the "Company") set out on pages 32 to 91, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
28 March 2007

CONSOLIDATED **INCOME STATEMENT**

for the year ended 31 December 2006
(Expressed in Hong Kong dollars)

	Note	2006 $'000	2005 $'000
Turnover	2	**166,936**	201,802
Cost of sales		**(50,645)**	(47,461)
Gross profit		**116,291**	154,341
Compensation income	3	**87,805**	–
Other net income	4	**16,646**	12,399
Administrative expenses		**(45,464)**	(36,940)
Profit from operations		**175,278**	129,800
Finance costs	5(a)	**(13,583)**	(19,060)
Profit before taxation	5	**161,695**	110,740
Income tax	6(a)	**(13,003)**	(7,631)
Profit for the year		**148,692**	103,109
Attributable to:			
Equity shareholders of the Company		**134,218**	92,569
Minority interests		**14,474**	10,540
Profit for the year		**148,692**	103,109
Earnings per share	10		
– basic		**5.17 cents**	3.86 cents
– diluted		**3.82 cents**	2.80 cents

The notes on pages 41 to 91 form part of these financial statements.

CONSOLIDATED **BALANCE SHEET**

at 31 December 2006
(Expressed in Hong Kong dollars)

	Note	**2006**	2005
		$'000	*$'000*
Non-current assets			
Fixed assets	*12(a)*		
– Property, plant and equipment		**281,612**	300,307
– Construction in progress		**121,896**	32,760
– Interests in leasehold land held for own use under operating leases		**21,194**	22,164
Intangible assets	*13*	**6,522**	5,904
		431,224	361,135
Current assets			
Interests in leasehold land held for own use under operating leases	*12(c)*	**1,480**	1,425
Inventories – consumable parts		**2,522**	2,152
Trade and other receivables	*15*	**13,170**	15,092
Pledged bank deposits	*29*	**–**	600
Cash and cash equivalents	*16*	**212,811**	354,234
		229,983	373,503
Current liabilities			
Accrual and other payables		**32,270**	16,814
Deferred revenue	*17*	**84,239**	85,918
Amount due to a related company	*18*	**630**	615
Current taxation		**4,196**	1,216
Promissory notes	*20*	**–**	105,000
		121,335	209,563
Net current assets		**108,648**	163,940
Total assets less current liabilities		**539,872**	525,075

CONSOLIDATED **BALANCE SHEET** (Continued)

at 31 December 2006
(Expressed in Hong Kong dollars)

	Note	2006 $'000	2005 $'000
Non-current liabilities			
Deferred revenue	17	**188,771**	261,666
Convertible notes	19	**349,351**	339,578
Deferred tax liabilities	21	**5,539**	7,249
		543,661	608,493
Net liabilities		**(3,789)**	(83,418)
Capital and reserves			
Share capital	23	**247,715**	262,000
Reserves		**(274,622)**	(364,789)
Total equity attributable to equity shareholders of the company		**(26,907)**	(102,789)
Minority interests		**23,118**	19,371
Total equity		**(3,789)**	(83,418)

Approved and authorised for issue by the board of directors on 28 March 2007

David An
Chairman

Fung Chi Kwan, Nicholas
Executive Director

The notes on pages 41 to 91 form part of these financial statements.

BALANCE **SHEET**

at 31 December 2006
(Expressed in Hong Kong dollars)

	Note	2006 $'000	2005 $'000
Non-current assets			
Property, plant and equipment	*12(d)*	**454**	1,663
Interest in subsidiaries	*14*	**930,101**	1,078,463
		930,555	1,080,126
Current assets			
Other receivables		**25**	946
Cash and cash equivalents	*16*	**30,395**	61,191
		30,420	62,137
Current liabilities			
Accrual and other payables		**3,027**	2,049
Promissory notes	*20*	**–**	105,000
		3,027	107,049
Net current assets/(liabilities)		**27,393**	(44,912)
Total assets less current liabilities		**957,948**	1,035,214
Non-current liabilities			
Convertible notes	*19*	**349,351**	339,578
Deferred tax liabilities	*21*	**5,539**	7,249
		354,890	346,827
Net assets		**603,058**	688,387

BALANCE **SHEET** (Continued)

at 31 December 2006
(Expressed in Hong Kong dollars)

	Note	**2006**	2005
		$'000	*$'000*
Capital and reserves			
Share capital	*23*	**247,715**	262,000
Reserves	*24*	**355,343**	426,387
Total equity		**603,058**	688,387

Approved and authorised for issue by the board of directors on 28 March 2007

David An
Chairman

Fung Chi Kwan, Nicholas
Executive Director

The notes on pages 41 to 91 form part of these financial statements.

CONSOLIDATED **STATEMENT OF CHANGES IN EQUITY**

for the year ended 31 December 2006
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company									
	Share capital	Share premium (note (a))	Special reserve (note (b))	Translation reserve (note (c))	Capital reserve (note (d))	PRC statutory reserve (note (e))	Accumulated profits/ (losses)	Total	Minority interests	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January 2005	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)
At 1 January 2006	**262,000**	**492,002**	**(251,428)**	**2,355**	**41,856**	**22,074**	**(671,648)**	**(102,789)**	**19,371**	**(83,418)**
Exchange adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**504**	**504**
Exchange differences arising from translation of operations outside Hong Kong	**–**	**–**	**–**	**5,037**	**–**	**–**	**–**	**5,037**	**–**	**5,037**
Shares repurchased *(note(f))* **– par value and premium paid**	**(14,285)**	**(49,088)**	**–**	**–**	**–**	**–**	**–**	**(63,373)**	**–**	**(63,373)**
Transfer to PRC statutory reserves	**–**	**–**	**–**	**–**	**–**	**8,950**	**(8,950)**	**–**	**–**	**–**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**134,218**	**134,218**	**14,474**	**148,692**
Dividend	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(11,231)**	**(11,231)**
At 31 December 2006	**247,715**	**442,914**	**(251,428)**	**7,392**	**41,856**	**31,024**	**(546,380)**	**(26,907)**	**23,118**	**(3,789)**

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 Guangdong (Panyu) Petrochemical Storage & Transportation Limited ("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.

(f) As stated in note 23, during the year, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited. The repurchased shares were cancelled and accordingly the issued capital of the company was reduced by the nominal value of these shares. The premium paid on the repurchase of the shares of $49,088,000 was charged to share premium. Particulars of the shares repurchased during the year are as follows:

Month/year	**Number of shares repurchased**	**Highest price paid per share**	**Lowest price paid per share**	**Aggregate price paid**
		$	*$*	*$'000*
September 2006	54,948,000	0.430	0.385	23,179
October 2006	27,272,000	0.425	0.395	11,301
November 2006	21,654,000	0.485	0.425	9,595
December 2006	38,980,000	0.500	0.460	19,298
	142,854,000			63,373

CONSOLIDATED **CASH FLOW STATEMENT**

for the year ended 31 December 2006
(Expressed in Hong Kong dollars)

	Note	2006 $'000	2005 $'000
Operating activities			
Profit before taxation		**161,695**	110,740
Adjustments for:			
– Interest income	*4*	**(7,714)**	(7,342)
– Finance costs	*5(a)*	**13,583**	19,060
– Depreciation and amortisation	*5(c)*	**29,501**	26,165
– Loss on disposal of property, plant and equipment		**18**	93
Operating cash flows before changes in working capital		**197,083**	148,716
Increase in inventories – consumable parts		**(370)**	(85)
Decrease in trade and other receivables		**1,922**	25,799
Increase/(decrease) in trade and other payables		**498**	(27,769)
Decrease in deferred revenue		**(74,574)**	(65,785)
Exchange differences		**(7,896)**	(5,843)
Cash generated from operations		**116,663**	75,033
PRC Enterprises Income Tax paid		**(11,733)**	(14,309)
Net cash generated from operating activities		**104,930**	60,724
Investing activities			
Additions of property, plant and equipment		**(75,702)**	(24,351)
Decrease in pledged bank deposit		**600**	7,923
Acquisition of subsidiaries (net of cash and cash equivalents acquired)		**–**	(3,468)
Repayment of amount due from a related company		**–**	8,171
Interest received		**7,714**	7,342
Proceeds from disposal of property, plant and equipment		**30**	341
Purchase of intangible assets		**(850)**	(935)
Net cash used in investing activities		**(68,208)**	(4,977)

CONSOLIDATED **CASH FLOW STATEMENT** (Continued)

for the year ended 31 December 2006
(Expressed in Hong Kong dollars)

	Note	**2006**	2005
		$'000	*$'000*
Financing activities			
Repayment of bank loans		**–**	(160,174)
Repayment of loans due to related companies		**–**	(103,533)
Repayment of promissory notes		**(105,000)**	–
Interest paid		**(3,502)**	(6,094)
Dividend paid to minority shareholders		**(11,231)**	–
Dividend paid to equity shareholders of the Company		**–**	(26,200)
Proceeds from issue of new shares		**–**	97,385
Payment for repurchase of shares	*23*	**(63,373)**	–
Net cash used in financing activities		**(183,106)**	(198,616)
Net decrease in cash and cash equivalents		**(146,384)**	(142,869)
Cash and cash equivalents at beginning of the year		**354,234**	497,369
Effect of foreign exchange rate changes		**4,961**	(266)
Cash and cash equivalents at end of the year	*16*	**212,811**	354,234

The notes on pages 41 to 91 form part of these financial statements.

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 (HKAS) 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 on 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 certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. The adoption of the new and revised HKFRSs did not result in significant changes to the Group's accounting policies applied in these financial statements for the years presented.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 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.

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 period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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 32.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries and minority interests

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

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet 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.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 1(j) or (k) depending on the nature of the liability.

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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	5 – 30 years
Dock and storage facilities	5 – 37 years
Office equipment	5 – 10 years
Motor vehicles	5 – 10 years
Leasehold improvements	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 properties is 20 years.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Fixed assets (Continued)

(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.

(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 finite) and impairment losses (see note 1(g)).

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

Club memberships	17-20 years
Terminal development rights	20 years

Both the period and method of amortisation are reviewed annually.

(f) Leased assets

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

(i) Classification of assets leased to the 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:

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Leased assets (Continued)

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

– 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.

(ii) 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 aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

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

(g) Impairment of assets

(i) Impairment of current receivables

Current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairment of assets (Continued)

(ii) Impairment of other 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.

– 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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

– 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.

(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 equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured 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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Convertible notes (Continued)

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 note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount 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 the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(l) Cash and cash equivalents

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

(m) Employee benefits

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

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement 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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Employee benefits (Continued)

(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 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.

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 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).

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised 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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) 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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) 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.

(o) Provisions and contingent liabilities

Provisions are recognised for other 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 expenditure expected to settle the obligation.

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) 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)).

(q) Other payables

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.

(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 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.

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

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

(iv) Compensation income is recognised when the right to receive payment is established.

(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 a foreign currency are translated using the foreign exchange rates ruling at the transaction 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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Translation of foreign currencies (Continued)

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.

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, a party is considered to be related to the group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Related parties (Continued)

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the company or of any entity that is a related party of the company.

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

(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.

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 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:

	2006	2005
	$'000	*$'000*
Port income	**14,823**	18,820
Storage and transshipment income	**152,113**	182,982
	166,936	201,802

3 COMPENSATION INCOME

During the year ended 31 December 2006, the Group received compensation from a third party of $87,805,000 (2005: $Nil), in respect of loss of income caused by the construction work carried out adjacent to Xiao Hu Island Terminal ("XHIT") by the third party. There are no unfilled conditions and other contingencies attached to the receipt or usage of this compensation income.

4 OTHER NET INCOME

	2006	2005
	$'000	*$'000*
Interest income	**7,714**	7,342
Rental receivable from investment properties less direct outgoings of $127,298 (2005: $31,824)	**467**	104
Net foreign exchange gain	**3,420**	3,612
Net realised gain on trading securities	**3,379**	–
Others	**1,666**	1,341
	16,646	12,399

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2006	2005
	$'000	*$'000*
(a) Finance costs:		
Interest on bank borrowings wholly repayable within five years	–	3,140
Interest on convertible notes	13,583	15,920
	13,583	19,060
(b) Staff costs:		
Contributions to defined contribution retirement plans	964	652
Salaries, wages and other benefits	15,534	18,312
Directors' salaries and other benefits	14,908	3,814
Total staff costs	31,406	22,778

	2006	2005
	$'000	*$'000*
(c) Other items:		
Depreciation and amortisation	29,501	26,165
Auditor's remuneration		
– audit services	1,080	1,080
– review services	338	370
– under-provision in prior year	–	170
Operating lease charges: minimum lease payments – buildings	3,022	2,005

6 TAXATION

(a) Taxation in the consolidated income statement represents:

	2006	2005
	$'000	*$'000*
Current tax – PRC Enterprise Income Tax for the year	**14,713**	10,205
Over-provision in prior years	**–**	(535)
Deferred tax – reversal of temporary differences *(note 21)*	**(1,710)**	(2,039)
	13,003	7,631

No Hong Kong Profits Tax was provided as the Group sustained a loss for Hong Kong Profits Tax purposes for the year (2005: nil).

One of the subsidiaries in the PRC, Guangdong (Panyu) Petrochemical Storage & Transportation Ltd. ("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.

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

	2006	2005
	$'000	*$'000*
Profit before taxation	**161,695**	110,740
Notional tax on profit before taxation, calculated at the applicable tax rate of 15%	**24,254**	16,611
Tax effect of non-deductible expenses	**2,584**	1,488
Tax effect of non-taxable income	**(1,389)**	(1,202)
Tax effect of tax losses not recognised	**2,406**	1,963
Over-provision in prior years	**–**	(535)
Effect of tax relief granted to a PRC subsidiary	**(14,852)**	(10,694)
Actual tax expense	**13,003**	7,631

7 DIRECTORS' REMUNERATION

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

2006

	Directors fee	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Executive directors					
David An	–	879	10,000	30	10,909
Feng Ya Lei	–	540	545	–	1,085
Zhou Nan Zheng	–	540	45	12	597
William W Liu	–	630	–	9	639
Fung Chi Kwan, Nicholas	–	585	65	9	659
Liu Zhi Jun	–	637	–	22	659
Independent non-executive directors					
Li Wai Keung	120	–	–	–	120
Liu Jian	120	–	–	–	120
Chan Chun Wai, Tony	120	–	–	–	120
	360	3,811	10,655	82	14,908

7 DIRECTORS' REMUNERATION (Continued)

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

2005

	Directors fee	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'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

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the group, five (2005: two) were directors of the Company whose emolument is included in the disclosure in note 7 above. The emoluments of the remaining three individuals in 2005 are as follows:

	2006	2005
	$'000	*$'000*
Salaries and other benefits	–	4,748
Retirement benefits scheme contributions	–	46
	–	4,794

The emoluments of the three individuals in 2005 with the highest emoluments are within the following bands:

	2006	2005
	Number of individuals	*Number of individuals*
$		
Nil – 1,000,000	–	2
1,000,001 – 3,000,000	–	–
3,000,001 – 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 $22,021,000 (2005: $15,951,000) which has been dealt with in the financial statements of the Company.

10 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 $134,218,000 (2005: $92,569,000) and the weighted average of 2,595,172,723 (2005: 2,397,534,247) ordinary shares in issue during the year, calculated as follows:

	2006	2005
	'000	*'000*
Issued ordinary shares at 1 January	**2,620,000**	1,520,000
Effect of shares repurchased	**(24,827)**	–
Effect of issue of shares on exercise of convertible notes	**–**	800,000
Effect of issue of shares	**–**	77,534
Weighted average number of ordinary shares at 31 December	**2,595,173**	2,397,534

(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 $147,801,000 (2005: $108,489,000) and the weighted average of 3,865,172,723 (2005: 3,870,273,973) ordinary shares in issue during the year, calculated as follows:

	2006	2005
	$'000	*$'000*
Profit attributable to ordinary equity shareholders (basic)	**134,218**	92,569
Effect of interest on liability component of convertible notes	**13,583**	15,920
Profit attributable to ordinary equity shareholders (diluted)	**147,801**	108,489

10 EARNINGS PER SHARE (Continued)

(b) Diluted earnings per share (Continued)

	2006	2005
	Number of shares	Number of shares
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic earnings per share	**2,595,173**	2,397,534
Effect of conversion of convertible notes	**1,270,000**	1,472,740
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**3,865,173**	3,870,274

11 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.

11 SEGMENT REPORTING (Continued)

Business segments (Continued)

Business segment information about these businesses is presented below:

2006

	Provision of transshipment and storage facilities *$'000*	Port income *$'000*	Consolidated *$'000*
Turnover			
External sales *(note 2)*	152,113	14,823	166,936
Results			
Segment results	103,514	12,777	116,291
Interest income *(note 4)*			7,714
Compensation income *(note 3)*			87,805
Unallocated corporate income			8,932
Unallocated corporate expenses			(45,464)
Profit from operations			175,278
Finance costs			(13,583)
Profit before taxation			161,695
Income tax			(13,003)
Profit for the year			148,692

11 SEGMENT REPORTING (Continued)

Business segments (Continued)

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

2006 (Continued)

	Provision of transshipment and storage facilities *$'000*	Port income *$'000*	Consolidated *$'000*
Assets			
Segment assets	340,245	3,360	343,605
Unallocated corporate assets			317,602
Total assets			661,207
Liabilities			
Segment liabilities	275,504	1,819	277,323
Unallocated corporate liabilities			387,673
Total liabilities			664,996
Other information			
Capital expenditure	90,352	–	90,352
Depreciation and amortisation			
– Segment depreciation and amortisation	29,146	–	29,146
– Unallocated depreciation and amortisation			355
Total depreciation and amortisation			29,501
Loss on disposal of property, plant and equipment	18	–	18

(Expressed in Hong Kong dollars)

11 SEGMENT REPORTING (Continued)

Business segments (Continued)

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

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			5,057
Unallocated corporate expenses			(36,940)
Profit from operations			129,800
Finance costs			(19,060)
Profit before taxation			110,740
Income tax			(7,631)
Profit for the year			103,109

11 SEGMENT REPORTING (Continued)

Business segments (Continued)

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

2005 (Continued)

	Provision of transshipment and storage facilities	Port income	Consolidated
	$'000	*$'000*	*$'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

11 SEGMENT REPORTING (Continued)

Business segments (Continued)

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).

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**	
	2006	2005	**2006**	2005
	$'000	*$'000*	***$'000***	*$'000*
PRC (other than Hong Kong)	**605,150**	626,523	**90,346**	26,515
Hong Kong	**56,057**	108,115	**6**	225
	661,207	734,638	**90,352**	26,740

12 FIXED ASSETS

(a) The Group

	Buildings	Investment property	Dock and storage facilities	Office equipment	Motor vehicles	Leasehold improvements	Sub-total	Construction in progress	Interests in leasehold land held for own use under operating leases	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
		(note (b))							*(note (c))*	
Cost:										
At 1 January 2006	12,216	2,036	432,934	3,841	9,736	149	460,912	32,760	36,302	529,974
Exchange adjustments	300	50	10,551	73	197	–	11,171	803	890	12,864
Additions	543	–	464	224	788	–	2,019	88,333	–	90,352
Disposals	–	–	(2,545)	(1)	–	–	(2,546)	–	–	(2,546)
At 31 December 2006	13,059	2,086	441,404	4,137	10,721	149	471,556	121,896	37,192	630,644
Accumulated depreciation and amortisation:										
At 1 January 2006	3,326	60	151,410	2,179	3,599	31	160,605	–	12,713	173,318
Exchange adjustments	85	4	3,941	50	91	–	4,171	–	325	4,496
Charge for the year	449	244	25,327	448	1,167	31	27,666	–	1,480	29,146
Written back on disposal	–	–	(2,497)	(1)	–	–	(2,498)	–	–	(2,498)
At 31 December 2006	3,860	308	178,181	2,676	4,857	62	189,944	–	14,518	204,462
Net book value:										
At 31 December 2006	9,199	1,778	263,223	1,461	5,864	87	281,612	121,896	22,674	426,182

12 FIXED ASSETS (Continued)

(a) The Group (Continued)

	Buildings	Investment property	Dock and storage facilities	Office equipment	Motor vehicles	Leasehold improvements	Sub-total	Construction in progress	Interests in leasehold land held for own use under operating leases	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
		(note (b))							*(note (c))*	
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 disposal	–	–	–	–	(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

12 FIXED ASSETS (Continued)

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

The fair value of the investment property of the Group as at 31 December 2006 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 2006 includes an amount of $1,480,000 (2005: $1,425,000) which is disclosed as interest in leasehold land held for own use under operating leases under current assets.

(d) **The Company**

	Office equipment	Motor vehicles	Total
	$'000	*$'000*	*$'000*
Cost:			
At 1 January 2006	647	1,274	1,921
Exchange adjustment	11	–	11
Transferred to a subsidiary	–	(1,274)	(1,274)
At 31 December 2006	658	–	658
Accumulated depreciation and amortisation:			
At 1 January 2006	71	187	258
Exchange adjustment	2	3	5
Charge for the year	131	4	135
Written back on transfer	–	(194)	(194)
At 31 December 2006	204	–	204
Net book value:			
At 31 December 2006	454	–	454

12 FIXED ASSETS (Continued)

(d) The Company (Continued)

	Office equipment	Motor vehicles	Total
	$'000	*$'000*	*$'000*
Cost:			
At 1 January 2005	–	–	–
Additions	647	1,274	1,921
At 31 December 2005	647	1,274	1,921
Accumulated depreciation and amortisation:			
At 1 January 2005	–	–	–
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 2005	576	1,087	1,663

13 INTANGIBLE ASSETS

	The Group		
	Club membership	**Terminal development rights**	**Total**
	$'000	*$'000*	*$'000*
Cost:			
At 1 January 2006	935	5,080	6,015
Exchange adjustment	–	125	125
Additions	850	–	850
At 31 December 2006	1,785	5,205	6,990
Accumulated amortisation:			
At 1 January 2006	47	64	111
Exchange adjustment	–	2	2
Charge for the year	97	258	355
At 31 December 2006	144	324	468
Net book value:			
At 31 December 2006	1,641	4,881	6,522

13 INTANGIBLE ASSETS (Continued)

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

The amortisation charge for the year is included in "administrative expenses" in the consolidated income statement.

14 INTEREST IN SUBSIDIARIES

	The Company	
	2006	2005
	$'000	*$'000*
Unlisted equities	**1,051,500**	1,051,500
Amount due to a subsidiary	**(121,399)**	–
Amounts due from subsidiaries	**–**	26,963
	930,101	1,078,463

The amounts due from/(to) subsidiaries are unsecured, interest free and have no fixed terms of repayment.

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.

(Expressed in Hong Kong dollars)

14 INTEREST IN SUBSIDIARIES (Continued)

Details of the company's principal subsidiaries at 31 December 2006 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
Guangdong Petro-Chemicals Company Limited	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
Union Petro-Chemicals (BVI) Company Limited ("UPC")	Hong Kong	British Virgin Islands	Ordinary shares – US$100	100%	–	Investment holding
Guangdong (Panyu) Petrochemical Storage & Transportation Limited ("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
東莞市東洲國際石化倉儲有限公司 ("東洲國際")	PRC	PRC	RMB5,000,000	–	92%	Storage and transshipment

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

15 TRADE AND OTHER RECEIVABLES

Subject to negotiation, credit is generally only available to 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 $6,673,000 (2005: $8,860,000) with the following ageing analysis as of the balance sheet date.

	The Group	
	2006	2005
	$'000	*$'000*
Due within 30 days	**6,673**	8,860
Over 30 days	**–**	–
	6,673	8,860

Included in trade and other receivables, amounts denominated in United States Dollars were US$223,000 (2005: US$355,000).

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

16 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 and the effective interest rates of cash and cash equivalents are:

	The Group				The Company			
	2006		2005		**2006**		2005	
		$'000		*$'000*		***$'000***		*$'000*
Effective interest rate:								
– Time deposit	**3.5%**	**99,159**	3.0%	191,555	**3.5%**	**17,370**	3.0%	59,628
– Other cash and cash equivalents	**1.5%**	**113,652**	1.2%	162,679	**1.5%**	**13,025**	1.2%	1,563
		212,811		354,234		**30,395**		61,191
United States dollar		**USD2,239**		USD4,390		**USD –**		USD –

17 DEFERRED REVENUE

	The Group	
	2006	2005
	$'000	*$'000*
Within one year	**84,239**	85,918
More than one year, but not exceeding two years	**79,483**	77,580
More than two years, but not exceeding five years	**109,288**	184,086
	273,010	347,584
Less: Amount due within one year shown under current liabilities	**(84,239)**	(85,918)
Amount due after one year	**188,771**	261,666

17 DEFERRED REVENUE (Continued)

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.

18 AMOUNT DUE TO A RELATED COMPANY

Details of the amount due to related company are as follows:

	The Group	
Name of company	**2006**	2005
	$'000	*$'000*
廣州市粵盈石油化工發展有限公司 ("粵盈石化")	**630**	615

粵盈石化 is 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.

19 CONVERTIBLE NOTES

On 24 December 2004, the Company issued convertible notes with a principal amount of $681,000,000 to Vand Petro-Chemicals (BVI) Limited ("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.

No convertible notes were converted during the year ended 31 December 2006.

20 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 remaining amount of $105,000,000 of the promissory notes were repaid during 2006.

21 DEFERRED TAX LIABILITIES

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

	The Group and the Company Convertible notes
	$'000
Deferred tax arising from:	
At 1 January 2005	15,869
Credited to reserves	(6,581)
Credited to income statement *(note 6(a))*	(2,039)
At 31 December 2005	7,249
Credited to income statement *(note 6(a))*	(1,710)
At 31 December 2006	5,539

In accordance with the accounting policy set out in note 1(n), the Group has not recognised deferred tax assets in respect of the cumulative tax losses of approximately $56 million (2005: $40 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under the current tax legislation.

22 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 and its employees contributes 5% of relevant payroll costs to the scheme respectively.

The employees of GD (Panyu), 東洲國際 and 中穗石化 are members of a state-managed retirement benefit scheme operated by the PRC government. GD (Panyu), 東洲國際 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.

23 SHARE CAPITAL

	The Company	
	Number of ordinary shares	**Amount**
	'000	*$'000*
Ordinary shares of $0.10 each:		
Authorised:		
At 1 January 2005	5,000,000	500,000
Increase in authorised share capital	5,000,000	500,000
At 31 December 2005 and 2006	10,000,000	1,000,000
Issued and fully paid:		
At 1 January 2005	1,520,000	152,000
Issue of shares on exercise of convertible notes *(note 19)*	1,000,000	100,000
Issue of shares	100,000	10,000
At 31 December 2005	2,620,000	262,000

23 SHARE CAPITAL (Continued)

Issued and fully paid:

	The Company	
	Number of ordinary shares	**Amount**
	'000	*$'000*
Ordinary shares of $0.10 each:		
At 1 January 2006	2,620,000	262,000
Shares repurchased *(note (ii))*	(142,854)	(14,285)
At 31 December 2006	2,477,146	247,715

(i) 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.

(ii) During the year, the Company repurchased 142,854,000 own ordinary shares on The Stock Exchange of Hong Kong Limited at weighted average price of $0.435 per share. The repurchased shares were cancelled and accordingly the issued capital of the Company was reduced by the nominal value of these shares. The premium paid on the repurchase of the shares of $49,088,000 was charged to share premium.

24 RESERVES

The Company

	Share premium	Translation reserve	Capital reserve	Accumulated losses	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
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
At 1 January 2006 after opening balance adjustment	492,002	91	41,856	(107,562)	426,387
Shares repurchased *(note 23(ii))* – premium paid	(49,088)	–	–	–	(49,088)
Exchange difference	–	65	–	–	65
Loss for the year	–	–	–	(22,021)	(22,021)
At 31 December 2006	442,914	156	41,856	(129,583)	355,343

The Company's reserves available for distribution to its shareholders comprise share premium and accumulated losses which in aggregate amounted to approximately $313.3 million as at 31 December 2006 (2005: $384.4 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.

25 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.

26 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 25% (2005: 30%) 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.

(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 parent 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 19.

26 FINANCIAL INSTRUMENTS

(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 Yuan. 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 hours on 21 July 2005.

Other than the amounts as disclosed in notes 15 and 16, the amounts of other financial assets and liabilities of the group are substantially denominated in the functional currency of respective entities of the group.

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2006 and 2005 except as follows:

	2006		2005	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$'000	***$'000***	*$'000*	*$'000*
The Group and the Company				
Convertible notes	**349,351**	**337,537**	339,578	326,960

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 and amount due to related company are not materially different from their carrying amounts.

27 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	
	2006	2005	**2006**	2005
	$'000	*$'000*	***$'000***	*$'000*
Within one year	**3,137**	3,399	**–**	1,905
In the second to fifth year inclusive	**367**	3,909	**–**	2,540
More than five years	**–**	–	**–**	–
	3,504	7,308	**–**	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. None of the leases includes contingent rentals.

The Group as lessor

The Group leases out certain dock and storage facilities under operating leases.

Rental and storage income earned during the year was approximately $152 million (2005: $183 million). The leases are negotiated for a lease term of 1 to 20 years. None of the leases includes contingent rentals.

27 OPERATING LEASE ARRANGEMENTS (Continued)

The Group as lessor (Continued)

The Group's total future minimum lease payments under non-cancellable operating leases are receivables as follows:

	The Group	
	2006	2005
	$'000	*$'000*
Within one year	**120,304**	111,204
In the second to fifth year inclusive	**328,608**	331,274
More than five years	**1,033,274**	1,086,166
	1,482,186	1,528,644

28 CAPITAL COMMITMENTS

At 31 December 2006, the Group had capital expenditure contracted for but not provided in the financial statements in respect of acquisition of port facilities amounted to $112,387,000 (2005: $375,000).

At 31 December 2006, 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 $390 million (2005: $600 million).

29 PLEDGED ASSETS

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

	The Group	
	2006	2005
	$'000	*$'000*
Pledged bank deposits	**–**	600

30 MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES

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

(a) Related parties, other than connected persons

			The Group	
	Nature of		**2006**	2005
Name of party	**transactions**	*Note*	***$'000***	*$'000*
Vand Petro-Chemicals	Interest paid or payable on convertible notes	*(i)*	**3,810**	*4,567*

Notes:

(i) Interest paid was charged at 1% on the principal amount of the convertible notes. As at 31 December 2006, interest due to Vand Petro-Chemicals amounted to $1,921,000 (2005: $1,613,000).

Vand Petro-Chemicals is under common control by a director of the company.

(b) 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:

	2006	2005
	$'000	*$'000*
Short-term employee benefits	**15,075**	9,423
Post-employment benefits	**82**	155
	15,157	9,578

31 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2006, the directors consider the immediate parent and ultimate controlling party of the Group to be Vand Petro-Chemicals, which is incorporated in the British Virgin Island. This entity does not produce financial statements available for public use.

32 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.

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.

32 ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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.

Lease classification

Leases are classified as operating leases if the duration of the arrangement are for less than a major part of the facilities' useful lives and the present value of the minimum payments under the arrangement does not amount to at least substantially all of the fair value of the facilities. The classification of leases may change if there are significant changes from previous estimates of the facilities' useful lives and the present value of the minimum payments. The Group uses all readily available information in estimating the useful lives and present value of minimum payments.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements.

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

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 them is unlikely to have a significant impact on the Company's results of operations and financial position.

34 POST BALANCE SHEET EVENT

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which will take effect on 1 January 2008. Pursuant to the approval by the Tax authorities in 2002, the applicable income tax rate of one of the subsidiaries in PRC is 15%. However, the detailed implementation rules regarding the specific tax policies for port operation business have yet to be made public under the new tax law. Consequently, the Group is not able to make an estimate of the expected financial effect of the new tax law on its deferred tax liabilities. The expected financial effect of the new tax law, if any, will be reflected in the Group's 2007 financial statements. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

FIVE **YEAR FINANCIAL SUMMARY**

(Expressed in Hong Kong dollars)

	Year ended 31 December				
	2002	2003	2004	2005	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
RESULTS					
Turnover	241,926	165,712	192,184	201,802	**166,936**
Profit before taxation	92,627	93,942	134,038	110,740	**161,695**
Taxation	(4)	–	(9,699)	(7,631)	**(13,003)**
Profit attributable to equity shareholders of the Company	84,959	86,315	114,769	92,569	**134,218**
Profit attributable to minority interests	7,664	7,627	9,570	10,540	**14,474**
Profit for the year	92,623	93,942	124,339	103,109	**148,692**

	At 31 December				
	2002	2003	2004	2005	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
ASSETS AND LIABILITIES					
Total assets	679,595	439,249	897,821	734,638	**661,207**
Total liabilities	616,999	287,390	1,499,543	818,056	**664,996**
Minority interests	45,037	52,096	8,513	19,371	**23,118**
Total equity attributable to equity shareholders of the Company	17,559	99,763	(610,235)	(102,789)	**(26,907)**

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.