



NewOcean Green Energy Holdings Limited  
新海環保能源集團有限公司  
(Incorporated in Bermuda with limited liability)



INTERIM REPORT 2004



The Board of Directors (the “Board”) of NewOcean Green Energy Holdings Limited (the “Company”) presents the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2004 together with comparative figures for the corresponding period in 2003. These condensed consolidated results have not been audited, but have been reviewed by the Company’s audit committee.

## CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>6 months ended</b> <b>30.06.2004</b> <b>(Unaudited)</b> <b>HK\$'000</b>	6 months ended 30.06.2003 (Unaudited) HK\$'000
	<i>Notes</i>		
Turnover	2	<b>449,824</b>	176,021
Cost of sales		<b>(406,526)</b>	(149,937)
Gross profit		<b>43,298</b>	26,084
Other operating income		<b>2,062</b>	1,993
Selling and distribution expenses		<b>(3,351)</b>	(3,188)
Administrative expenses		<b>(16,442)</b>	(11,562)
Loss on disposals of property, plant and equipment		—	(1)
Profit from operations	3	<b>25,567</b>	13,326
Finance costs		<b>(1,571)</b>	(1,837)
Share of results of associates		<b>(97)</b>	—
Profit before taxation		<b>23,899</b>	11,489
Taxation	4	<b>259</b>	264
Profit before minority interests		<b>24,158</b>	11,753
Minority interests		<b>27</b>	110
Net profit for the period		<b>24,185</b>	11,863
Earnings per share	5		
Basic		<b>0.61 cents</b>	0.37 cents
Diluted		<b>0.61 cents</b>	0.37 cents



## CONDENSED CONSOLIDATED BALANCE SHEET

		<b>30.06.2004</b> <b>(Unaudited)</b> <b>HK\$'000</b>	31.12.2003 (Audited) HK\$'000
	<i>Notes</i>		
<b>Non-current assets</b>			
Property, plant and equipment	7	190,667	56,417
Investment properties		35,025	35,025
Intangible assets	7	13,768	—
Interests in associates		13,298	—
Goodwill	8	35,309	22,046
Other asset		16,132	53,051
		<u>304,199</u>	<u>166,539</u>
<b>Current assets</b>			
Inventories		32,808	3,421
Trade debtors	9	49,830	21,723
Other debtors, deposits and prepayments		8,932	23,396
Amounts due from minority shareholders of subsidiaries		524	524
Amount due from a former shareholder of a subsidiary		4,102	4,102
Pledged bank deposits		2,000	2,607
Bank balances and cash		84,976	10,410
		<u>183,172</u>	<u>66,183</u>
<b>Current liabilities</b>			
Trade creditors and bills payable	10	14,929	3,888
Other creditors and accrued charges		10,115	8,548
Tax liabilities		1,001	985
Trust receipt loans		82,870	1,610
Borrowings, secured			
— repayable within one year		11,502	37,896
		<u>120,417</u>	<u>52,927</u>
<b>Net current assets</b>			
		<u>62,755</u>	<u>13,256</u>
		<u>366,954</u>	<u>179,795</u>
<b>Capital and reserves</b>			
Share capital	11	48,168	36,652
Share premium and reserves	12	310,340	135,031
		<u>358,508</u>	<u>171,683</u>
<b>Minority interests</b>			
		2,202	2,470
<b>Non-current liabilities</b>			
Deferred tax liabilities		6,244	4,038
Borrowings, secured			
— repayable over one year		—	1,604
		<u>6,244</u>	<u>5,642</u>
		<u>366,954</u>	<u>179,795</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	<b>Total equity</b>
	<i>HK\$'000</i>
At 1st January, 2003	105,970
Placement of shares at a premium	49,954
Share issue expenses	(1,292)
Profit for the year	<u>17,051</u>
At 31st December, 2003 (Audited)	171,683
Issue of shares as part of consideration for acquisition of a subsidiary	71,719
Issue of shares pursuant to a subscription agreement	10,598
Issue of shares pursuant to a subscription agreement and a placing agreement	87,000
Share issue expenses	(3,002)
Exchange differences arising from translation of financial statements of overseas subsidiaries not recognised in the income statement	178
Final dividend for the year paid	(3,853)
Profit for the period	<u>24,185</u>
At 30th June, 2004 (Unaudited)	<u><u>358,508</u></u>



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>6 months ended</b>	6 months ended
	<b>30.06.2004</b>	30.06.2003
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Net cash generated from (used in)		
operating activities	<b>1,486</b>	(3,064)
Net cash used in investing activities	<b>(71,103)</b>	(258)
Net cash generated from financing activities	<b>144,342</b>	3,403
	<u>          </u>	<u>          </u>
Net increase in cash and cash equivalents	<b>74,725</b>	81
Cash and cash equivalents at beginning		
of the period	<b>10,014</b>	9,584
Effect of foreign exchange rate changes	<b>178</b>	(6)
	<u>          </u>	<u>          </u>
Cash and cash equivalents at end of		
the period, represented by bank		
balances and cash	<b>84,917</b>	9,659
	<u><u>          </u></u>	<u><u>          </u></u>
Analysis of cash and cash equivalents		
Bank balances and cash	<b>84,976</b>	9,659
Bank overdrafts	<b>(59)</b>	—
	<u>          </u>	<u>          </u>
	<b>84,917</b>	9,659
	<u><u>          </u></u>	<u><u>          </u></u>



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Principal Accounting Policies and Basis of Preparation

The interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and methods of computation used in preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31st December, 2003 except for the additional accounting policy resulted from new activity during the period. The additional accounting policy adopted is set out below:

#### *Intangible assets*

Intangible assets, which represent the coast use rights, are stated in the balance sheet at cost less amortization and accumulated impairment loss, if any. Amortization of the coast use rights is charged so as to write off the cost of the asset over the useful life of the coast use rights using the straight-line method.

### 2. Segmental Information

The Group is principally engaged in sale and distribution of liquefied petroleum gas and leasing of property, plant and equipment. These businesses are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

#### *Business segments*

##### Six months ended 30.06.2004 (Unaudited)

	Liquefied Petroleum Gas HK\$'000	Leasing of Property, Plant and Equipment HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Segment revenues	<u>430,808</u>	<u>2,064</u>	<u>16,952</u>	<u>—</u>	<u>449,824</u>
Segment results	31,205	(25)	3,141	2,063	36,384
Amortization of goodwill	(769)	—	(103)	—	(872)
Unallocated corporate expenses	—	—	—	(9,945)	(9,945)
Profit (loss) from operations	<u>30,436</u>	<u>(25)</u>	<u>3,038</u>	<u>(7,882)</u>	<u>25,567</u>
Finance costs	—	—	—	(1,571)	(1,571)
Share of results of associates	—	—	—	(97)	(97)
Profit (loss) before taxation	<u>30,436</u>	<u>(25)</u>	<u>3,038</u>	<u>(9,550)</u>	<u>23,899</u>



## 2. Segmental Information (continued)

### Business segments (continued)

Six months ended 30.06.2003 (Unaudited)

	Liquefied Petroleum Gas HK\$'000	Leasing of Property, Plant and Equipment HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
<b>Segment revenues</b>	<u>172,076</u>	<u>—</u>	<u>3,945</u>	<u>—</u>	<u>176,021</u>
<b>Segment results</b>	20,446	—	(2,839)	1,253	18,860
Amortization of goodwill	(703)	—	(102)	—	(805)
Loss on disposals of property, plant and equipment	—	—	—	(1)	(1)
Unallocated corporate expenses	<u>—</u>	<u>—</u>	<u>—</u>	<u>(4,728)</u>	<u>(4,728)</u>
Profit (loss) from operations	19,743	—	(2,941)	(3,476)	13,326
Finance costs	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,837)</u>	<u>(1,837)</u>
Profit (loss) before taxation	<u>19,743</u>	<u>—</u>	<u>(2,941)</u>	<u>(5,313)</u>	<u>11,489</u>

Note: Income from the leasing of property, plant and equipment was classified as other operating income in the comparative figures for the period from 1st January, 2003 to 30th June, 2003.

### Geographical segments

The Group's turnover is substantially derived from the People's Republic of China (the "PRC"). Accordingly, no analysis by geographical segments is presented.

## 3. Profit From Operations

Profit from operations is stated after charging the following:

	<b>6 months ended 30.06.2004 (Unaudited) HK\$'000</b>	6 months ended 30.06.2003 (Unaudited) HK\$'000
Depreciation of property, plant and equipment	<b>5,708</b>	4,377
Amortization of intangible assets	<b>216</b>	—
Amortization of goodwill	<b>872</b>	805
Amortization of goodwill on acquisition of an associate	<u><b>105</b></u>	<u>—</u>
Total depreciation and amortization	<u><b>6,901</b></u>	<u>5,182</u>



#### 4. Taxation

	<b>6 months ended 30.06.2004 (Unaudited) HK\$'000</b>	6 months ended 30.06.2003 (Unaudited) HK\$'000
Profits Tax for the period		
Hong Kong	—	—
Overseas taxation	(16)	—
Deferred tax income	<u>275</u>	<u>264</u>
	<u><u>259</u></u>	<u><u>264</u></u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company's subsidiaries operating in Hong Kong incurred a tax loss for the period.

#### 5. Earnings Per Share

The calculation of the basic and diluted earnings per share is based on the following data:

	<b>6 months ended 30.06.2004 (Unaudited) HK\$'000</b>	6 months ended 30.06.2003 (Unaudited) HK\$'000
Profit for the purposes of calculation of basic and diluted earnings per share	<u><u>24,185</u></u>	<u><u>11,863</u></u>
Weighted average number of shares for the purposes of calculation of basic earnings per share	<u><u>3,933,175,060</u></u>	<u><u>3,248,936,873</u></u>
Effect of dilutive potential shares: options	<u><u>39,065,548</u></u>	<u><u>—</u></u>
Weighted average number of shares for the purposes of calculation of diluted earnings per share	<u><u>3,972,240,608</u></u>	<u><u>3,248,936,873</u></u>

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for the period ended 30th June, 2003.

#### 6. Dividend

On 21st June, 2004, a dividend of HK0.08 cents per share (2003: Nil) was paid to shareholders as the final dividend for 2003.





## 7. Movements in Property, Plant and Equipment and Intangible Assets

During the period, property, plant and equipment and intangible assets of approximately HK\$134 million and HK\$14 million respectively were acquired upon the acquisition of the entire equity interest of Zhuhai Iwatani LPG Co. Ltd.

## 8. Goodwill

During the period, goodwill of approximately HK\$14 million arose on the acquisition of Zhuhai Iwatani LPG Co. Ltd and is amortized over 20 years, reflecting its expected useful life.

## 9. Trade Debtors

The credit terms of the Group range from 0 to 90 days. The aging analysis of trade debtors is as follows:

	<b>30.06.2004</b> <b>(Unaudited)</b> <b>HK\$'000</b>	31.12.2003 (Audited) HK\$'000
0 to 30 days	<b>36,813</b>	18,588
31 to 60 days	<b>6,643</b>	1,420
61 to 90 days	<b>4,424</b>	102
91 to 120 days	<b>141</b>	68
More than 120 days	<b>1,809</b>	1,545
	<b>49,830</b>	21,723

## 10. Trade Creditors and Bills Payable

The aging analysis of trade creditors is as follows:

	<b>30.06.2004</b> <b>(Unaudited)</b> <b>HK\$'000</b>	31.12.2003 (Audited) HK\$'000
0 to 30 days	<b>516</b>	1,524
31 to 60 days	<b>195</b>	439
61 to 90 days	<b>319</b>	541
91 to 120 days	<b>111</b>	249
More than 120 days	<b>1,906</b>	965
	<b>3,047</b>	3,718
Bills payable	<b>11,882</b>	170
	<b>14,929</b>	3,888



## 11. Share Capital

Ordinary shares of par value of HK\$0.01 each

	Number of Shares 30.06.2004 (Unaudited)	Number of Shares 31.12.2003 (Audited)	Amount 30.06.2004 (Unaudited) HK\$'000	Amount 31.12.2003 (Audited) HK\$'000
Authorised:	<u>200,000,000,000</u>	<u>200,000,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>
Issued and fully paid:				
At the beginning of the period/year	3,665,216,873	3,248,936,873	36,652	324,894
Capital reduction	—	—	—	(292,405)
Placing of shares	—	416,280,000	—	4,163
Issue of shares as part of consideration for acquisition of a subsidiary (note 1)	468,750,000	—	4,688	—
Issue of shares pursuant to a subscription agreement (note 2)	82,800,000	—	828	—
Issue of shares pursuant to a subscription agreement and a placing agreement (note 3)	<u>600,000,000</u>	<u>—</u>	<u>6,000</u>	<u>—</u>
At the end of the period/year	<u>4,816,766,873</u>	<u>3,665,216,873</u>	<u>48,168</u>	<u>36,652</u>

### Notes:

- Pursuant to a Sale and Purchase Agreement approved at a Special General Meeting on 1st March, 2004, the Company agreed to issue 468,750,000 new shares of HK\$0.01 each at a total issue price of HK\$60,000,000 as part consideration for the acquisition of the entire equity of Zhuhai Iwatani LPG Co. Ltd ("Zhuhai LPG Company"). The issue price equals to HK\$0.128 per share and was determined through arms length negotiation. The Sale and Purchase Agreement was completed on 5th March, 2004.



## 11. Share Capital *(continued)*

*Notes: (continued)*

2. Pursuant to a Subscription Agreement approved at a Special General Meeting on 1st March, 2004, the Company agreed to issue 82,800,000 new shares of HK\$0.01 each to Uniocean Investments Limited ("Uniocean") at an issue price of HK\$0.128 per share payable in cash. The issue price was determined through arms length negotiation. The Subscription Agreement was completed on 5th March 2004 and the proceeds of approximately HK\$10.6 million were used to satisfy a portion of the consideration for the acquisition of Zhuhai LPG Company.
3. Pursuant to the announcement on 11th March, 2004, Uniocean placed to independent placees 600,000,000 existing shares of HK\$0.01 each at a placing price of HK\$0.145 per share and Uniocean agreed with the Company to subscribe 600,000,000 new shares of HK\$0.01 each at a subscription price of HK\$0.145 per share. The placing price and the subscription price represented a discount of 7.05% to the closing price of the Company's shares on the Stock Exchange of HK\$0.156 on 9th March, 2004 and a discount of approximately 3.97% to the average closing price of the shares for the last 10 trading days up to 9th March, 2004 of HK\$0.151 per share. The subscription was completed on 22nd March, 2004 and the net proceeds of approximately HK\$83.7 million were applied as to approximately HK\$50 million as reserve of cash resources to fund the Group's expanding business operation and as to approximately HK\$33.7 million as additional general working capital.



## 12. Share Premium and Reserves

	Share Premium	Special Reserve	Asset Revaluation Reserve	Exchange Reserve	Contributed Surplus Account	Deficit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2003	459,593	122,085	612	1,225	—	(802,439)	(218,924)
Capital reduction	(459,593)	—	—	—	751,998	—	292,405
Elimination of deficit	—	—	—	—	(750,331)	750,331	—
Released upon disposal of property, plant and equipment	—	—	(74)	—	—	74	—
Premium arising from placing of shares	45,791	—	—	—	—	—	45,791
Share issue expenses	(1,292)	—	—	—	—	—	(1,292)
Profit for the year	—	—	—	—	—	17,051	17,051
At 31st December, 2003 (Audited)	44,499	122,085	538	1,225	1,667	(34,983)	135,031
Premium arising from issue of shares as part of consideration for acquisition of a subsidiary (note 1)	67,031	—	—	—	—	—	67,031
Premium arising from issue of shares pursuant to a subscription agreement (note 2)	9,770	—	—	—	—	—	9,770
Premium arising from issue of shares pursuant to a subscription agreement and a placing agreement (note 3)	81,000	—	—	—	—	—	81,000
Share issue expenses	(3,002)	—	—	—	—	—	(3,002)
Exchange differences arising from translation of financial statements of overseas subsidiaries	—	—	—	178	—	—	178
Final dividend for the year paid	—	—	—	—	—	(3,853)	(3,853)
Profit for the period	—	—	—	—	—	24,185	24,185
At 30th June, 2004 (Unaudited)	<u>199,298</u>	<u>122,085</u>	<u>538</u>	<u>1,403</u>	<u>1,667</u>	<u>(14,651)</u>	<u>310,340</u>



### 13. Acquisition of a Subsidiary

On 5th March, 2004, the Group acquired the entire equity interest of Zhuhai Iwatani LPG Co. Ltd. at a cost of approximately HK\$165 million. This transaction has been accounted for using the acquisition method of accounting. The effect of the acquisition is summarised as follows:

	<b>30.06.2004</b> <b>(Unaudited)</b> <b>HK\$'000</b>
Net assets acquired	150,732
Goodwill	13,928
	<hr/>
Cost	<b>164,660</b>
	<hr/> <hr/>

### 14. Major Non-Cash Transactions

Major non-cash transactions during the period are disclosed in note 11.

### 15. Contingent Liabilities

At 30th June, 2004, the Company has given unlimited guarantees to financial institutions in respect of general facilities granted to the Group. The facilities utilised by the Company at 30th June, 2004 amounted to HK\$94,752,000 (31.12.2003: HK\$1,780,000).

### 16. Pledge of Assets

At 30th June, 2004, the Group has pledged land and buildings having net book value of HK\$2,156,000 (31.12.2003: HK\$2,183,000) and bank deposits amounting to HK\$2,000,000 (31.12.2003: HK\$2,607,000) to secure general banking facilities granted to the Group.



## 17. Lease Commitments

The Group as lessee:

At 30th June, 2004, the Group had commitments for future minimum lease payments under non-cancellable operating leases, in respect of rented premises, which fall due as follows:

	The Group		The Company	
	30.06.2004 (Unaudited) HK\$'000	31.12.2003 (Audited) HK\$'000	30.06.2004 (Unaudited) HK\$'000	31.12.2003 (Audited) HK\$'000
Within one year	1,475	1,105	—	—
In the second to fifth years inclusive	2,723	3,665	—	—
Over five years	29,517	29,175	—	—
	<u>33,715</u>	<u>33,945</u>	<u>—</u>	<u>—</u>

The Group as lessor:

At 30th June, 2004, the Group had contracted with tenants for the following future minimum lease payments:

	The Group		The Company	
	30.06.2004 (Unaudited) HK\$'000	31.12.2003 (Audited) HK\$'000	30.06.2004 (Unaudited) HK\$'000	31.12.2003 (Audited) HK\$'000
Within one year	3,859	3,310	—	—
In the second to fifth years inclusive	6,035	4,479	—	—
Over five years	3,061	3,393	—	—
	<u>12,955</u>	<u>11,182</u>	<u>—</u>	<u>—</u>



## 18. Other Commitments

Capital expenditure contracted for but not provided in the financial statements in respect of:

	The Group		The Company	
	30.06.2004 (Unaudited) HK\$'000	31.12.2003 (Audited) HK\$'000	30.06.2004 (Unaudited) HK\$'000	31.12.2003 (Audited) HK\$'000
Investment in subsidiaries	2,225	40,688	—	—
Investment in an investee company	1,885	1,885	—	—
Purchase of plant and equipment	2,846	13,442	—	—
	<u>6,956</u>	<u>56,015</u>	<u>—</u>	<u>—</u>

## 19. Related Party Transactions

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

	6 months ended 30.06.2004 (Unaudited) HK\$'000	6 months ended 30.06.2003 (Unaudited) HK\$'000
Rental expenses paid to Hunsworth Industrial Limited ("Hunsworth")	359	520
Shum Ho, Neo	57	—
	<u>416</u>	<u>520</u>

Shum Siu Hung, a chief executive and his spouse, Tong Shiu Ming, are shareholders of Hunsworth. Shum Siu Hung is a director of Hunsworth. Shum Ho, Neo is a son of Shum Siu Hung.

On 1st March, 2004, Sound Management Services Limited ("Sound Management"), a wholly owned subsidiary of the Company, renewed an office tenancy agreement with Hunsworth for the use of office premises provided by Hunsworth located at 8A, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong at HK\$80,000 per calendar month for a period of two and a half months commencing 1st March, 2004. This agreement was terminated on 15th May, 2004.

On 16th May, 2004, Sound Management entered into an office tenancy agreement with Mr. Shum Ho, Neo for the use of office premises provided by Mr. Shum Ho, Neo located at 20th Floor, Times Tower, 393 Jaffe Road, Wanchai, Hong Kong at HK\$38,000 per calendar month for a period of twelve months commencing 16th May, 2004.



## INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30th June, 2004 (six months ended 30th June, 2003: nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Analysis

The Group entered a new epoch in 2004, highlighted by the completion of the Group's acquisition of the LPG ocean terminal and storage depot at Zhuhai Gaolan Island in March of the year. The Group successfully made use of the newly acquired Gaolan Harbour Terminal to expand its LPG business from one of predominantly retailing to a fully integrated retailing and wholesaling business. Turnover for the first half year significantly increased to HK\$449,824,000 (2003: HK\$176,021,000), representing a rapid 155% growth in comparison with that for the same period of last year. Net Profit for the period also reached HK\$24,185,000 (2003: HK\$11,863,000), an increase of 104% over the same period last year. Earnings per share went up to HK Cent 0.61 from 0.37 (+64.86%) in the same period of 2003.

### LPG Business

Taken as a whole, LPG wholesaling and retailing recorded a total sales quantity of approximately 130,000MT for the first half-year of 2004 (2003: 50,000MT, being mostly retailing), an increase of 160%. The expansion of LPG wholesaling, which contributed significantly to the growth in total sales volume, was realized completely in line with the Management's expectation in acquiring the Gaolan Harbour Terminal. The overall gross margin achieved (9.63%) was however thinner than that for the same period in 2003 (14.82%). The huge turnover increase of wholesaling, which carried lower gross margin than retailing, naturally reduced





the overall margin, but such increase did contribute substantially to the enlarged absolute amount for the gross profit. To a certain extent, it also helped to mitigate the impact of rising LPG purchase cost on retailing margin that happened since May 2004.

### ***LPG wholesaling***

In just 4 months from March 2004 to end of June 2004 under the ownership and management of the Group, the Gaolan Harbour Terminal completed LPG import and wholesale of approximately 65,000MT (2003 without terminal operation: 10,000MT). For LPG importation the Group has opened up multiple purchase channels, from one supplier upon taking over of the Terminal to more than 12 international LPG suppliers shortly after the Terminal was put into full operation. Most of the suppliers are subsidiaries of either reputable trading houses or major oil companies. Sources of origin for LPG also expanded from Malaysia initially to Korea, Thailand, Taiwan and the Middle East countries. In respect of local wholesaling, the Terminal has established more than 50 new buyers and expanded its wholesaling network from Zhuhai, Zhongshan to Jiangmen, Xinhui in the West, Foshan, Shunde, Nanhai, Panyu in the North and Hainan Island in the Southwest. Furthermore, the Terminal also maintained business association and contract arrangement with local tanker truck and shipping companies to enable and streamline both land and sea distribution. The close relationship with these logistics companies will further strengthen the Terminal's distribution capability and well equip the Terminal for larger volumes of LPG import and wholesaling forthcoming in the second half year of 2004.



### ***LPG retailing***

The Group's end-user markets in Guilin, Wuzhou, Lipu, Cangwu of Guangxi Province and Qingyuan of Guangdong Province continued to grow steadily. Total retail volume increased to about 65,000MT in the first half year of 2004 (2003: 40,000MT). The rapid rise in LPG prices that followed the surge of crude oil prices commencing May 2004 and persistent high price levels afterwards indeed brought an impact on retail margin. To combat the situation, The Management has taken two immediate actions. Firstly, retail prices were increased by about 20% gradually over the period, and secondly, a portion of the end-user markets' LPG purchase was shifted to the Gaolan Harbour Terminal. Although these two measures could not fully hedge the rise in LPG purchase cost, the impact on retail margin was mitigated to a considerable extent.

The Group's Management firmly believes that positioning the Gaolan Harbour Terminal as the supply centre for all the Group's retail markets is an effective means to mitigate the LPG price fluctuation risk. However, given its current maximum storage capacity being just 2,100MT, the Terminal will not always be able to function efficiently in this regard. The Group has obtained Government approval for expansion of the LPG storage capacity at the Terminal, on the pipeline is a project to expand the Terminal's storage capacity to about 20,000MT. It is currently expected that all construction work will be completed within one year from the end of 2004. In the meantime, for the purpose of immediately enhancing its ability to mitigate LPG price fluctuation risk, the Group is actively discussing with other terminals/depots for leasing a sizable storage or entering into joint purchase agreement.



Apart from the organic growth in the end-user markets, the Group is committed to further expand its LPG retailing by way of acquisition of other operators. At the beginning of the second-half of the year, the Group acquired an additional bottle filling plant/storage depot in Guilin through the acquisition of a 70% interest in Guilin City Chaoyang Towngas Trading Company Limited. The acquisition effectively increased the Group's market share in Guilin and concurrently strengthened its capability to develop LPG wholesaling business into the neighbouring districts. In Guangzhou City, following the Group's acquisition of a 49% interest in Guangzhou Qiaoxin Towngas Company Limited, business permit documents for LPG operation were obtained by that company after completion of renovation and facilities improvement. These two operations are expected to contribute to the profit of the Group commencing the second half of 2004.

### **Business Outlook**

With her continual economic growth, China has become an important energy importer of the world. The demand of LPG in China remains strong notwithstanding the sharp increase in both wholesale and retail prices. The Management has strong confidence in the Chinese LPG market potential and trusts that the Group's assets and operation, in particular its ocean terminal and the expanding LPG wholesaling operation, have been well structured and positioned to capitalize on market opportunities. In the coming future, management effort will continue to be put on sales expansion and margin stabilization. In respect of sales expansion, the Group will search for opportunities to acquire additional retail operators in Guangdong and Guangxi Provinces, diversify to LPG vehicular and industrial markets, and accelerate the turnover of Gaolan Harbour Terminal's storage capacity. To stabilize the profit margin, the storage capacity of the Terminal will be expanded and term purchase contract will be entered into with international suppliers.



Out of the 75,000 sq.m. depot site at the Gaolan Harbour Terminal, about 55,000 sq.m. is vacant ground space reserved for future development. After allocating a portion of the vacant space for the expansion of LPG storage capacity, the Terminal still has ample land resources for the business development of the Group. The Management will seek opportunities to put the land resources at the Terminal to profitable use.

## **LIQUIDITY AND FINANCIAL REVIEW**

On 22nd March, 2004, the Company completed the placing of 600,000,000 shares of HK\$0.01 each in the capital of the Company by way of a placing and top-up transaction. The net proceeds of approximately HK\$83,700,000 were applied as additional working capital and to provide a reserve of cash resources to fund the Group's expanding business. At the period end, the Group maintained bank deposits and cash amounting to HK\$86,976,000 (out of which HK\$2,000,000 was pledged as security for general banking facilities granted to the Group). Current ratio, quick ratio and gearing ratio were 1.52:1, 1.25:1 and 26% respectively. The latter was calculated based on total liabilities of HK\$126,661,000 and total assets of HK\$487,371,000.

## **HUMAN RESOURCES**

As at 30th June, 2004, the Group employed approximately 310 employees in Hong Kong and mainland China. The Group remunerated the employees based on their performance, experience and prevailing market practices.



## **APPOINTMENT OF NEW DIRECTORS**

At the Annual General Meeting of the Company held on 14th June, 2004, Dr. Koo Ming Yan, Charles and Mr. Shum Chun, Lawrence were appointed as new directors of the Company. Information on Dr. Koo and Mr. Shum were announced by the Company on the date of appointment. Dr. Koo, designated as independent non-executive director, has no service contract with the Company and annual directors fee of HK\$100,000 is payable to Dr. Koo as determined by the Board. Mr. Shum, designated as executive director, has entered into a service contract with the Company under which a monthly salary of HK\$25,000 is payable to Mr. Shum. The directors' emoluments were determined on the basis of experience, degree of responsibility and the amount of time involved in the carrying out of the directors' duties.

## **DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO ACQUIRE SHARES**

At 30th June, 2004, the interests of the directors and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to



the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

**(a) Long Position of ordinary shares of HK\$0.01 each of the Company**

<b>Name of director</b>	<b>Capacity</b>		<b>Number of issued ordinary shares held</b>	<b>Percentage of the issued share capital of the Company</b>
Wu Hong Cho	Other	<i>(note)</i>	78,412,810	1.62%
Cen Ziniu	Other	<i>(note)</i>	15,682,562	0.33%
Shum Chun, Lawrence	Other	<i>(note)</i>	235,238,431	4.88%
Cheng Wai Leung	Beneficial Owner		120,000	—

<b>Name of chief executive</b>	<b>Capacity</b>		<b>Number of issued ordinary shares held</b>	<b>Percentage of the issued share capital of the Company</b>
Shum Siu Hung	Beneficial Owner		205,117,790	4.26%

*Note:* These interests reflect the interests in the 1,568,256,210 shares of the Company held by Uniocean Investments Limited (“Uniocean”). Uniocean is owned as to 15% by Shum Chun, Lawrence (“SCL”), 15% by a brother of SCL, 64% by Tong Shiu Ming, mother of SCL, 5% by Wu Hong Cho and 1% by Cen Ziniu.

**(b) Share Options**

<b>Name of director</b>	<b>Capacity</b>	<b>Number of options held</b>	<b>Number of underlying shares</b>
Wu Hong Cho	Beneficial Owner	25,000,000	25,000,000
Cen Ziniu	Beneficial Owner	60,000,000	60,000,000
Cheng Wai Leung	Beneficial Owner	40,000,000	40,000,000

<b>Name of chief executive</b>	<b>Capacity</b>	<b>Number of options held</b>	<b>Number of underlying shares</b>
Shum Siu Hung	Beneficial Owner	65,000,000	65,000,000
	Family interest (note)	35,000,000	35,000,000

*Note:* Options to subscribe for 35,000,000 shares of the Company were held by the spouse of Shum Siu Hung, and were deemed to be the family interest of Shum Siu Hung.

Save as disclosed above and other than nominee shares in certain subsidiaries held by certain directors in trust for the Group, none of the directors nor chief executives nor any of their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30th June, 2004.



## SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that other than the interests disclosed above in respect of certain directors and chief executives, the following shareholders had notified the Company of relevant interest and short positions in the issued capital of the Company.

### (a) Long Position of ordinary shares of HK\$0.01 each of the Company

Name of shareholder	Capacity		Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Tong Shiu Ming	Held by corporation (note 1)		1,568,526,210	32.56%
	Family interest (note 2)		205,117,790	4.26%
Cheah Cheng Hye	Held by corporation (note 3)		500,010,000	10.36%
Yam Tak Cheung	Held by corporation (note 4)		300,000,000	6.23%

#### Notes:

- 1,568,256,210 shares of the Company were held by Uniocean Investments Limited ("Uniocean"). Tong Shiu Ming owned 64% of Uniocean and was deemed to be the controlling shareholder of Uniocean.
- 205,117,790 shares of the Company were held by the spouse of Tong Shiu Ming, and were deemed to be the family interest of Tong Shiu Ming.
- 351,240,000 shares of the Company were held by Value Partners A Fund, a fund managed by Value Partners Limited ("Value Partners"), and 148,770,000 shares of the Company were held by Value Partners. Cheah Chen Hye owned 31.82% of Value Partners and was deemed to be the controlling shareholder of Value Partners.
- 300,000,000 shares of the Company were held by Integrated Asset Management (Asia) Limited ("Integrated Asset"). Yam Tak Cheung owned 100% of Integrated Asset and was deemed to be the controlling shareholder of Integrated Asset.





## (b) Share Options

Name of shareholder	Capacity	Number of options held	Number of underlying shares
Tong Shiu Ming	Beneficial owner	35,000,000	35,000,000
	Family interest (Note)	65,000,000	65,000,000

*Note:*

Options to subscribe for 65,000,000 shares of the Company were held by the spouse of Tong Shiu Ming, and were deemed to be the family interest of Tong Shiu Ming.

## PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June, 2004.

## AUDIT COMMITTEE

The audit committee of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30th June, 2004.

## CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June, 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

By order of the Board

**Shum Siu Mau**

*Chairman*

Hong Kong, 20th September, 2004