



Mr. Yang Shu Shan Chairman

In the year of 2004, the global economy prospered while the economy of China kept growing steadily under the government's macroeconomic adjustment policy, which successfully prevented the economy from overheating. Demand for oil, oil products and petrochemical products remained strong in a new round of growth. The Hong Kong economy showed encouraging and strong recovery boosted by the joint efforts of the central government and the government together with the industrial and commercial sectors of Hong Kong, after a difficult period caused by the Asian financial crisis and SARS. Internationally, due to the continual weakening of US dollar, increase in international energy consumption, volatile situation in the oil production regions and severe weather in winter, crude oil price surged to US\$55 for a time. Although a slight reduction was seen at the end of the year, overall speaking, crude oil price lingered at a high level.

Faced with the surge in oil price and volatile market environment, the Company and its subsidiaries (the "Group") achieved satisfactory operating results with sustained efforts contributed by all our staff members and by grasping the right opportunities whilst avoiding risks. For the accounting year ended 31 December 2004, steady growth in performance was achieved and turnover amounted to HK\$8,450 million, representing a growth of 9.7% over the accounting year of 2003. In 2004, the Group recorded profit attributable to shareholders of HK\$154 million and earnings per share of HK\$14.9 cents, representing an increase of 11.1% as compared with the corresponding period of the preceding year. In brief and in conclusion, the Group made steady progress in performance and maintained sound financial position and excellent asset quality in 2004.

Huizhou Crude Oil Jetty ("Huizhou Jetty") of the Group maintained a stable operation and systematic management. Benefited from the growth in domestic market demand and increase in oil refining and processing capacity of Sinopec Guangzhou Branch, the operation load of Huizhou Jetty was enlarged significantly leading to good progress in performance. In 2004, as compared with the previous year, the volume of crude oil transmitted by Huizhou Jetty increased by 7.5% to 7.43 million tones. Huizhou Jetty recorded annual turnover of approximately HK\$330 million, representing a growth of 3.4% over the preceding year, and recorded operating profit of approximately HK\$210 million, representing a growth of 3.1% over the preceding year. In 2004, with the basic construction of the onshore oil depot taking shape and completion of two onshore oil storage tanks (with storage capacity of 200,000 cubic metre), users could ensure comprehensive back up for further rise in their oil refining capacity, and the Group's future profitability was simultaneously enhanced. Construction of Huizhou Jetty's oil transportation system was basically completed, making the ancillary facilities of the bonded oil depot more comprehensive and improving the operational flexibility of the bonded oil depot, which, under a volatile crude oil market environment, provided the Group with additional means to avoid risks and created new profit-making opportunities.

The petrol stations of the Group experienced unprecedented difficulties in 2004. Surge in crude oil price led to sustained high oil product price. The costs borne by petrol stations increased significantly. On the other hand, the retail price of oil products in China showed no significant increase owing to objective factors in the market.

The profit margin of petrol stations was reduced. Under such circumstances, the Group further strengthened management of the petrol stations, rationalized station distribution, diversified operating risks, centralized resource deployment and enhanced cost effectiveness, but the results still declined. In 2004, the petrol stations sold 450,000 tones of oil products, realizing a turnover of approximately HK\$1,510 million, an increase of 24.8% from the preceding year but operating profit dropped by 37.4%.

In the preceding year, the international market price of oil remained high, bringing both opportunities and challenges to the Group's oil product operations. Subject to strict risk management, the Group achieved steady progressive in performance by closely monitoring market changes and constantly assessing the latest market trend. In 2004, the sales revenue of international trade recorded HK\$6,610 million, representing a growth of 7.0% over the preceding year. Operating profit increased by 1.2 times compared with the corresponding period last year.



Looking ahead, the international political situation is highly unstable full of unanticipated variables. The changes in political environment of the oil production regions is even more unpredictable and may directly affect the global crude oil market which may in turn affect the operating environment of the Group. However, with the macroeconomic adjustment policy of the Chinese government taking further effect, the steady growth in the economy of China will be maintained in the future. Despite of the competition, challenges and risks in the international market, the Group will leverage on the sustained development in the economy of China, take full advantage of the favourable situation with continuous recovery in business environment in Hong Kong, seize the opportunities for development arising from the ten-million-tonne oil refining capacity of Sinopec Guangzhou Branch, further improve the operation and management of Huizhou Jetty and the onshore oil storage tanks, and where necessary, expand Huizhou Jetty, channels and port dredge to increase throughput and storage capacity, and further reduce the additional costs caused by factors such as weather in order to cope with new market requirements. In addition, by utilizing the bonded oil storage tanks and oil transportation system, the Group will link up the operation of the bonded oil storage tanks with crude oil trading and processing with supplied materials in order to develop a new source of benefit on a prudent basis. The Group will, on the basis of its extensive customer network and sound business operation, continue to open up new markets, identify new customers whilst making effort to expand and strengthen its trading business. Moreover, the Group will grasp market opportunities when they arise and consider new projects when appropriate. Subject to achieving satisfactory performance in its main business, the Group will expand into new domains to diversify operating risks, expand and strengthen the Group so that the return of shareholders will increase steadily.

By order of the Board of Directors

Mr. Yang Shu Shan

Chairman

Hong Kong, 18 March 2005

