(Expressed in Hong Kong dollars)

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which include all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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.

(b) Recently issued accounting standards

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The company has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The company has already commenced an assessment of the impact of these new HKFRSs but is not in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(c) Basis of preparation of the financial statements

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

(d) Subsidiaries and controlled enterprises

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

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

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.

1 Significant accounting policies (Continued)

(d) Subsidiaries and controlled enterprises (continued)

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the group for the year are also separately presented in the income statement.

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable 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 good the losses. All subsequent profits of the subsidiary are allocated to the group until the minority's share of losses previously absorbed by the group has been recovered.

In the company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(j)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

– for acquisitions before 1 January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses recognised in the income statement (see note 1(j)); and

– for acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less accumulated amortisation and any impairment losses (see note 1(j)).

Negative goodwill arising on acquisitions of controlled subsidiaries represents the excess of the group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

– for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and

– for acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

1 Significant accounting policies (Continued)

(e) Goodwill (continued)

In respect of any negative goodwill not yet recognised in the consolidated income statement:

– for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill.

On disposal of a controlled subsidiary during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

(f) Fixed assets

(i) Items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation (see note 1(i)) and impairment losses (see note 1(j)). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Construction in progress is stated at cost less impairment losses (see note 1(j)) and is transferred to relevant classes of property, plant and equipment when the asset is substantially ready for its intended use. No depreciation is provided in respect of construction in progress.

(ii) Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(g) Intangible assets (other than goodwill)

Operating rights arising from the acquisition of petrol stations represent payments to owners of petrol stations for the rights to operate such petrol stations, which are stated in the balance sheet at cost less accumulated amortisation (see note 1(i)) and impairment losses (see note 1(j)).

(h) Leased assets

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the group has the use of assets under operating leases, payments made under the leases are charged to the income statement 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 the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(Expressed in Hong Kong dollars)

1 Significant accounting policies (Continued)

(i) Amortisation and depreciation

(i) Depreciation is calculated to write off the cost of property, plant and equipment over their estimated useful lives as follows:

– leasehold land and land use rights are depreciated on a straight-line basis over the remaining term of the lease;

– buildings are depreciated on a straight-line basis over the shorter of their estimated useful lives, being from 15 years to 35 years, and the unexpired terms of the leases; and

– other property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	**10 years or over the remaining term of the relevant lease, if shorter**
Jetty structures	10 – 30 years
Jetty facilities	10 – 30 years
Plant and machinery	8 – 20 years
Furniture, fixtures and equipment	5 – 8 years
Motor vehicles and vessels	5 – 18 years

(ii) Operating rights for petrol stations are amortised on a straight-line basis over the operating periods of the respective petrol stations.

(j) Impairment of assets

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

– property, plant and equipment;

– construction in progress;

– investments in subsidiaries (except for those accounted for at fair value under note 1(d));

– intangible assets; and

– positive goodwill (whether taken initially to reserves or recognised as an asset).

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, or are amortised over more than 20 years from the date when the asset is available for use or goodwill that is amortised over 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised in the income statement whenever the carrying amount of such an asset (including positive goodwill taken directly to reserves) exceeds its recoverable amount.

1 Significant accounting policies (Continued)

(j) Impairment of assets (continued)

(i) 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 a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, 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 reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses 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 income statement in the year in which the reversals are recognised.

(k) Inventories

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

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(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 cash flow statement.

1 Significant accounting policies (Continued)

(m) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Scheme Ordinance and to the state-managed retirement benefits schemes for the employees of the group's entities in the People's Republic of China (the "PRC") are recognised as an expense in the income statement as incurred.

(iii) When the group grants employees options to acquire shares of the company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

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

(n) Income tax

(i) Income tax comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) 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.

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

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable 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.

1 Significant accounting policies (Continued)

(n) Income tax (continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, 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 profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

(iv) 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, and only 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 liabilities of uncertain timing or amount when the company or group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

1 Significant accounting policies (Continued)

(o) Provisions and contingent liabilities (continued)

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

(p) Revenue recognition

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 the income statement as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Crude oil jetty services income and petroleum unloading service income

Crude oil jetty services income and petroleum unloading service income are recognised when services are rendered. Revenue is stated net of sales taxes.

(iii) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the the principal outstanding and the rate applicable.

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of enterprises outside Hong Kong are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of an enterprise outside Hong Kong, the cumulative amount of the exchange differences which relate to that enterprise is included in the calculation of the profit or loss on disposal.

(r) Borrowing costs

Borrowing costs are expensed in the income statement 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.

(Expressed in Hong Kong dollars)

1 Significant accounting policies (Continued)

(r) Borrowing costs (continued)

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

(s) Related parties

For the purposes of these financial statements, parties are considered to be related to the group if the group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(t) Dividends

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

(u) 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 enterprises within a single segment. Intra-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, corporate and financing expenses and minority interests.

(Expressed in Hong Kong dollars)

2 Turnover

The principal activities of the group are trading of crude oil petroleum and petrochemical products, operating of a crude oil jetty and its ancillary facilities and petrol stations.

Turnover represents sales value of goods supplied to refinery customers and consumers and income from providing crude oil jetty services, net of related sales taxes. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2004	2003
	$'000	$'000
Trading of crude oil, petroleum and petrochemical products	**6,607,208**	6,173,813
Retail sales of petroleum products	**1,509,732**	1,206,609
Crude oil jetty services	**331,937**	321,266
	8,448,877	7,701,688

3 Other revenue

	2004	2003
	$'000	$'000
Interest income	**4,273**	3,780
Petroleum unloading services income	**3,232**	4,244
Others	**10,398**	8,774
	17,903	16,798

(Expressed in Hong Kong dollars)

4 Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging:

		2004 $'000	2003 $'000
(a)	Finance costs:		
	Interest on bank advances	**20,170**	18,193
(b)	Staff costs:		
	Salaries, wages and other benefits	**62,893**	52,015
	Contribution to defined contribution plans	**3,980**	3,626
		66,873	55,641
(c)	Other items:		
	Cost of inventories	**7,946,912**	7,234,613
	Amortisation of intangible assets	**7,494**	6,568
	Auditors' remuneration		
	– current year	**1,000**	900
	Depreciation	**82,727**	81,405
	Loss on disposal of fixed assets	**931**	1,769
	Operating lease charges:		
	– petrol station facilities	**7,452**	10,735
	– machinery and vessel	**3,237**	1,462

5 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2004 $'000	2003 $'000
Current tax – Provision for Hong Kong Profits Tax		
Tax for the year	**6,017**	1,800
Under-provision in respect of prior years	**99**	–
	6,116	1,800
Current tax – Outside Hong Kong		
Tax for the year	**21,465**	19,639
Under-provision in respect of prior years	**80**	439
	21,545	20,078
	27,661	21,878

The provision for Hong Kong Profits Tax for 2004 is calculated at 17.5% (2003: 17.5%) of the estimated assessable profits for the year. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

One of the company's subsidiaries established in the PRC, which commenced operations in March 1997, enjoys full tax exemption for its first five profit making years and a tax reduction of 50% for the next five years in respect of its jetty operations. The income tax rate applicable to this PRC subsidiary is 15%. The year 2004 is the eighth year that the subsidiary started to have a taxable profit. Accordingly, the subsidiary is subject to a 50% reduction in applicable income tax rate, which is 7.5%.

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

	2004 $'000	2003 $'000
Profit before tax	**241,551**	220,758
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	**39,911**	37,070
Tax effect of concession	**(13,293)**	(15,263)
Tax effect of non-deductible expenses	**1,127**	1,353
Tax effect of non-taxable revenue	**(263)**	(1,721)
Under-provision in previous years	**179**	439
Actual tax expense	**27,661**	21,878

6 Directors' remuneration

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

	2004	2003
	$'000	$'000
Fees	**5,797**	4,900
Salaries and other emoluments	**229**	683
	6,026	5,583

Included in the directors' remuneration were fees of $420,000 (2003: $200,000) paid to independent non-executive directors during the year.

Other emoluments disclosed above included the estimated rateable value of certain of the group's properties provided to certain directors of the company as rent-free accommodation. The aggregate rateable value of such accommodation was approximately $216,000 (2003: $208,000) for the year.

The remuneration of the directors is within the following bands:

	2004	2003
	Number of directors	Number of directors
Nil to $1,000,000	**14**	7
$1,000,001 to $1,500,000	**1**	3

During the year ended 31 December 2003 and 2004, no emoluments were paid by the group to any of the directors as an inducement to join or upon joining the group or as compensation for loss of office.

7 Individuals with highest emoluments

The five highest paid individuals of the group for both years are all directors of the company and details of their emoluments are set out in note 6 above.

8 Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a loss of $3,740,000 (2003: profit of $85,040,000) which has been dealt with in the financial statements of the company.

(Expressed in Hong Kong dollars)

9 Dividend paid

(a) Dividends attributable to the year

	2004	2003
	$'000	$'000
Interim dividend declared and paid of 1.5 cents (2003: 1.5 cents) per share (note 26)	**15,552**	15,552
Final dividend proposed after the balance sheet date of 1.5 cents (2003: 1.5 cents) per share	**15,552**	15,552
	31,104	31,104

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2004	2003
	$'000	$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 1.5 cents (2003: 1.5 cents) (note 26)	**15,552**	15,552

10 Earnings per share

The calculation of the basic earnings per share is based on the profit attributable to shareholders of approximately $154,083,000 (2003: $138,591,000) and on 1,036,830,000 (2003: 1,036,830,000) ordinary shares in issue throughout the year.

Diluted earnings per share has not been presented because there were no dilutive potential ordinary shares in issue in either year.

(Expressed in Hong Kong dollars)

11 Segment reporting

Segment information is presented in respect of the group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the group's internal financial reporting.

Business segments

For management purposes, the group is currently organised into three operating divisions, namely trading of crude oil, petroleum and petrochemical products, retail sales of petroleum products, and the rendering of crude oil jetty services.

	Trading of crude oil, petroleum and petrochemical products		Retail sales of petroleum products		Crude oil jetty services		Inter-segment elimination		Unallocated		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue												
Revenue from external customers	**6,607,208**	6,173,813	**1,509,731**	1,206,609	**331,938**	321,266	**–**	–	**–**	–	**8,448,877**	7,701,688
Inter-segment revenue	**–**	–	**–**	–	**2,966**	3,257	**(2,966)**	(3,257)	**–**	–	**–**	–
Other revenue from external customers	**98**	911	**12,844**	11,852	**688**	255	**–**	–	**4,273**	3,780	**17,903**	16,798
Total	**6,607,306**	6,174,724	**1,522,575**	1,218,461	**335,592**	324,778	**(2,966)**	(3,257)	**4,273**	3,780	**8,466,780**	7,718,486
Segment result	**46,608**	21,343	**12,448**	19,879	**210,411**	203,994	**(1,839)**	(2,020)			**267,628**	243,196
Unallocated interest income											**4,273**	3,780
Unallocated corporate expenses											**(10,180)**	(8,025)
Profit from operations											**261,721**	238,951
Finance costs											**(20,170)**	(18,193)
Income tax											**(27,661)**	(21,878)
Minority interests											**(59,807)**	(60,289)
Profit attributable to shareholders											**154,083**	138,591
Depreciation and amortisation for the year	**1,412**	1,341	**17,068**	17,186	**71,741**	69,446						

11 Segment reporting (continued)

Business segments (continued)

	Trading of crude oil, petroleum and petrochemical products		Retail sales of petroleum products		Crude oil jetty services		Inter-segment elimination		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Segment assets	**773,646**	718,945	**344,070**	236,605	**1,710,444**	1,534,255	**(463,123)**	(416,751)	**2,365,037**	2,073,054
Unallocated assets									**160,711**	263,588
Total assets									**2,525,748**	2,336,642
Segment liabilities	**(100,900)**	(83,407)	**(184,130)**	(102,422)	**(454,179)**	(420,516)	**463,123**	416,751	**(276,086)**	(189,594)
Unallocated liabilities									**(317,188)**	(402,544)
Total liabilities									**(593,274)**	(592,138)
Capital expenditure incurred during the year	**729**	86	**83,429**	51,613	**144,910**	114,242				

Geographical segments

Substantially all the group's activities are based in the PRC and more than 90% of the group's turnover and contribution to profit from ordinary activities before taxation are derived from the PRC in both years.

12 Fixed assets

The Group

	Leasehold land, land use rights and buildings $'000	Leasehold improvements $'000	Jetty structures $'000	Jetty facilities $'000	Plant and machinery $'000	Furniture, fixtures and equipment $'000	Motor vehicles and vessels $'000	Construction in progress $'000	Total $'000
Cost:									
At 1 January 2004	341,744	5,672	335,655	865,641	179,782	22,782	55,187	126,625	1,933,088
Additions									
– through acquisition of subsidiaries	32,079	–	–	–	10,330	–	59	–	42,468
– others	14,025	23	–	17,699	13,068	333	905	116,566	162,619
Transfer	926	–	15,872	166,155	55,653	–	–	(238,606)	–
Disposals	(1,478)	–	–	(33)	(3,579)	(260)	(4,008)	–	(9,358)
At 31 December 2004	387,296	5,695	351,527	1,049,462	255,254	22,855	52,143	4,585	2,128,817
Depreciation:									
At 1 January 2004	80,378	2,139	73,865	219,236	68,892	13,463	18,756	–	476,729
Charge for the year	14,427	357	117	50,893	11,572	1,943	3,418	–	82,727
Written back on disposal	(248)	–	–	(10)	(872)	(144)	(2,420)	–	(3,694)
At 31 December 2004	94,557	2,496	73,982	270,119	79,592	15,262	19,754	–	555,762
Net book value:									
At 31 December 2004	292,739	3,199	277,545	779,343	175,662	7,593	32,389	4,585	1,573,055
At 31 December 2003	261,366	3,533	261,790	646,405	110,890	9,319	36,431	126,625	1,456,359

The analysis of net book value of leasehold land, land use rights and buildings is as follows:

	2004 $'000	2003 $'000
Long leases in Hong Kong	**41,007**	42,088
Medium-term leases outside Hong Kong	**251,732**	219,278
	292,739	261,366

13 Intangible assets

The Group

	Petrol station operating rights $'000
Cost:	
At 1 January 2004	75,394
Additions through acquisition of subsidiaries	23,981
At 31 December 2004	99,375
Accumulated amortisation:	
At 1 January 2004	7,131
Charge for the year	7,494
At 31 December 2004	14,625
Net book value:	
At 31 December 2004	84,750
At 31 December 2003	68,263

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

14 Investments in subsidiaries

	The Company	
	2004	2003
	$'000	$'000
Unlisted investments, at cost	**114,738**	114,738
Amounts due from subsidiaries	**629,661**	629,661
	744,399	744,399

The amounts due from subsidiaries are unsecured and interest-free. The amounts will not be repayable within twelve months from the balance sheet date and, accordingly, the balances are classified as non-current.

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the group. The class of shares held is ordinary unless otherwise stated.

(Expressed in Hong Kong dollars)

14 Investments in subsidiaries (Continued)

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

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up share capital/ registered capital	Proportion for ownership interest: Group's effective interest	held by the Company	held by subsidiaries	Principal activities and place of operation
Hua De Petrochemical Company Limited *	The PRC	Registered capital US$93,758,200	70%	–	70%	Operation of a crude oil jetty and ancillary facilities
Sinomart KTS Development Limited (Note)	Hong Kong	50 ordinary shares of $1 each (note)	100%	100%	–	Trading of crude oil, petroleum and petrochemical products
Kantons International Investment Limited	British Virgin Islands	3,000,000 ordinary shares of US$1 each	100%	100%	–	Investment holding
Kantons Gas Station Investment & Management Co Ltd #	The PRC	Registered capital Rmb145,000,000	63%	–	90%	Investment holding and operation of petrol stations

* A sino-foreign owned enterprise established in the PRC.

\# The company is a limited liability company established in the PRC.

Note: Sinomart KTS Development Limited also has in issue fully paid 10,000 non-voting deferred shares of $1 each, holders of which practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution on winding up.

15 Inventories

	The Group	
	2004	2003
	$'000	$'000
Crude oil and spare parts	**190,946**	94,680
Petroleum and petrochemical products	**224,832**	67,298
	415,778	161,978

The inventories is stated at cost.

16 Trade and other receivables

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Dividend receivable from a subsidiary	**–**	–	**100,000**	100,000
Trade receivables	**122,760**	43,412	**–**	–
Deposits and prepayments	**39,150**	38,260	**–**	–
	161,910	81,672	**100,000**	100,000

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

Included in trade and other receivables are trade debtors with the following ageing analysis:

	The Group	
	2004	2003
	$'000	$'000
Current	**111,954**	37,882
1 to 3 months overdue	**9,938**	2,402
More than 3 months overdue but less than 12 months overdue	**868**	3,128
	122,760	43,412

Debts are due within 30 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balance before any further credit is granted.

17 Amounts due from/to holding companies and fellow subsidiaries

The amounts due from/to holding companies and fellow subsidiaries mainly represent balances arising from trading transactions and are unsecured, interest free and are repayable on demand.

18 Cash and cash equivalents

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Cash at bank and in hand	**118,909**	221,104	**7**	7
Bank overdraft (note 21)	**(1,196)**	–	**–**	–
Cash and cash equivalents in the cash flow statement	**117,713**	221,104	**7**	7

19 Trade and other payables

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Bills payable	**60,561**	35,317	**–**	–
Trade payables	**34,497**	69,331	**–**	–
Creditors and accrued charges	**149,922**	69,796	**2,051**	1,101
	244,980	174,444	**2,051**	1,101

All of the trade and other payables are expected to be settled within one year.

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis:

	The Group	
	2004	2003
	$'000	$'000
Due within 1 month or on demand	**26,105**	63,462
Due after 1 month but within 3 months	**66,115**	41,058
Due after 3 months but within 6 months	**2,838**	128
	95,058	104,648

20 Loan from fellow subsidiary

The loan is unsecured, interest-free and repayable on demand.

21 Unsecured bank loans and overdraft

As at 31 December 2004, the unsecured bank loans and overdraft were repayable as follows:

	The Group	
	2004	2003
	$'000	$'000
Within 1 year or on demand	**300,653**	226,367

As at 31 December 2004, the unsecured bank loans and overdraft were as follows:

	2004	2003
	$'000	$'000
Unsecured bank overdraft (note 18)	**1,196**	–
Unsecured bank loans	**299,457**	226,367
	300,653	226,367

22 Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

	The Group	
	2004	2003
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	**6,017**	1,800
Balance of PRC income tax payable	**4,705**	5,041
Balance of Profits Tax provision/(recoverable) relating to prior years	**1,382**	(517)
	12,104	6,324

(b) No provision for deferred taxation has been made as the effect of all temporary differences is not material.

23 Employee retirement benefits

The group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the scheme vest immediately.

The company's subsidiaries established in the PRC participate in pension fund schemes organised by the relevant local government authorities in the PRC. These subsidiaries are required to make contribution to the retirement scheme at a certain percentage of the basic salaries of their employees.

The group does not have any other pension schemes for its employees in respect of its subsidiaries elsewhere. The group does not have any other obligations other than the contributions described above.

24 Equity compensation benefits

The company has a share option scheme (the "scheme") which was adopted on 27 May 1999 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 26 May 2009. Under the scheme, the directors of the company may grant option to eligible employees, including directors of the company and its subsidiaries, to subscribe for shares in the company.

Options granted must be taken up within 21 days from the date of grant, upon payment of $1 per option. Options may be exercised at any time from the date of acceptance of the grant of the share option to the earlier of the date on which such options lapse under early termination of employment and the 10th anniversary of the date of grant. The exercise price is determined by the directors of the company, and will not be less than the higher of the nominal value of the shares and 80% of the average closing price of the shares for the five business days immediately preceding the date of grant.

No options were granted under the scheme since its inception.

25 Share capital

	2004		2003	
	Number of shares ('000)	**Amount $'000**	Number of shares ('000)	Amount $'000
Authorised:				
Ordinary shares of $0.1 each	**3,000,000**	**300,000**	3,000,000	300,000
Issued and fully paid:				
At 1 January and 31 December	**1,036,830**	**103,683**	1,036,830	103,683

(Expressed in Hong Kong dollars)

26 Reserves

The Group

	Share premium $'000	Merger reserve $'000	General reserves $'000	Exchange reserve $'000	Retained profits $'000	Total $'000
At 1 January 2003	333,857	23,444	114,404	(999)	706,012	1,176,718
Final dividends approved in respect of the previous year (note 9(b))	–	–	–	–	(15,552)	(15,552)
Transfer	–	–	30,033	–	(30,033)	–
Exchange differences on translation of financial statements of the overseas subsidiaries	–	–	–	207	–	207
Profit for the year	–	–	–	–	138,591	138,591
Interim dividends declared in respect of the current year (note 9(a))	–	–	–	–	(15,552)	(15,552)
At 31 December 2003	333,857	23,444	144,437	(792)	783,466	1,284,412
At 1 January 2004	**333,857**	**23,444**	**144,437**	**(792)**	**783,466**	**1,284,412**
Final dividends approved in respect of the previous year (note 9(b))	**–**	**–**	**–**	**–**	**(15,552)**	**(15,552)**
Transfer	**–**	**–**	**32,877**	**–**	**(32,877)**	**–**
Exchange differences on translation of financial statements of the overseas subsidiaries	**–**	**–**	**–**	**(387)**	**–**	**(387)**
Profit for the year	**–**	**–**	**–**	**–**	**154,083**	**154,083**
Interim dividends declared in respect of the current year (note 9(a))	**–**	**–**	**–**	**–**	**(15,552)**	**(15,552)**
At 31 December 2004	**333,857**	**23,444**	**177,314**	**(1,179)**	**873,568**	**1,407,004**

The merger reserve of the group represents the difference between the nominal amount of the share capital of the subsidiaries acquired and the nominal value of the share capital of the company issued for the acquisition under a group reorganisation carried out in 1999.

26 Reserves (Continued)

The Group (Continued)

The general reserves of the group represent appropriations made by the company's PRC subsidiaries from retained profits to a discretionary surplus reserve and an enterprise development fund, pursuant to the relevant PRC laws and regulations applicable to Sino-foreign equity joint ventures. The percentages of appropriations are determined annually by the directors of the relevant subsidiaries. The discretionary surplus reserve can be utilised to offset prior years' losses or convert into paid up capital. The enterprise development fund can be used for the future development of the enterprise or convert into paid up capital. Neither the discretionary surplus reserve nor the enterprise development fund are available for distribution. Included in the general reserves is goodwill of $4,880,000 as at 31 December 2004 (2003: $4,880,000) arising from the acquisition of subsidiaries before 2001.

The Company

	Share premium $'000	Contributed surplus $'000	Retained profits $'000	Total $'000
At 1 January 2003	333,857	242,397	51,464	627,718
Final dividends approved in respect of the previous year (note 9(b))	–	–	(15,552)	(15,552)
Profit for the year (note 8)	–	–	85,040	85,040
Interim dividends declared in respect of the current year (note 9(a))	–	–	(15,552)	(15,552)
At 31 December 2003	333,857	242,397	105,400	681,654
At 1 January 2004	**333,857**	**242,397**	**105,400**	**681,654**
Final dividends approved in respect of the previous year (note 9(b))	**–**	**–**	**(15,552)**	**(15,552)**
Loss for the year (note 8)	**–**	**–**	**(3,740)**	**(3,740)**
Interim dividends declared in respect of the current year (note 9(a))	**–**	**–**	**(15,552)**	**(15,552)**
At 31 December 2004	**333,857**	**242,397**	**70,556**	**646,810**

(Expressed in Hong Kong dollars)

26 Reserves (continued)

The company (continued)

The contributed surplus of the company represents the difference between the aggregate shareholders' funds of the subsidiaries at the date on which the company became the holding company of the group and the nominal amount of the share capital of the company issued under a group reorganisation.

Under the Companies Act 1981 of Bermuda, the contributed surplus account of the company is available for distribution. However, a company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

(i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

At 31 December 2004, the aggregate amount of reserves available for distribution to shareholders of the company was $312,953,000 (2003: $347,797,000). After the balance sheet date the directors proposed a final dividend of 1.5 cents per share (2003: 1.5 cents per share), amounting to $15,552,000 (2003: $15,552,000). This dividend has not been recognised as a liability at the balance sheet date.

27 Acquisition of subsidiaries

During the year, the group acquired several subsidiaries for a total consideration of $70,658,000, satisfied in cash.

	2004 **$'000**	2003 $'000
Net assets acquired		
Fixed assets	**42,468**	12,169
Intangible assets	**23,981**	25,133
Inventories	**14,847**	1,373
Trade and other receivables	**10,440**	3,205
Cash at bank and in hand	**8,851**	8,102
Trade and other payables	**(24,069)**	(10,706)
Minority interests	**(5,860)**	(674)
Net identifiable assets and liabilities	**70,658**	38,602
Total purchase prices paid, satisfied in cash	**70,658**	38,602
Less: cash of subsidiaries acquired	**(8,851)**	(8,102)
Net cash outflow in respect of the purchase of subsidiaries	**61,807**	30,500

(Expressed in Hong Kong dollars)

28 Commitments

(a) Capital commitments outstanding at 31 December 2004 not provided for in the financial statements were as follows:

	The Group	
	2004	2003
	$'000	$'000
Contracted for	**23,402**	51,233
Authorised but not contracted for	**–**	219,580
	23,402	270,813

(b) At 31 December 2004, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group and the Company					
	2004			2003		
	Petrol station facilities	**Plant and machinery**	**Land and buildings**	Petrol station facilities	Plant and machinery	Land and buildings
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Within 1 year	**2,169**	**–**	**531**	2,854	696	2,290
After 1 year but within 5 years	**8,409**	**–**	**2,123**	10,918	2,785	2,123
After 5 years	**22,686**	**–**	**10,171**	29,857	2,785	11,162
	33,264	**–**	**12,825**	43,629	6,266	15,575

The group leases a number of petrol station facilities, plant and machinery, and land and buildings. Leases for petrol station facilities are generally run for a period of 20 years and rentals are fixed during the lease period. Lease payments of certain petrol station facilities to be determined by reference to the revenue of the relevant petrol stations have not been included in the above future minimum lease payments disclosures.

29 Contingent liabilities

At 31 December 2004, there were contingent liabilities in respect of banking facilities utilised by certain subsidiaries and guaranteed by the company amounting to approximately $138,607,000 (2003: $99,014,000).

30 Material related party transactions

(a) During the year, the group had the following significant transactions with its holding companies and fellow subsidiaries. Details of the amounts which have been charged/(credited) to the consolidated income statement are as follows:

	2004 $'000	2003 $'000
Crude oil sold by the group (note (i))	**(2,715,246)**	(2,084,665)
Crude oil purchased by the group and related charges (note (i))	**1,198,421**	1,105,945
Petrochemical products sold by the group (note (i))	**(841,236)**	(303,958)
Petroleum products purchased by the group (note (i))	**1,204,875**	1,101,095
Insurance premium charged to the group (note (ii))	**4,108**	4,142
Crude oil refining and processing fees charged to the group (note (iii))	**48,857**	52,968
Rentals charged to the group in respect of land and buildings and motor vehicle (note (iv))	**431**	145
Jetty service fees, charged by the group (note (v))	**(340,049)**	(278,377)
Maintenance service fees charged to the group (note (vi))	**2,954**	916
Fuel purchased by the group (note (vii))	**6,774**	6,593
Operating lease payments in respect of petrol station facilities charged to the group (note (viii))	**1,564**	2,448
Transportation service fees charged to the group (note (ix))	**9,808**	9,641
Petroleum unloading services fee charged by the group (note x))	**(2,812)**	(2,822)

In addition, the group had the following transactions with its fellow subsidiaries in connection with the construction of the crude oil jetty of the group:

	2004 $'000	2003 $'000
Cost of construction and acquisition of plant and equipment and other attributable overheads charged to the group (note (xi))	**23,309**	23,863

30 Material related party transactions (continued)

Notes: The above transactions were conducted in accordance with the following terms:

(i) The crude oil and petroleum products trading transactions were carried out in accordance with the terms of the relevant sales and purchase agreements and on terms agreed between the parties having regard to commercial practice of the crude oil industry and international market conditions during the year the transactions were entered into.

(ii) The insurance premium was calculated by reference to the provisions of a document jointly issued by its ultimate holding company and the Ministry of Finance in the PRC in 1998 and at a predetermined percentage as revised by its ultimate holding company from time to time.

(iii) The group engaged the intermediate holding company to refine and process crude oil into various types of petroleum products on behalf of the group. The crude oil refining and processing fees were charged in accordance with the terms of the relevant refining and processing agreements and at price not lower than US$10 per tonne of crude oil processed.

(iv) The rentals on properties and motor vehicles were charged at a fixed monthly amount in accordance with the terms of the relevant rental agreements.

(v) The jetty service fees were charged in accordance with the relevant service agreement and at rates based on the State-prescribed price regulated and standardised by the Ministry of Communications and government-approved prices approved by the Guangdong Price Bureau in the PRC.

(vi) The maintenance service fees, which relate principally to after-sale services for plant and machinery purchased from or installed by the fellow subsidiaries, were charged in accordance with the terms of the relevant maintenance service agreements.

(vii) The fuel were purchased at cost from the intermediate holding company.

(viii) The operating fees in respect of petrol stations were charged at a fixed annual fee or with reference to the revenue of the relevant petrol stations in accordance with the terms of the relevant operating agreements for the operation of the petrol stations.

(ix) Transportation service fees were charged by a fellow subsidiary for delivery of petroleum products to the groups' petrol stations. The transportation service fee were charged at Rmb23 per tonne which is in accordance with the price governing by Guangdong Price Bureau in the PRC.

(x) Petroleum unloading services fee was charged to the intermediate holding company for unloading of petroleum products from storage tank to delivery truck. The unit price charged by the group is in accordance with the price governing by Guangdong Price Bureau in the PRC.

(xi) The construction and acquisition of plant and equipment for the crude oil jetty of the group and other attributable overheads were charged in accordance with the terms of the relevant construction and purchase agreements.

(b) Certain banking facilities of the group have been supported by guarantees and/or other financial undertakings provided by the holding companies, at no cost to the group.

(c) The balances with related companies are set out in the consolidated balance sheet and notes 17 and 20.

(Expressed in Hong Kong dollars)

30 Material related party transactions (continued)

(d) On 11 November 2004, Hua De Petrochemical Co. Ltd., an indirect subsidiary of the Group, contracted with 廣州中元石油化工工程有限公司 (Guangzhou Zhong Yuan Petrochemical Engineering Co. Ltd.), an indirect wholly owned subsidiary of China Petrochemical Corporation for construction and installation of two crude oil storage tanks and relevant facilities in Huizhou, the PRC for a consideration of approximately $17.79 million (2003: $35.85 million).

(e) In addition, a subsidiary of the company paid a dividend of approximately $18,483,695 (2003: $32,521,000) to its minority shareholder which is a fellow subsidiary of the group.

31 Ultimate holding company

The directors consider the ultimate holding company at 31 December 2004 to be China Petrochemical Corporation, which is established in the PRC.