MANAGEMENT DISCUSSION AND ANALYSIS



GROUP RESULTS

The following is the key financial figures of the Group for the two years ended 31st December, 2004:

	2004 (HK$'000)	2003 (HK$'000)	Increase
Turnover	192,184	165,712	15.97%
Earnings before interest and tax ("EBIT")	136,666	103,673	31.82%
Profit for the year	114,769	86,315	32.97%
Earnings per share (HK cents)	20.81	16.29	
Diluted earnings per share (HK cents)	19.09	N/A	
EBIT Margin	71.11%	62.56%	
Net profit margin	59.72%	52.09%	

For the year ended 31st December, 2004, the Group's turnover and earnings before interest and tax increased from HK$165,712,000 and HK$103,673,000 for the previous year to HK$192,184,000 and HK$136,666,000, representing increases of 15.97% and 31.82% respectively. The profit for the year reached HK$114,769,000 (2003: HK$86,315,000), an increase of 32.97% from for the previous year. The basic and diluted earnings per share for the year were 20.81 Hong Kong cents and 19.09 Hong Kong cents respectively (2003: 16.29 Hong Kong cents for basic earnings per share).

For better information to the shareholders, the Company advises that on the basis of the number of issued ordinary shares of the Company at the report date of 2,620,000,000, the pro-forma basic earnings per share of the Company for the year ended 31st December, 2004 would be 4.38 Hong Kong cents. In the circumstances that the outstanding convertible note issued by the Company with a principal amount of HK$381,000,000 were to be converted into 1,270,000,000 ordinary shares of the Company at the conversion price of HK$0.30 each, the number of issued ordinary shares of the Company would thus be increased to 3,890,000,000. On the basis of 3,890,000,000 ordinary shares which would then be in issue, the pro-forma basic earnings per share for the year ended 31st December, 2004 would be 2.95 Hong Kong cents.

BUSINESS RESTRUCTURING

During the year, the Company changed its long-term business strategy to become a midstream player in the energy sector, providing specialized integrated terminalling and storage services for oil and liquid petrochemical products in the PRC. The Company achieved this end by the acquisition of an oil and petrochemical storage and terminalling business in the PRC and the disposal of the paper packaging business.



On 5th October, 2004, the Company, Vand Petro-Chemicals (BVI) Company Ltd ("Vand Petro-Chemicals) and Mr. An entered into a sale and purchase agreement. Pursuant to the agreement, the Company conditionally agreed to purchase from Vand Petro-Chemicals its entire interest in Union Petro-Chemicals (BVI) Company Limited ("UPC") which indirectly owns 92% interest in Guangdong (Panyu) Petrochemical Storage & Transportation Ltd. ("GD (Panyu)"), the operator of Xiao Hu Island Terminal ("XHIT"), for a consideration of HK$1,040,000,000. The consideration was satisfied by issuing 530,000,000 new shares of HK$0.10 each at an issue price of HK$0.30, promissory note of HK$200,000,000 and convertible note of HK$681,000,000 with a conversion price of HK$0.30. The acquisition was completed on 24th December, 2004.

After the completion of the acquisition, the Company exercised its put option granted by Good Partner Trading Limited in June 2002 and disposed of its entire 51% interest in the paper packaging business for a consideration of HK$96,900,000. The disposal was completed on 29th December, 2004. The portion of proceeds of the disposal amounting HK$95,000,000 was used to repay partially the promissory note created in the acquistion of the UPC. After the disposal, the Group is no longer engaged in the paper packaging business and focuses itself on developing its oil and petrochemical products storage and terminal business as well as the trading of petroleum products business.

As the acquisition is financed mainly by new shares and convertible note issued to the vendor, under the accounting principles generally accepted in Hong Kong, the acquisition is accounted for as a reverse acquistion and UPC and its subsidiaries (the "UPC Group") is treated as the acquirer while the Company and its subsidiaries are deemed to be acquired by the UPC Group. Further details of this accounting treatment are set out in note 3 to the financial statements. Because of this reason, the following business and financial review sessions cover the results and activities of the UPC Group for the year under review.

BUSINESS REVIEW

Revenue breakdown

The following is the breakdown of major revenue items and its related percentage of the Group for the two years ended 31st December, 2004:

	2004		2003	
	(HK$'000)	%	(HK$'000)	%
Terminal and storage services	142,516	74.2	125,027	75.5
Transshipment services	26,009	13.5	6,288	3.8
Port income	23,632	12.3	24,592	14.8
Trading of oil or petrochemical products	27	—	9,805	5.9
	192,184	100.0	165,712	100.0



Oil and petrochemical products storage and terminalling business

The oil and petrochemical products storage and terminalling business is conducted by a sino-foreign equity joint venture in the PRC, GD (Panyu). GD (Panyu) operates XHIT, a comprehensive storage and terminal complex in Nansha Economic & Technological Development Zone, Guangdong Province, the PRC.

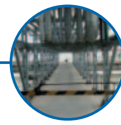
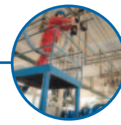
- *Segment results of XHIT*

  For the year ended 31st December, 2004, turnover from the provision of transshipment and storage facilities segment increased from approximately HK$131,315,000 to HK$168,525,000, representing an increase of approximately 28.34% whereas the segment profit for the same period increased from HK$96,452,000 to HK$129,027,000, representing an increase of approximately 33.77%. The increase in both turnover and segment profit is due to the full year leasing of 11 petrochemical products storage tanks built under the XHIT's expansion plan phase IV completed in second half of 2003, a jetty upgraded from 5,000 deadweight tons to 20,000 deadweight tons completed in June 2004, increase in revenue from transshipment services as well as a change in type of products stored in the tank farm.

  For the year ended 31st December, 2004, turnover from port income slightly decreased approximately 3.90% from approximately HK$24,592,000 to approximately HK$23,632,000 and the segment profit increased from approximately HK$16,147,000 to approximately HK$21,031,000, representing an increase of approximately 30.25%. Port income mainly comprises the port charge of RMB15.3 for every metric ton imported oil or petrochemical products discharged at XHIT. This port charge is stated under the relevant laws and regulations of the PRC and the Group is authorized by the relevant government authorities to collect this fee on their behalf. Owing to the reason that the Group is the owner and the operator of XHIT, the Group is entitled to receive part of proceeds of port charge and recognizes them as port income. The decrease in turnover for this segment is in line with the decrease in total throughput of XHIT and the increase in segment profit is due to the change in regulations regarding payment to relevant government authorities.

- *Other operational review of XHIT*

  During the year, all of 82 storage tanks with a total capacity of 325,750 cubic metres have been operating at close to full occupancy. Meanwhile, XHIT reported 379 and 363 foreign tankers berthed and total throughput of 4,662,590 metric tons and 5,031,499 metric tons in its terminal for the two years ended 31st December, 2004. The increase in number of foreign tankers berthed in 2004 is due to the full year leasing of 11 petrochemical storage tanks built under the XHIT's expansion plan phase IV completed in second half of 2003 brought up the throughput of petrochemical products of the terminal. On the other hand, owing to the oil purchase price from international markets was much higher than that from domestic market in certain period of 2004, some of our clients of oil storage tanks reduce their oil purchase from international market and this eventually affect the throughput of oil products of the terminal in 2004. On the whole, the total throughput in XHIT in 2004 was slightly lower than that in 2003.

- *Lease contract with Sinopec Guangdong*

  Apart from having an increasing number of new contracts signed mainly with leading multinational corporations or domestic industry giant in 2004, on 29th December, 2004, the Group was successful in entering into a lease agreement with China Petroleum & Chemical Corporation, Guangdong branch ("Sinopec Guangdong") for the lease to Sinopec Guangdong oil storage tanks of having aggregate capacity of up to 241,000 cubic metres and the non-exclusive use of related transshipment, docking, loading and unloading facilities for a period of 20 years. Under this agreement, the Group is entitled to receive RMB30.0 per cubic metre of capacity leased per month and to charge for docking and related services at a pre-determined rate. Oil tanks having aggregate capacity of 68,000 cubic metres have been delivered to Sinopec Guangdong on 1st January, 2005 and the remaining oil tanks will be delivered over a period of 18 months from the date of the agreement. This agreement is beneficial to the Group because it not only guarantee the full occupation of all oil tanks and secure stable income for the next 20 years for XHIT, the Group is also benefit from having received a 5 years' rental prepayment of RMB433,000,000, equivalent to approximately HK$409 million from Sinopec Guangdong for future expansion purposes. In the meantime, this agreement signifies a long-term relationship between the Group and Sinopec Guangdong.

Trading of oil and petrochemical products business

For the year ended 31st December, 2004, the revenue and the segment results from the trading of petro-chemical products were approximately HK$27,000 and HK$27,000 respectively, compared with approximately HK$9,805,000 and HK$60,000 respectively for the year ended 31st December, 2003. The decrease in business is in line with the Group's intention to scale down the trading activity and to focus on the storage and terminalling business which the Group enjoys a higher profit margin.

Outlook and Group's plans in 2005

The Group intends to continue its long-term business strategy to become a midstream player in the energy sector, providing specialized integrated terminalling and storage services for oil and liquid petrochemical products in the PRC in 2005. To this end, the Group plans for further expansion in XHIT and engaging in the Pearl River Delta project as well as the pipeline project.

- *Expansion in XHIT*

  To cater for the increasing market demand and maintain its competitiveness within the region, XHIT has undergone several phases of expansion since it began operational in December 1995. Currently four petrochemical tanks with a total capacity of 4,700 cubic metres under XHIT's expansion plan phase V are under construction. Barring unforeseen circumstances and factors, the Group expects that this project will be completed in June this year and will bring additional revenue to the Group. At the same time, the Group has also development plans for further expansion in the site area and the capacity of the drumming warehouse situated at the XHIT, information system enhancement project targeted for improving information exchange with relevant government authorities as well as preparation for jetty upgrading.



China is now a net oil importer and was ranked the second largest oil consumer worldwide in 2003. With the strong economy of the Pearl River Delta and its position as an industrial base, demand for oil and petrochemical products is expected to grow. The Company therefore believes XHIT will continue to command a key position in the provision of specialised integrated terminalling and storage services for oil and petrochemical products in the Pearl River Delta Region.

- *Pearl River Delta project*

  On 21st February, 2005, the Company entered into a non-binding memorandum of understanding with a PRC project company pursuant to which the Company has agreed in principle to acquire the rights, title and interest in a proposed project to build a new oil and liquid petrochemical storage facility in the Pearl River Delta in the PRC with a total storage capacity of approximately 700,000 cubic metres and 12 jetties with docking capacities ranging from 500 to 100,000 deadweight tons. With the construction of the new facilities, the Group's storage capacity will increase by approximately 215% (from 325,750 cubic metres to 1,025,750 cubic metres) and annual docking capacity will increase by approximately 166% (from 7,210,000 metric tons to 19,210,000 metric tons per annum). The Group's capital investment in the project is estimated to be around RMB500 million and 600 million. It is currently anticipated that the new facility will become operational in 2006. The Company believes that the Group's competitive strength in the Pearl River Delta region will be considerably enhanced once the facility becomes operational.

- *Pipeline project*

  In addition, the Group is in negotiations regarding an exclusive lease arrangement for an oil pipeline, jetties and storage facilities in a location outside the PRC. The pipeline has an annual maximum pumping capacity of approximately 60 million metric tons, the jetties have a maximum docking capacity of approximately 500,000 deadweight tons and the storage facility has an aggregate capacity of approximately 1.5 million cubic metres. The Group plans to sublease such facilities to oil companies and oil tankers. The Group expects the arrangement to be completed around June 2005 and the Company believes that such arrangements will give the Group a significant competitive advantage by providing customers with an attractive location for docking and storage.

FINANCIAL REVIEW

Capital structure, liquidity and gearing

The Group recorded a substantial change in capital structure during the year under review owing to the acquisition and the disposal transactions. The Group had a current ratio of 1.65 and a gearing ratio of 1.61 (defined as total liabilities to total assets). The relative high gearing ratio is due to the issue of convertible note of HK$681,000,000 and promissory note of HK$200,000,000 (this figure was reduced

to HK$105,000,000 at the balance sheet date) to finance the acquistion of UPC and the re-classification of the rental received in advance of approximately HK$326,981,000 as non-current liabilities. The promissory note has a medium term of 18 months and the noteholder of the promissory note cannot demand for repayment prior to the end of the term. Likewise, the convertible note has a medium to long term, with a 5-year maturity and no demand for repayment of principal from the noteholder of the convertible note is allowed before maturity. The Group had a bank loan of approximately HK$160,174,000 which is Renminbi denominated and secured on various assets of the Group. All of the bank loans are repayable within one year and were classified as current liabilities. The net liabilities position of the Group was at approximately HK$610,235,000.

As at 31st December, 2004, the Group had a cash balance of approximately HK$505,892,000 of which included a five year rental prepayment of approximately HK$408,726,000. Most of the funds were held in Hong Kong dollars, Renminbi and United States dollars.

Funding policy

The Group has set up credit facilities in the amount of approximately RMB400,000,000, approximately RMB300,000,000 of which is for long term and the remaining for short term borrowing. These facilities are available until March 2005 and the Group intends to renew such facilities upon its expiry.

Exposure to fluctuation in exchanges rate and related hedge

The Group's transactions and monetary assets are principally denominated in Hong Kong dollars, Renminbi and United States dollars. As a result, the Group believes that it has minimal exposure to foreign exchange risk. During the period under review, the Group did not employ any financial instruments for hedging purpose.

Charge on Group assets

As at 31st December, 2004, property, plant and equipment of approximately HK$306,249,000 and bank deposits of approximately HK$8,523,000 were pledged against banking facilities granted by certain banks. In addition, the rights to operate storage and terminal business in the PRC and the 92% interest in GD (Panyu) were pledged to certain banks for the year under review in order to secure banking facilities granted by the banks.

Capital Commitment and contingent liabilities

As at 31st December, 2004, the Group had capital commitments in the amount of approximately HK$11,587,000 in respect of construction in progress. These capital commitments were mainly related to unpaid contract sum in respect of construction contracts regarding the construction of four new petrochemical storage tanks signed prior to the balance sheet date.

Other than a guarantee given to a supplier of a subsidiary for trade credit granted, at 31st December, 2004, the Group has no other material contingent liabilities.