

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

1. GENERAL

The Company is an investment holding company incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law (Revised) Chapter 22 of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company and the principal activities of its principal subsidiaries are set out in note 35.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants ("HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are presented.

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

On 10th January, 2005, the Company changed its financial year end date from 31st March to 31st December. As the major subsidiaries of the Group operate in the PRC where they are required by statutes to adopt 31st December as the fiscal year end, the directors believe the change of the Company's financial year end to 31st December would facilitate the preparation of the Group's consolidated financial information.

On 5th October, 2004, Vand Petro-Chemicals (BVI) Company Ltd ("Vand Petro-Chemicals"), the Company and Mr. David An ("Mr. An"), a director and a substantial shareholder of the Company, entered into a sale and purchase agreement (the "Acquisition Agreement"). Pursuant to the Acquisition Agreement, the Company conditionally agreed to purchase Vand Petro-Chemicals' entire interest in Union Petro-Chemicals (BVI) Company Limited ("UPC") for an aggregate consideration of HK\$1,040,000,000 (the "Acquisition").

Notes to the Financial Statements

For the year ended 31st December, 2004

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

The aggregate consideration for the acquisition, which amounted to HK\$1,040,000,000, was satisfied:

- (a) as to HK\$200,000,000, by the issue of promissory note ("Promissory Note") by the Company to Vand Petro-Chemicals;
- (b) as to HK\$159,000,000, by the allotment and issue of 530,000,000 new shares of the Company ("Consideration Shares") by the Company to Vand Petro-Chemicals, credited as fully paid at an issue price of HK0.30 per new share; and
- (c) as to the remaining HK\$681,000,000, by the issue of a convertible note ("Convertible Note") by the Company to Vand Petro-Chemicals.

The Acquisition was completed in December 2004.

Vand Petro-Chemicals is wholly-owned by Mr. An and Mr. An is a director and a controlling shareholder of the Company and hence a connected person of the Company under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Acquisition constitutes a connected transaction under the Listing Rules for the Company and was approved by shareholders of the Company in an extraordinary general meeting held on 23rd December, 2004.

Under accounting principles generally accepted in Hong Kong, the Acquisition has been accounted for as a reverse acquisition because the issuance of the Consideration Shares and Convertible Note in exchange for the entire interest in UPC resulted in Vand Petro-Chemicals becoming the controlling shareholder of the Company. For accounting purposes, UPC and its subsidiaries (the "UPC Group") is treated as the acquirer while the Company and its subsidiaries (the "Hans Energy Group") is deemed to have been acquired by the UPC Group. Along this principle, these consolidated financial statements have been prepared as a continuation of the consolidated financial statements of the UPC Group and accordingly,

- (a) the assets and liabilities of the UPC Group are recognised and measured at the date of acquisition at their historical carrying values prior to the Acquisition;
- (b) the share capital and share premium accounts reflect the legal equity structure of the Company. Any difference between the Company's legal equity and that of UPC is accounted for as a special reserve;
- (c) the other equity balances recognised in these financial statements are the other equity balances of the UPC Group;

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

- (d) the identifiable assets and liabilities of the Hans Energy Group were recorded in the consolidated financial statements at their fair values on the date of completion of the Acquisition. In addition, negative goodwill arising on the Acquisition of approximately HK\$55,709,000 was recognised. Details of the Acquisition are set out in note 27.
- (e) comparative information presented is that of the UPC Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill is presented as a deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognized as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Notes to the Financial Statements

For the year ended 31st December, 2004

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Storage, handling income and port income are recognised when the relevant services are rendered.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and amortisation and any identified impairment loss.

Property, plant and equipment in the course of construction for production are carried at cost less any identified impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation and amortisation is provided to write off the cost of other assets over their estimated useful lives, using the straight line method, at the following rates per annum:

Land use rights	3.33%–10%
Buildings	3.33%
Dock, processing and storage facilities	3.33%–20%
Office equipment	10%–20%
Motor vehicles	10%–20%
Leasehold improvements	Over the shorter of the term of the lease, or 20 years

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

Retirement benefit costs

Payments to defined contribution retirement benefit scheme are charged as an expense as they fall due. Payments made to state-managed retirement benefits schemes are dealt with as payments to defined contribution scheme where the Group's obligations under the scheme are equivalent to those arising in a defined contribution retirement benefit scheme.

Taxation

Taxation represents the sum of the tax currently payable and deferred taxation.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Notes to the Financial Statements

For the year ended 31st December, 2004

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred taxation is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred taxation is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the respective leases.

Notes to the Financial Statements

For the year ended 31st December, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business Segments

For management purposes, the Group's operations are organised into three operating divisions, namely, trading of petro-chemical products, provision of transshipment and storage facilities, and port income. These divisions are the basis on which the Group reports its primary segment information.

Business segment information about these businesses is presented below:

2004

	Trading of petro-chemical products HK\$'000	Provision of transshipment and storage facilities HK\$'000	Port income HK\$'000	Consolidated HK\$'000
TURNOVER				
External sales	27	168,525	23,632	192,184
RESULTS				
Segment results	27	129,027	21,031	150,085
Interest income				502
Unallocated corporate income				1,283
Unallocated corporate expenses				(15,204)
Profit from operations				136,666
Interest on bank borrowings wholly repayable within five years				(9,060)
Gain on disposal of subsidiaries				6,432
Profit before taxation				134,038
Taxation				(9,699)
Profit before minority interests				124,339
Minority interests				(9,570)
Profit for the year				114,769
ASSETS				
Segment assets	—	368,904	18,222	387,126
Unallocated corporate assets				510,695
Total assets				897,821
LIABILITIES				
Segment liabilities	303	416,139	8,812	425,254
Unallocated corporate liabilities				1,020,791
Total liabilities				1,446,045
OTHER INFORMATION				
Capital additions	—	177,019	—	177,019
Depreciation and amortisation	—	25,355	—	25,355
Loss on disposal of property, plant and equipment	—	604	—	604

Notes to the Financial Statements

For the year ended 31st December, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business Segments (Continued)

2003

	Trading of petro-chemical products HK\$'000	Provision of transshipment and storage facilities HK\$'000	Port income HK\$'000	Consolidated HK\$'000
TURNOVER				
External sales	9,805	131,315	24,592	165,712
RESULTS				
Segment results	60	96,452	16,147	112,659
Interest income				7,145
Unallocated corporate income				1,013
Unallocated corporate expenses				(17,144)
Profit from operations				103,673
Interest on bank borrowings wholly repayable within five years				(9,731)
Profit before taxation				93,942
Taxation				—
Profit before minority interests				93,942
Minority interests				(7,627)
Profit for the year				86,315
ASSETS				
Segment assets	40	355,387	21,049	376,476
Unallocated corporate assets				62,773
Total assets				439,249
LIABILITIES				
Segment liabilities	919	24,638	10,842	36,399
Unallocated corporate liabilities				250,991
Total liabilities				287,390
OTHER INFORMATION				
Capital additions	—	22,515	—	22,515
Depreciation and amortisation	—	22,410	—	22,410
Loss on disposal of property, plant and equipment	—	1,459	—	1,459

Notes to the Financial Statements

For the year ended 31st December, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical Segments

The Group is engaged in the trading of petro-chemical products, provision of transshipment and storage facilities, and port income. More than 90% of the Group's turnover are located in the PRC.

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
PRC	834,065	428,241	176,184	22,515
Hong Kong	63,756	11,008	835	—
	897,821	439,249	177,019	22,515

6. PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' emoluments (note 7)	968	963
Other staff costs		
Salaries and other benefits	12,256	11,218
Retirement benefits scheme contributions	468	385
Total staff costs	13,692	12,566
Auditors' remuneration	921	186
Depreciation and amortisation	25,355	22,410
Loss on disposal of property, plant and equipment	604	1,459
Operating lease rentals in respect of land and buildings	1,382	1,515
and after crediting:		
Interest income from		
Banks	502	544
A related company	—	6,601
Rental income from properties, net of negligible outgoings	337	497

Notes to the Financial Statements

For the year ended 31st December, 2004

7. DIRECTORS' EMOLUMENTS

	2004 HK\$'000	2003 HK\$'000
Directors' fees:		
Executive	—	—
Independent non-executive	—	—
Other emoluments of executive directors:		
Salaries and other benefits	938	933
Retirement benefits scheme contributions	30	30
Total directors' emoluments	968	963

The aggregate emoluments of each of the directors were under HK\$1,000,000 for both years.

The emoluments of the directors of the Hans Energy Group as disclosed in the annual report for the year ended 31st March, 2004 and the current period are as follow:

	1.4.2004 to 31.12.2004 HK\$'000	1.4.2003 to 31.3.2004 HK\$'000
Directors' fees:		
Executive	—	—
Independent non-executive	220	40
Other emoluments of executive directors:		
Salaries and other benefits	1,300	1,908
Retirement benefits scheme contributions	16	24
Total directors' emoluments	1,536	1,972

The aggregate emoluments of each of the directors were under HK\$1,000,000 for both period/year.

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

8. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2003: one) was a director of the Company whose emolument is included in the disclosure in note 7 above. The emoluments of the remaining four (2003: four) individuals are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	1,091	1,288
Retirement benefits scheme contributions	52	63
	<u>1,143</u>	<u>1,351</u>

The aggregate emoluments of each of the above individuals were under HK\$1,000,000 for both years.

9. DISCONTINUED OPERATIONS

Upon the completion of the acquisition of the entire interest in UPC as mentioned in note 3, the Company exercised the option granted by Good Partner Trading Limited ("Good Partner") to the Company under the shareholders' agreement entered into between Good Partner, Mr. Lee Wan Keung ("Mr. Lee"), a director of Capital Nation Investments Limited ("Capital Nation"), a former subsidiary of the Company, and the Company on 14th June, 2002 to require Good Partner to purchase 51% of the issued share capital of Capital Nation held by the Company (the "Disposal"). Capital Nation and its subsidiaries (the "Capital Nation Group") are engaged in the manufacture and sales of paper packaging products. The aggregate consideration for the disposal, which amounted to HK\$96,900,000, was satisfied:

- (a) as to HK\$1,900,000 by cash; and
- (b) as to the remaining HK\$95,000,000 by assigning to the Company the promissory note issued on 14th June, 2002 by Extreme Wise Investments Limited ("Extreme Wise"), a substantial shareholder of the Company, to Good Partner with a face amount of HK\$95,000,000.

The Disposal was completed in December 2004.

As Good Partner has a 49% interest in Capital Nation, Good Partner was therefore a connected person of the Company under the Listing Rules. The Disposal constitutes a connected transaction under the Listing Rules for the Company and was approved by the shareholders of the Company in an extraordinary general meeting held on 23rd December, 2004.

Notes to the Financial Statements

For the year ended 31st December, 2004

9. DISCONTINUED OPERATIONS (Continued)

On the basis of preparation of these financial statements as described in note 3, the results of the Capital Nation Group for the period from the date of acquisition of UPC to the date of disposal of Capital Nation is not significant.

The carrying amounts of the assets and liabilities of Capital Nation at the date of disposal are set out in note 28.

10. TAXATION

The taxation charge represents PRC Enterprise Income Tax for the year.

No Hong Kong Profits Tax was provided as the Group had no assessable profit subject to Hong Kong Profits Tax for the year.

The subsidiary in the PRC, 粵海(番禺)石油化工儲運開發有限公司 Guangdong (Panyu) Petrochemical Storage & Transportation Ltd. ("GD (Panyu)") is entitled to exemption from PRC Enterprise Income Tax for five years starting from its first profit-making year, followed by a 50% relief for the five years thereafter, in accordance with the approval from the PRC authority issued in 2002 regarding its port development business. The full PRC Enterprise Income Tax rate applicable to GD (Panyu) is 15% and the reduced rate is 7.5%. The first year of GD (Panyu) subject to PRC Enterprise Income Tax at the reduced rate of 7.5% commenced from 1st January, 2004.

At 31st December, 2004, the Group had unused tax losses of HK\$25,132,000 (2003: HK\$17,346,000) available for offset against future taxable profits. No deferred tax asset has been recognised in the financial statements due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

Notes to the Financial Statements

For the year ended 31st December, 2004

10. TAXATION (Continued)

The taxation charge for the year can be reconciled to the profit before taxation per the income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	134,038	93,942
Tax at the applicable tax rate of 15%	20,106	14,091
Tax effect of expenses not deductible for tax purpose	108	86
Tax effect of income not taxable for tax purpose	(1,075)	(38)
Tax effect of tax losses not recognised	260	162
Effect of tax relief granted to a PRC subsidiary	(9,700)	(14,301)
Taxation charge for the year	9,699	—

11. DIVIDEND

	2004 HK\$'000	2003 HK\$'000
Interim dividend paid	50,000	—
Proposed final dividend of 1.0 Hong Kong cent per share	26,200	—
	76,200	—

The above interim dividend represents dividend paid by UPC to its then shareholder prior to the Acquisition.

A final dividend of 1.0 Hong Kong cent per share for the year ended 31st December, 2004 has been proposed by the board of directors and is subject to be approved by the shareholders in the forthcoming annual general meeting.

Notes to the Financial Statements

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12. EARNINGS PER SHARE

Under the reverse acquisition method of accounting, the 530,000,000 ordinary shares issued by the Company to Vand Petro-Chemicals to effect the Acquisition described in note 3 are deemed to be issued on 1st January, 2003 for the purpose of calculating the earnings per share.

The calculations of the basic and diluted earnings per share based on the share capital of the Company are as follows:

	2004 HK\$'000	2003 HK\$'000
Earnings for the purposes of basic and diluted earnings per share		
— profit for the year	114,769	86,315
	Number of shares	Number of shares
Number of ordinary shares for the purposes of basic earnings per share	551,639,344	530,000,000
Effect of dilutive potential ordinary shares in respect of convertible note	49,617,486	—
Number of ordinary shares for the purposes of diluted earnings per share	601,256,830	530,000,000

Notes to the Financial Statements

For the year ended 31st December, 2004

13. PROPERTY, PLANT AND EQUIPMENT

	Medium term land use rights in the PRC HK\$'000	Buildings HK\$'000	Construction in progress HK\$'000	Dock, processing and storage facilities HK\$'000	Plant and machinery HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Leasehold improvements HK\$'000	Total HK\$'000
THE GROUP									
COST									
At 1st January, 2004	35,367	11,376	9,871	403,936	—	2,281	5,873	971	469,675
Currency realignment	215	69	60	2,435	—	13	34	6	2,832
Additions	—	—	19,869	2,134	—	81	2,040	—	24,124
Acquired on acquisition of subsidiaries	—	85,210	—	—	62,173	1,682	698	3,132	152,895
Disposals	—	—	—	(1,087)	—	(153)	(883)	—	(2,123)
Eliminated on disposal of subsidiaries	—	(85,210)	—	—	(62,173)	(1,382)	(698)	(3,000)	(152,463)
At 31st December, 2004	35,582	11,445	29,800	407,418	—	2,522	7,064	1,109	494,940
DEPRECIATION AND AMORTISATION									
At 1st January, 2004	9,545	2,538	—	103,209	—	1,688	2,983	389	120,352
Currency realignment	62	17	—	677	—	10	20	3	789
Provided for the year	1,425	342	—	22,465	—	225	703	195	25,355
Eliminated on disposals	—	—	—	(633)	—	(129)	(566)	—	(1,328)
At 31st December, 2004	11,032	2,897	—	125,718	—	1,794	3,140	587	145,168
NET BOOK VALUE									
At 31st December, 2004	24,550	8,548	29,800	281,700	—	728	3,924	522	349,772
At 31st December, 2003	25,822	8,838	9,871	300,727	—	593	2,890	582	349,323

Notes to the Financial Statements

For the year ended 31st December, 2004

14. NEGATIVE GOODWILL

	THE GROUP HK\$'000
COST AND NET BOOK VALUE	
Arising on Acquisition during the year (note 27)	55,709
Eliminated on Disposal during the year (note 28)	(55,709)
At 31st December, 2004	—

The negative goodwill arose on the Acquisition as described in note 3.

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	31.12.2004 HK\$'000	31.3.2004 HK\$'000
Unlisted shares	1,051,499	158,706
Amounts due from subsidiaries	18,883	34,503
	1,070,382	193,209

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date and are therefore shown in the balance sheet as non-current.

In preparing the financial statements, the directors have considered the valuation of the Company's interests in subsidiaries in light of the net liability position as shown in the consolidated balance sheet. After considering the income potential of, and the fair value of the assets held by, the subsidiaries that have not been reflected in the financial statements, the directors are of the opinion that no allowance for impairment against the Company's interests in subsidiaries is required.

Details of the Company's principal subsidiaries at 31st December, 2004 are set out in note 35.

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16. AMOUNTS DUE FROM RELATED COMPANIES

Details of the amounts due from related companies are as follows:

Name of company	THE GROUP		
	31.12.2004 HK\$'000	1.1.2004 HK\$'000	Maximum amount outstanding during the year HK\$'000
廣州市粵盈石油化工有限公司 (“粵盈石油”)	—	37,680	37,680
廣州市達贏石油化工有限公司 (“達贏石油”)	—	187	187
	—	37,867	
Less: Amount due within one year shown under current assets	—	(1,873)	
Amount due after one year	—	35,994	

粵盈石油 and 達贏石油 are companies under common control by a director of a subsidiary of the Company. The amounts were unsecured, interest free and fully repaid during the year.

17. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 to 90 days to its trade customers.

Included in trade and other receivables are trade receivables of approximately HK\$19,564,000 (2003: HK\$10,614,000). The aged analysis of trade receivables at the balance sheet date is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Less than 31 days	19,292	8,535
31–60 days	120	1,148
61–90 days	143	204
Over 90 days	9	727
	19,564	10,614

Notes to the Financial Statements

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18. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$303,000 (2003: HK\$845,000). The aged analysis of trade payables at the balance sheet date is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Less than 31 days	—	65
31–60 days	—	477
Over 90 days	303	303
	303	845

19. RENTAL RECEIVED IN ADVANCE

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	86,388	14,589
More than one year, but not exceeding two years	81,745	—
More than two years, but not exceeding five years	245,236	—
	413,369	14,589
Less: Amount due within one year shown under current liabilities	(86,388)	(14,589)
Amount due after one year	326,981	—

On 29th December, 2004, the Group entered into a lease agreement (the "Lease Agreement") with a third party (the "Lessee") for the lease of certain oil storage tanks of the Group (the "Oil Storage Tanks") and the non-exclusive use of related transshipment, docking, loading and unloading facilities for a period of 20 years from the date of delivery of the use of the Oil Storage Tanks at an annual rental of approximately HK\$81.7 million. Pursuant to the Lease Agreement, the Group received five years' prepaid rentals of approximately HK\$408.7 million on signing of the Lease Agreement and was obliged to pass the right to use part of the Oil Storage Tanks to the Lessee on 1st January, 2005.

19. RENTAL RECEIVED IN ADVANCE (Continued)

In the opinion of the directors, the Lease Agreement comprises elements relating to finance lease, operating lease and provision of services. The disposal of the assets attributable to the finance lease and the related finance lease receivable was recognised on the inception of the Lease Agreement on 1st January, 2005. Rentals attributable to the operating lease and the provision of services will be recognised over the period of the lease.

20. AMOUNTS DUE TO RELATED COMPANIES

Details of the amounts due to related companies are as follows:

Name of company	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Vand Petro-Chemicals	50,035	72,985
Hong Kong Vand Petrochemical Co. Ltd. ("Hong Kong Vand")	—	700
廣州市番禺區番禺材料有限公司 ("Panyu Materials")	—	18,096
Timeslink Development Limited ("Timeslink")	—	262
	50,035	92,043

The amount due to Vand Petro-Chemicals is unsecured, interest free and repayable on demand.

Hong Kong Vand and Timeslink are companies controlled by Mr. David An. Panyu Materials is a company controlled by a director of a subsidiary of the Company. The amounts due to Hong Kong Vand, Panyu Materials and Timeslink were unsecured, interest free and fully repaid during the year.

Notes to the Financial Statements

For the year ended 31st December, 2004

21. BANK LOANS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
The bank loans are secured and are repayable as follows:		
Within one year	160,174	28,095
More than one year, but not exceeding two years	—	131,110
	160,174	159,205
Less: Amount due within one year shown under current liabilities	(160,174)	(28,095)
Amount due after one year	—	131,110

22. CONVERTIBLE NOTE

On 24th December, 2004, the Company issued the Convertible Note with a principal amount of HK\$681,000,000 to Vand Petro-Chemicals as part payment of the consideration for the acquisition of UPC.

The Convertible Note bears interest at 1% per annum and is redeemable at par on 24th December, 2009. The holder of the Convertible Note has the rights to convert all or any portion of the Convertible Note into shares of the Company at an initial conversion price of HK\$0.30 per share, subject to adjustment. The conversion rights can be exercised at any time from the date of issue until the repayment of the Convertible Note, provided that the public float of the Company will not be less than 25% immediately after such conversion.

23. PROMISSORY NOTE

On 24th December, 2004, the Company issued the Promissory Note with a principal amount of HK\$200,000,000 to Vand Petro-Chemicals as part payment of the consideration for the acquisition of UPC. The Promissory Note is interest free and is repayable on or before 24th June, 2006.

In December 2004, the Promissory Note was repaid to the extent of HK\$95,000,000 through the assignment of a promissory note issued by Extreme Wise as mentioned in note 9(b).

24. SHARE CAPITAL

	THE COMPANY	
	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each:		
Authorised:		
At 1st January, 2004	5,000,000,000	500,000
Increase in authorised share capital	5,000,000,000	500,000
At 31st December, 2004	10,000,000,000	1,000,000
Issued and fully paid:		
At 1st January, 2004	990,000,000	99,000
Issue of new shares on the Acquisition	530,000,000	53,000
At 31st December, 2004	1,520,000,000	152,000

During the year, the following changes in the share capital of the Company took place:

- (i) Pursuant to an ordinary resolution passed at an extraordinary general meeting held on 23rd December, 2004, the Company's authorised share capital was increased from HK\$500,000,000 to HK\$1,000,000,000 by the creation of 5,000,000,000 new ordinary shares of HK\$0.10 each in the Company.
- (ii) The Company issued 530,000,000 new ordinary shares of HK\$0.10 each in the Company at an issue price of HK\$0.30 per share to Vand Petro-Chemicals as part payment of the consideration for the acquisition of UPC. These shares ranked pari passu with the then existing shares in all respects.

At 31st December, 2003, the share capital of the Group shown on the consolidated balance sheet represented the share capital of UPC.

Notes to the Financial Statements

For the year ended 31st December, 2004

25. SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed on 16th December, 2002, the Company adopted a share option scheme (the "Scheme") for the purpose of enabling the Company to recruit and retain high-calibre employees and attract resources that are valuable to the Group and to provide the Company with a means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to such persons who contribute or may bring benefit to the Group. The Scheme will remain in force for a period of 10 years from adoption of such scheme and will expire on 15th December, 2012.

Under the Scheme, the Board of Directors of the Company (the "Directors") may at their discretion grant options to (i) any director of the Company or any company in which the Company holds an equity interest; or (ii) any employee of the Company or any company in which the Company owns any equity interest; (iii) any consultant, agent, business affiliate, professional and other advisor, business partner, joint venture partner, strategic partner, or any supplier or provider of goods or services to the Company or any subsidiaries of the Company as may be determined by the Directors from time to time to subscribe for the shares of the Company (the "Shares").

Options granted must be taken up within 21 days of the date of grant, upon payment of HK\$1 per option. The maximum number of Shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company on the date of adopting the Scheme. The limit may be refreshed at any time provided that the new limit must not be in aggregate exceed 10% of the issued share capital of the Company as at the date of the shareholders' approval in general meeting. However, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other scheme of the Company must not in aggregate exceed 30% of the shares in issue from time to time. The maximum number of Shares in respect of which options may be granted to any individual in any 12-month period shall not exceed 1% of the Shares in issue on the last date of such 12-month period unless approval of the shareholders of the Company has been obtained in accordance with the Listing Rules. Options granted to substantial shareholders or independent non-executive directors in excess of issued share capital of the Company or with a value in excess of HK\$5 million must be approved in advance by the shareholders of the Company.

Options may be exercised at any time from date of grant of the share option to the 10th anniversary of the date of grant as may be determined by the Directors. The exercise price is determined by the Directors, and will not be less than the higher of the closing price per share as stated in the Stock Exchange's daily quotations sheets on the date of the grant of the options and the average closing price per share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant of the options.

No option was granted by the Company under the Scheme since its date of adoption.

Notes to the Financial Statements

For the year ended 31st December, 2004

26. RESERVES

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY			
At 1st April, 2003	96,986	(1,124)	95,862
Loss for the year	—	(961)	(961)
At 31st March, 2004	96,986	(2,085)	94,901
Issue of shares	106,000	—	106,000
Loss for the period	—	(63,326)	(63,326)
At 31st December, 2004	202,986	(65,411)	137,575

The Company's reserves available for distribution to its shareholders comprise share premium and accumulated losses which in aggregate amounted to approximately HK\$137.6 million as at 31st December, 2004 (31.3.2004: HK\$94.9 million). Under the Companies Law (Revised) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the payment of distribution or dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, distributions shall be payable out of the profits or other reserves, including the share premium account, of the Company.

Notes to the Financial Statements

For the year ended 31st December, 2004

27. ACQUISITION OF SUBSIDIARIES

	HK\$'000
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Net assets of the Hans Energy Group acquired using the principle of reverse acquisition:	
Property, plant and equipment	152,895
Inventories	30,659
Trade and other receivables	55,180
Amounts due from related companies	1,196
Bank balances and cash	83,829
Trade and other payables	(22,405)
Amounts due to related companies	(1,075)
Taxation payable	(26)
Retirement benefit obligations	(495)
Minority interests	(140,492)
	<hr/>
	159,266
Deemed consideration	(103,557)
	<hr/>
Negative goodwill arising on acquisition of subsidiaries	55,709
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Net inflow of cash and cash equivalents in connection with the acquisition of subsidiaries:	
Bank balances and cash acquired	83,829
	<hr/>

The acquisition of the subsidiaries which was completed in December 2004 did not make any significant impact on the Group's results and cash flows for the year.

28. DISPOSAL OF SUBSIDIARIES

As referred to in note 9, the Group disposed of Capital Nation Group in December 2004 which was principally engaged in the manufacture and sales of paper packaging products.

The net assets disposed of are as follows:

	2004 HK\$'000
Net assets disposed of:	
Property, plant and equipment	152,463
Inventories	30,659
Trade and other receivables	54,988
Amount due from related companies	1,196
Bank balances and cash	64,238
Trade and other payables	(15,279)
Amounts due to related companies	(1,075)
Taxation payable	(26)
Retirement benefit obligations	(495)
Minority interests	(140,492)
	146,177
Negative goodwill released	(55,709)
	90,468
Gain on disposal of subsidiaries	6,432
	96,900
Satisfied by:	
Cash consideration received	1,900
Settlement of promissory note	95,000
	96,900
Net outflow of cash and cash equivalents in connection with the disposal of subsidiaries:	
Cash received	1,900
Bank balances and cash disposed of	(64,238)
	(62,338)

Notes to the Financial Statements

For the year ended 31st December, 2004

29. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings, which fall due as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	2,372	1,244
In the second to fifth year inclusive	3,672	2,340
More than five years	389	463
	<u>6,433</u>	<u>4,047</u>

Operating lease payments represent rentals payable by the Group for its warehouses, office premises and directors' quarters. Leases are negotiated for an average term of two to five years with fixed rental.

The Group as lessor

Rental income earned during the year was approximately HK\$168 million (2003:HK\$131 million). The leases are negotiated for a lease term of 1 to 20 years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	80,616	84,211
In the second to fifth year inclusive	111,603	137,278
Over five years	1,226,179	18,792
	<u>1,418,398</u>	<u>240,281</u>

Notes to the Financial Statements

For the year ended 31st December, 2004

30. CAPITAL COMMITMENTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
— additions in construction in progress	11,587	20,605
— acquisition of other property, plant and equipment	—	133
	11,587	20,738

31. PLEDGE OF ASSETS

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

	2004 HK\$'000	2003 HK\$'000
Property, plant and equipment	306,249	326,549
Pledged bank deposits	8,523	600

In addition, the following assets were pledged by the Group to certain banks in order to secure banking facilities granted by the banks to the Group for the year ended 31st December, 2004 and 2003 and a related company for the year ended 31st December, 2003:

- (a) rights to operate storage and terminal business in the PRC; and
- (b) the 92% interest in GD (Panyu).

32. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees given to a supplier in respect of credit facilities extended to a subsidiary	7,800	7,800	7,800	7,800

Notes to the Financial Statements

For the year ended 31st December, 2004

33. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

The employees of GD (Panyu) are members of a state-managed retirement benefit scheme operated by the PRC government. GD (Panyu) is required to contribute a certain percentage of the payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contribution under the scheme.

34. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

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

(I) Connected Persons

During the year, the Group completed the Acquisition and the Disposal with connected persons. Details of the connected transactions are set out in notes 3 and 9, respectively and in a circular of the Company dated 7th December, 2004.

In addition, during the year ended 31st December, 2003, a director of the Company also provided personal guarantee to the Group which was released during the year.

(II) Related Parties, other than Connected Persons

Name of party	Nature of transactions	Notes	THE GROUP	
			2004 HK\$'000	2003 HK\$'000
Panyu Materials	Storage income received	(i)	—	1,068
	Rental income received	(ii)	—	136
廣東粵聯萬達石油化工有限公司 ("粵聯萬達")	Storage income received	(i)	28,069	28,153
	Interest income received	(iii)	—	6,601
Timeslink	Rental expenses paid	(ii)	412	262

34. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

Notes:

- (i) The storage income was charged at market price or, where no market price was available, in accordance with the terms of the agreement entered into between the relevant parties.
- (ii) The rentals were charged at market price or, where no market price was available, in accordance with the terms of the agreement entered into between the relevant parties.
- (iii) Interest income was charged by reference to the principal outstanding and at the interest rate determined and agreed by both parties.

粵聯萬達 is a company under common control by a director of the Company.

Details of the balances with related companies are set out in notes 16 and 20.

35. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2004 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued and fully paid share capital/ registered capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Guangdong Petro-Chemicals Company Limited	Hong Kong	Ordinary shares — HK\$20,000,000	—	100%	Storage handling and trading of petro- chemical products
Oriental Point International Limited	Hong Kong	Ordinary shares — HK\$1,000,000	—	100%	Trading of petroleum products in the PRC
Timeslink	Hong Kong	Ordinary shares — HK\$10,000	100%	—	Provision of management services
Union Petro-Chemicals (BVI) Company Limited	British Virgin Islands	Shares — US\$100	100%	—	Investment holding
GD (Panyu)	PRC (Note)	RMB80,000,000	—	92%	Storage and transshipment

Notes to the Financial Statements

For the year ended 31st December, 2004

35. PRINCIPAL SUBSIDIARIES (Continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

Note: GD (Panyu) is a sino-foreign equity joint venture company.

36. POST BALANCE SHEET EVENTS

The following significant events occurred after the balance sheet date:

- (a) On 11th March, 2005, Extreme Wise, Mr. An and the Company entered into a placing agreement (the "Placing") with a placing agent for the placing of an aggregate of 500,000,000 existing shares of HK\$0.10 each in the Company held by Extreme Wise at a price of HK\$1.0 per share. Extreme Wise also entered into a subscription agreement (the "Subscription") to subscribe for an aggregate of 100,000,000 new shares in the Company at a price of HK\$1.0 each. Details of these transactions are set out in an announcement made by the Company on 11th March, 2005. The Placing and Subscription were completed on 15th March, 2005 and 24th March, 2005 respectively.
- (b) On 15th March, 2005, Vand Petro-Chemicals exercised its right to convert part of the Convertible Note with a principal amount of HK\$300,000,000 for the issue of 1,000,000,000 ordinary shares of HK\$0.10 each in the Company at the conversion price of HK\$0.30 each.