

Business Review and Prospects

REVENUE BREAKDOWN

The following is the breakdown of major revenue items and its related percentage of the Group for

	Six months ended 30 June 2005		Six months ended 30 June 2004	
	(HK\$'000)	%	(HK\$'000)	%
Terminal and storage services and transshipment services	94,995	90.23	70,937	85.33
Port income	10,290	9.77	12,183	14.65
Trading of oil or petrochemical products	—	—	14	0.02

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, 粵海(番禺)石油化工儲運開發有限公司 (Guangdong (Panyu) Petrochemical Storage & Transportation Ltd.) (“GD (Panyu)”). GD (Panyu) operates Xiao Hu Island Terminal (“XHIT”), a comprehensive storage and terminal complex in Nansha Economic & Technological Development Zone, Guangdong Province, the PRC.

- For the six months ended 30 June 2005, turnover from the provision of transshipment and storage facilities segment increased from approximately HK\$70,937,000 to HK\$94,995,000, representing an increase of approximately 33.91% whereas the segment profit for the same period increased from HK\$53,162,000 to HK\$74,907,000, representing an increase of approximately 40.90%. The increase in both turnover and segment profit was due to the commencement of the long-term lease entered into between GD (Panyu) and China Petroleum & Chemical Corporation Guangdong Branch (“Sinopec Guangdong”) as reported in the 2004 Annual Report, together with the commissioning in June of four additional new-built tanks.
- For the six months ended 30 June 2005, turnover from port income decreased approximately 15.54% from approximately HK\$12,183,000 to approximately HK\$10,290,000 and the segment profit decreased from approximately HK\$9,950,000 to approximately HK\$8,519,000, representing a decrease of approximately 14.38%. Port income mainly comprises the port charge for every metric ton of imported oil or petrochemical products discharged at XHIT. This port charge is provided for 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. Since the Group is the owner and the operator of XHIT, the Group is entitled to receive part of the proceeds of the port

Business Review and Prospects

03

HANS ENERGY COMPANY LIMITED

charges and recognizes them as port income. The decrease in turnover and profit for this segment was in line with the decrease in total frequency of transshipment of imported oil and petrochemical products discharged at XHIT.

Trading of oil and petrochemical products business

For the six months ended 30 June 2005, the revenue and the segment results from the trading of petrochemical products were both zero, compared with approximately HK\$14,000 and HK\$12,000 respectively for the six months ended 30 June 2004. The decrease in business was in line with the Group's intention to scale down the trading activity and to focus on the storage, terminalling and logistics business in which the Group enjoys a higher profit margin with less risk.

Outlook

The Group intends to continue its long-term business strategy of developing as a midstream player in the energy sector, providing specialized integrated terminalling, storage and logistics services for oil and liquid petrochemical products in the PRC as well as identifying other oil-industry areas for growth. To this end, the Group plans to develop the Pearl River Delta project as outlined below as well as other projects both inside and outside China.

- 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 became operational in December 1995. Four petrochemical tanks with a total capacity of 4,700 cubic metres were commissioned in June this year and will bring additional revenue to the Group. They are fully committed. At the same time, the Group has also development plans for further expansion within the site area and in the capacity of the drumming warehouse, an information system enhancement project, as well as preparation for further jetty upgrading.

China is now a substantial net oil importer and became the second largest oil importer worldwide in 2004. 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 continue to grow. The Company therefore believes XHIT will continue to command a key position in the provision of specialised integrated terminalling, storage and logistics services for oil and petrochemical products in the Pearl River Delta region.

Business Review and Prospects

- Pearl River Delta project

On 21 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 212% (from 330,450 cubic metres to 1,030,450 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 in excess of RMB600 million plus land premium. It is currently anticipated that the early phases of the new facility will become operational in late 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. The Company is awaiting the final approval of the project from relevant government authorities.

- Pipeline project

In addition, the Group is still in negotiations for an arrangement to use on a leased basis oil pipeline, jetties and storage facilities in a location outside the PRC in order to sublease such facilities to oil companies and oil tanker operators. The Group expects that such arrangements will give the Group a significant competitive advantage by providing customers with an attractive location for docking and storage and in reducing transport costs.

Interim Dividend

The directors do not recommend any interim dividend for the six months ended 30 June 2005 (2004: HK\$50,000,000). The interim dividend paid in 2004 represented dividend paid in that period by one of the Company's subsidiaries to its then shareholder prior to the group reorganization in December 2004.