Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2005

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

Financial Instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible loan note

HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The principle impact of HKAS 32 on the

Group is in relation to convertible loan note issued by the Company that contain both liability and equity components. Previously, convertible loan note was classified as liability on the balance sheet. Because HKAS 32 requires retrospective application, comparative figures have been restated.

Financial assets

Financial assets included trade and other receivables, pledged bank deposits and bank balances and cash. Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

Financial liabilities other than debt and equity securities

Other financial liabilities included trade and other payables and amounts due to related companies, which are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Owner-occupied Leasehold Interest in Land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to lease premium for land under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively.

The effect of the changes in the accounting policies described above on the results for the current period are as follows:

	Six months ended 30 June 2005 HK$'000
Increase in interest costs on the liability component of convertible loan note	(6,561)
Decrease in deferred taxation in respect of convertible loan note	1,200
	(5,361)

The profit for the six months ended 30 June 2005 consequently decreased by HK$5,361,000 (2004: nil), represented by an increase in finance costs of HK$6,561,000 (2004: nil) and a decrease in taxation of HK$1,200,000 (2004: nil).

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 are summarised below:

	As at 31 December 2004 (originally stated) HK$'000	Adjustment HK$'000	As at 31 December 2004 (restated) HK$'000
Balance sheet items			
Property, plant and equipment	349,772	(24,550)	325,222
Lease premium for land — non-current portion	—	23,125	23,125
Lease premium for land — current portion	—	1,425	1,425
Convertible loan note	(681,000)	90,682	(590,318)
Deferred tax liability	—	(15,869)	(15,869)
Total effects on assets and liabilities	(331,228)	74,813	(256,415)
Capital reserve			
— equity component of convertible loan note	—	(90,682)	(90,682)
— deferred tax liability on equity component of convertible loan note	—	15,869	15,869
Total effects on equity	—	(74,813)	(74,813)

The application of the new HKFRSs has had no effect to the Group's equity at 1 January 2004.

The HKICPA has issued the following standards and interpretations ("INT") that are not yet effective. The Group has considered the following standards and interpretations but does not expect they will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS — INT 4	Determining whether an Arrangement contains a Lease
HKFRS — INT 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option

3. SEGMENT INFORMATION

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

The Group's turnover and contribution to the operating profits for the six months ended 30 June 2005 and 30 June 2004 analysed by business segments, were as follows:

	Turnover Six months ended 30 June		Segment Results Six months ended 30 June	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Trading of petrochemical products	**—**	14	**—**	12
Provision of transshipment and storage facilities	**94,995**	70,937	**73,425**	51,772
Port income	**10,290**	12,183	**8,519**	9,950
	105,285	83,134	**81,944**	61,734
Interest income			**3,774**	234
Unallocated corporate income			**477**	478
Unallocated corporate expenses			**(10,384)**	(6,900)
Finance costs			**(12,069)**	(4,636)
Profit before taxation			**63,742**	50,910
Taxation			**(4,345)**	(3,888)
Profit for the period			**59,397**	47,022

4. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments	**220**	463
Other staff costs	**8,705**	4,878
Other retirement benefits scheme contribution	**1,278**	249
Total staff costs	**10,203**	5,590
Amortisation of lease premium for land	**712**	713
Depreciation of property, plant and equipment	**11,588**	11,934
Loss on disposal of property, plant and equipment	**14**	604
Operating lease rentals in respect of land and buildings	**1,059**	746
and after crediting:		
Bank interest income	**3,774**	234
Rental income from properties, net of negligible outgoings	**106**	178

5. TAXATION

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
The charge comprises:		
PRC Enterprise Income Tax	**5,545**	3,888
Deferred taxation	**(1,200)**	—
	4,345	3,888

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

The subsidiary in the People's Republic of China (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 on 1 January 2004.

6. DIVIDEND

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Interim dividend	**—**	50,000
Final dividend for the year ended 31 December 2004 of 1.0 Hong Kong cent per share	**26,200**	—
	26,200	50,000

The interim dividend represented dividend paid in that period by one of the Company's subsidiaries to its then shareholder prior to the group reorganisation in December 2004.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Earnings for the purposes of basic earnings per share	**53,729**	43,300
Earnings of dilutive potential ordinary shares — interest on convertible loan note	**9,208**	—
Earnings for the purposes of diluted earnings per share	**62,937**	43,300

	Number of Shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	**2,171,381,215**	530,000,000
Effect of dilutive potential ordinary shares in respect of convertible loan note	**1,678,839,779**	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**3,850,220,994**	530,000,000

No diluted earnings per share was presented for the six months period ended 30 June 2004 as the Company has no dilutive potential ordinary shares for that period.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group disposed of certain plant and machinery with a carrying amount of HK$36,000 for proceeds of HK$22,000 resulting in a loss on disposal of HK$14,000.

In addition, the Group incurred costs of approximately HK$17.6 million on property, plant and equipment for the purpose of expanding the Group's business.

9. 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$12,583,000 (31.12.2004: HK$19,564,000).

The aged analysis of trade receivables is as follows:

	At 30 June 2005 HK$'000	At 31 December 2004 HK$'000
Less than 31 days	**8,940**	19,292
31–60 days	**1,131**	120
61–90 days	**—**	143
Over 90 days	**2,512**	9
Total	**12,583**	19,564

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK$1,832,000 (31.12.2004: HK$303,000).

The aged analysis of trade payables is as follows:

	At 30 June 2005 HK$'000	At 31 December 2004 HK$'000
Less than 31 days	**1,492**	—
61–90 days	**340**	303
Total	**1,832**	303

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2005

11. PROMISSORY NOTE

The promissory note is interest free and is repayable on or before 24 June 2006.

12. BANK LOANS

The bank loans were fully repaid during the period.

13. CONVERTIBLE LOAN NOTE

The convertible loan note bears interest at 1% per annum and is redeemable at par in 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 loan note, provided that the public float of the Company will not be less than 25% immediately after such conversion.

On 15 March 2005, Vand Petro-Chemicals (BVI) Company Ltd., a substantial shareholder of the Company, exercised its rights to convert part of the convertible loan 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.

14. CAPITAL COMMITMENTS

	At 30 June 2005 HK$'000	At 31 December 2004 HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of additions in construction in progress	**944**	11,587