(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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.

The HKICPA has issued a number of new and revised HKFRSs which are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 2.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2005 comprise the company and its subsidiaries (together referred to as the "group").

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

The preparation of financial statements in conforming with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) 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 from the date that control commences until the date control ceases.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries and controlled enterprises (continued)

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.

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 and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the company. Minority interests in the results of the group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the company.

Where losses applicable to the minority exceed the minority interest in the equity of a subsidiary, the excess, and any further losses applicable 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 additional investment to cover the losses. If the subsidiary subsequently reports profits, the group's interest is allocated all such profits 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(i)).

(d) Goodwill

Goodwill represents the excess of the cost of a business combination acquisition over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(i)).

Any excess of the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(e) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 1(i)) 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.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(i)):

– land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease;

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1 (h)); and

– other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(t)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

– leasehold land and buildings situated thereon are depreciated on a straight-line basis over the remaining term of the lease;

– buildings situated on leasehold land are depreciated 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 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

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 and impairment losses (see note 1(i)).

Amortisation of intangible asset is charged to profit or loss on a straight-line basis over the asset's estimated useful lives unless such lives are indefinite. Operating rights for petrol stations are amortised on a straight-line basis over the operating periods of the respective petrol stations.

Both the period and method of amortisation and any conclusion that the useful life of an intangible asset is indefinite are reviewed annually.

(h) Leased assets

(i) Classification of assets leased to the Group

Leases which do not transfer substantially all the risks and rewards of ownership to the group are classified as operating leases.

(ii) Operating lease charge

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(i) 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, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;
– construction in progress;
– prepaid interests in leasehold land classified as being held under an operating lease;
– investments in subsidiaries; and
– intangible assets.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *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).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

– *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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 profit or loss in the year in which the reversals are recognised.

(j) 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 is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note (i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note (i)).

The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated discounted future cash flows.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised costs with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) 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 consolidated cash flow statement.

(o) Employee benefits

(i) Employee benefits and contributions to defined contribution retirement plans

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

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.

(ii) Termination benefits

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.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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.

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.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, 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.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Income tax (continued)

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 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.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the group or the company 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.

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.

(r) 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 profit or loss 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 is recognised as it accrues using the effective interest method.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(t) Borrowing costs

Borrowing costs are expensed in profit or loss 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.

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.

(u) 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 (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the group or of any entity that is a related party of the group.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) 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 entities 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 cash and cash equivalents and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the group and/or company after the adoption of these new and revised HKFRSs have been summarised on note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 36).

(a) Estimated effect of changes in accounting policies on the current period

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement and balance sheet and other significant related disclosure items for the year ended 31 December 2005 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Estimated effect of changes in accounting policies on the current period (continued)

Effect on the consolidated financial statements

Estimated effect on the consolidated income statement for the year ended 31 December 2005:

	Estimated effect of new policy (increase/(decrease) in profit for the year) HKFRS 3 (note 2(b)) $'000	Total $'000
Other revenue	**809**	809
Administrative expenses	**(988)**	(988)
Profit for the year	**(179)**	(179)
Attributable to:		
Equity shareholders of the company	**(113)**	(113)
Minority interests	**(66)**	(66)
Profit for the year	**(179)**	(179)
Earnings per share		
Basic	**0.01**	0.01
Other significant disclosure items:		
Amortisation of intangible assets	**(988)**	(988)

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Estimated effect of changes in accounting policies on the current period (continued)

Effect on the consolidated financial statements (continued)

Estimated effect on the consolidated balance sheet at 31 December 2005:

	Estimated effect of new policy (increase/(decrease) in net assets)		
	HKFRS 3 (note 2(b)) $'000	HKAS 17 (note 2(d)) $'000	Total $'000
Non-current assets			
Other property, plant and equipment	–	(94,646)	(94,646)
Interests in leasehold land held for own use under operating leases	–	94,646	94,646
Intangible assets	2,541	–	2,541
Net assets	2,541	–	2,541
CAPITAL AND RESERVES			
Effect attributable to equity shareholders of the company			
Reserve	1,714	–	1,714
Effect attributable to minority interests	827	–	827
	2,541	–	2,541

(b) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

Amortisation of goodwill

In prior periods:

– positive or negative goodwill which arose prior to 1 January 2001 was taken directly to reserves at the time if arose, and was not recognised in the income statement until disposal or impairment of the acquired business;

– positive goodwill which arose on or after 1 January 2001 was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment; and

– negative goodwill which arose on or after 1 January 2001 was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets) (continued)

Amortisation of goodwill (continued)

With effect from 1 January 2005, in order to comply with HKFRS 3 and HKAS 36, the group has changed its accounting policies relating to goodwill. Under the new policy, the group no longer amortises positive goodwill but tests it at least annually for impairment. The change in policy had no effect on the financial statements as there was no goodwill arose prior to 1 January 2005. Also with effect from 1 January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in profit or loss as it arises. Further details of these new policies are set out in note 1(d).

The carrying amount of negative goodwill at the beginning of the year is derecognised with a corresponding adjustment to the opening balance of retained earnings.

Also in accordance with the transitional arrangements under HKFRS 3, goodwill which had previously been taken directly to reserves (i.e. goodwill which arose before 1 January 2001) will not be recognised in profit or loss on disposal or impairment of the acquired business, or under any other circumstances.

(c) Changes in presentation (HKAS 1, Presentation of financial statements)

Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders (the equity shareholders of the company).

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, the group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the company. Further details of the new policy are set out in note 1(c).

(d) Leasehold land and buildings held for own use (HKAS 17, Leases)

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and accumulated impairment losses.

With effect from 1 January 2005, in order to comply with HKAS 17, the group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately identified from the fair value of the leasehold interest in the land at the time the lease was first entered into by the group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Further details of the new policy are set out in note 1(h).

Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(e) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement).

With effect from 1 January 2005, in order to comply with HKAS 32 and HKAS 39, the group has changed its accounting policies relating to financial instruments to those as set out in notes 1(i), (k) and (m).

(f) Definition of related parties (HKAS 24, Related party disclosures)

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties as disclosed in note 1(u) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the group or of any entity that is a related party of the group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, Related party disclosures, still been in effect.

3 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:

	2005 **$'000**	2004 $'000
Trading of crude oil, petroleum and petrochemical products	**9,701,385**	6,607,208
Retail sales and wholesaling of petroleum products	**2,140,988**	1,509,732
Crude oil jetty services	**308,230**	331,937
	12,150,603	8,448,877

4 OTHER REVENUE

	2005 **$'000**	2004 $'000
Interest income	**2,599**	4,273
Petroleum unloading services income	**4,411**	3,232
Net exchange gain	**8,856**	–
Others	**12,805**	10,398
	28,671	17,903

(Expressed in Hong Kong dollars unless otherwise indicated)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		2005 $'000	2004 (restated) $'000
(a)	Finance costs:		
	Interest on bank advances	**20,601**	20,170
(b)	Staff costs:		
	Salaries, wages and other benefits	**59,698**	62,893
	Contribution to defined contribution plans	**4,182**	3,980
		63,880	66,873
(c)	Other items:		
	Cost of inventories	**11,823,250**	7,946,912
	Amortisation of intangible assets	**9,711**	7,494
	Auditors' remuneration	**1,000**	1,000
	Depreciation		
	– assets held for use under operating leases	**3,425**	2,772
	– other assets	**93,736**	79,955
	Loss on disposal of fixed assets	**725**	931
	Operating lease charges:		
	– petrol station facilities	**4,064**	7,452
	– machinery and vessel	**1,439**	3,237

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2005 $'000	2004 $'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**5,250**	6,017
Under-provision in respect of prior years	**–**	99
	5,250	6,116
Current tax – Outside Hong Kong		
Provision for the year	**18,524**	21,465
Under-provision in respect of prior years	**–**	80
	18,524	21,545
	23,774	27,661

The provision for Hong Kong Profits Tax for 2005 is calculated at 17.5% (2004: 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 2005 is the ninth 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:

	2005 $'000	2004 $'000
Profit before tax	**203,156**	241,551
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	**30,059**	39,911
Tax effect of concession	**(7,224)**	(13,293)
Tax effect of non-deductible expenses	**1,796**	1,127
Tax effect of non-taxable revenue	**(857)**	(263)
Under-provision in previous years	**–**	179
Actual tax expense	**23,774**	27,661

7 DIRECTORS' REMUNERATION

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

	Directors' fee $'000	Salaries, allowances and benefits in kind $'000	2005 Total $'000
Executive directors			
Yang Shu Shan	**1,680**	**–**	**1,680**
Pan Xin Rong	**1,080**	**–**	**1,080**
Zhu Jian Min	**980**	**–**	**980**
Zhou Feng	**980**	**–**	**980**
Ye Zhi Jun	**–**	**600**	**600**
Ge Han Hua	**–**	**536**	**536**
Han Kun	**–**	**74**	**74**
Independent non-executive directors			
Tam Wai Chu	**180**	**–**	**180**
Fong Chung	**180**	**–**	**180**
Wong Po Yan	**180**	**–**	**180**
	5,260	**1,210**	**6,470**

	Directors' fee $'000	Salaries, allowances and benefits in kind $'000	2004 Total $'000
Executive directors			
Hong Zhi Ming	345	–	345
Yang Shu Shan	1,530	–	1,530
Dai Zhao Ming	245	–	245
Ye Zhi Jun	–	583	583
Lai Yong Fu	–	36	36
Zhu Jian Ming	327	–	327
Ge Han Hua	–	235	235
Pan Xing Rong	810	–	810
Zhou Feng	735	–	735
Independent non-executive directors			
Wong Po Yan	180	–	180
Tam Wai Chu, Maria	180	–	180
Fong Chung, Mark	60	–	60
	4,412	854	5,266

Note: As certain executive directors had received salaries and other benefits from a subsidiary of the Company for the financial years ended 31 December 2004 and 2005, they had agreed in writing to waive their directors' emoluments, under their respective directors' service contracts for the financial years ended 31 December 2004 and 2005 respectively.

(Expressed in Hong Kong dollars unless otherwise indicated)

8 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 7 above.

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the company includes a loss of $1,004,000 (2004: loss of $3,740,000) which has been dealt with in the financial statements of the company.

10 DIVIDENDS

(a) Dividends payable to equity shareholders of the company attributable to the year

	2005	2004
	$'000	$'000
Interim dividend declared and paid of 1.5 cents (2004: 1.5 cents) per share	**15,552**	15,552
Final dividend proposed after the balance sheet date of 1.5 cents (2004: 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 payable to equity shareholders of the company attributable to the previous financial year, approved and paid during the year

	2005	2004
	$'000	$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 1.5 cents (2004: 1.5 cents)	**15,552**	15,552

11 EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to ordinary equity shareholders of the company of approximately $135,578,000 (2004: $154,083,000) and on 1,036,830,000 (2004: 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.

12 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 and wholesaling of petroleum products, and the rendering of crude oil jetty services.

	Trading of crude oil, petroleum and petrochemical products		Retail sales and wholesaling of petroleum products		Crude oil jetty services		Inter-segment Elimination		Unallocated		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue												
Revenue from external customers	**9,701,385**	6,607,208	**2,140,988**	1,509,731	**308,230**	331,938	**-**	–	**-**	–	**12,150,603**	8,448,877
Inter-segment revenue	**-**	–	**-**	–	**9,769**	2,966	**(9,769)**	(2,966)	**-**	–	**-**	–
Other revenue from external customers	**8,853**	98	**17,001**	12,844	**218**	688	**-**	–	**2,599**	4,273	**28,671**	17,903
Total	**9,710,238**	6,607,306	**2,157,989**	1,522,575	**318,217**	335,592	**(9,769)**	(2,966)	**2,599**	4,273	**12,179,274**	8,466,780
Segment result	**39,863**	46,608	**10,090**	12,448	**168,443**	210,411	**(6,057)**	(1,839)			**212,339**	267,628
Unallocated interest income											**2,599**	4,273
Unallocated corporate income/(expenses)											**8,819**	(10,180)
Profit from operations											**223,757**	261,721
Finance costs											**(20,601)**	(20,170)
Income tax											**(23,774)**	(27,661)
Minority interests											**(43,804)**	(59,807)
Profit after taxation											**135,578**	154,083
Depreciation and amortisation for the year	**1,439**	1,412	**21,150**	17,068	**84,283**	71,741						

(Expressed in Hong Kong dollars unless otherwise indicated)

12 SEGMENT REPORTING (Continued)

Business segments (continued)

	Trading of crude oil, petroleum and petrochemical products		Retail sales and wholesaling of petroleum products		Crude oil jetty services		Inter-segment Elimination		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Segment assets	**822,721**	773,646	**386,983**	344,070	**1,907,699**	1,710,444	**(465,891)**	(463,123)	**2,651,512**	2,365,037
Unallocated assets									**192,877**	160,711
Total assets									**2,844,389**	2,525,748
Segment liabilities	**(299,678)**	(100,900)	**(140,095)**	(184,130)	**(435,439)**	(454,179)	**465,891**	463,123	**(409,321)**	(276,086)
Unallocated liabilities									**(310,591)**	(317,188)
Total liabilities									**(719,912)**	(593,274)
Capital expenditure incurred during the year	**130**	729	**7,413**	83,429	**70,420**	144,910				

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.

13 FIXED ASSETS

The group

	Land and buildings held for own use $'000	Leasehold improvements $'000	Jetty structures $'000	Jetty facilities $'000	Plant and machinery $'000	Furniture, fixtures and equipment $'000	Motor vehicles and vessels $'000	Subtotal $'000	Interest in leasehold land held for own use $'000	Construction in progress $'000	Total $'000
Cost:											
At 1 January 2005 (restated)	284,251	5,695	351,527	1,049,462	255,254	22,855	52,143	2,021,187	103,045	4,585	2,128,817
Additions											
– through acquisition of subsidiaries	1,511	-	-	-	696	-	-	2,207	2,471	70,793	75,471
– others	72	-	-	-	2,158	249	13	2,492	-	-	2,492
Transfer	181	-	1,603	5,420	1,594	-	-	8,798	-	(8,798)	-
Disposals	(1,741)	-	(59)	(330)	(6,643)	(239)	(2,892)	(11,904)	-	-	(11,904)
Exchange adjustments	6,600	163	10,058	32,258	8,065	637	1,432	59,213	2,977	1,016	63,206
At 31 December 2005	290,874	5,858	363,129	1,086,810	261,124	23,502	50,696	2,081,993	108,493	67,596	2,258,082
Depreciation:											
At 1 January 2005 (restated)	84,471	2,496	73,982	270,119	79,592	15,262	19,754	545,676	10,086	-	555,762
Charge for the year	11,275	699	9,310	53,707	12,602	3,279	2,864	93,736	3,425	-	97,161
Written back on disposal	(458)	-	(22)	(144)	(3,323)	(196)	(1,452)	(5,595)	-	-	(5,595)
Exchange adjustments	2,206	86	2,244	8,476	2,124	441	581	16,158	336	-	16,494
At 31 December 2005	97,494	3,281	85,514	332,158	90,995	18,786	21,747	649,975	13,847	-	663,822
Net book value:											
At 31 December 2005	193,380	2,577	277,615	754,652	170,129	4,716	28,949	1,432,018	94,646	67,596	1,594,260

13 FIXED ASSETS (Continued)

The group (continued)

	Land and buildings held for own use $'000	Leasehold improvements $'000	Jetty structures $'000	Jetty facilities $'000	Plant and machinery $'000	Furniture, fixtures and equipment $'000	Motor vehicles and vessels $'000	Subtotal $'000	Interest in leasehold land held for own use $'000	Construction in progress $'000	Total $'000
Cost:											
At 1 January 2004 (restated)	267,672	5,672	335,655	865,641	179,782	22,782	55,187	1,732,391	74,072	126,625	1,933,088
Additions											
– through acquisition of subsidiaries	13,845	–	–	–	10,330	–	59	24,234	18,234	–	42,468
– others	1,980	23	–	17,699	13,068	333	905	34,008	12,045	116,566	162,619
Transfer	926	–	15,872	166,155	55,653	–	–	238,606	–	(238,606)	–
Disposals	(172)	–	–	(33)	(3,579)	(260)	(4,008)	(8,052)	(1,306)	–	(9,358)
At 31 December 2004 (restated)	284,251	5,695	351,527	1,049,462	255,254	22,855	52,143	2,021,187	103,045	4,585	2,128,817
Depreciation:											
At 1 January 2004 (restated)	72,861	2,139	73,865	219,236	68,892	13,463	18,756	469,212	7,517	–	476,729
Charge for the year	11,655	357	117	50,893	11,572	1,943	3,418	79,955	2,772	–	82,727
Written back on disposal	(45)	–	–	(10)	(872)	(144)	(2,420)	(3,491)	(203)	–	(3,694)
At 31 December 2004 (restated)	84,471	2,496	73,982	270,119	79,592	15,262	19,754	545,676	10,086	–	555,762
Net book value:											
At 31 December 2004 (restated)	199,780	3,199	277,545	779,343	175,662	7,593	32,389	1,475,511	92,959	4,585	1,573,055

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

	2005 $'000	2004 $'000
Long leases in Hong Kong	**39,838**	41,007
Medium-term leases outside Hong Kong	**248,189**	251,732
	288,027	292,739

(Expressed in Hong Kong dollars unless otherwise indicated)

14 INTANGIBLE ASSETS

The group

	Petrol station operating rights	
	2005	2004
	$'000	$'000
Cost:		
At 1 January		
– as previously reported	**99,375**	75,394
– opening balance adjustment arising from change in accounting policy		
– adjustment of negative goodwill	**2,878**	–
– as restated	**102,253**	75,394
Additions through acquisition of subsidiaries	**–**	23,981
Exchange adjustments	**2,877**	–
At 31 December	**105,130**	99,375
Accumulated amortisation:		
At 1 January		
– as previously reported	**14,625**	7,131
– opening balance adjustment arising from change in accounting policy		
– adjustment of negative goodwill	**158**	–
– as restated	**14,783**	7,131
Charge for the year	**9,711**	7,494
Exchange adjustments	**559**	–
At 31 December	**25,053**	14,625
Net book value:		
At 31 December	**80,077**	84,750

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

15 INVESTMENTS IN SUBSIDIARIES

	The company	
	2005	2004
	$'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.

All of these are controlled subsidiaries as defined under note 1(c) 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	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.

(Expressed in Hong Kong dollars unless otherwise indicated)

16 INVENTORIES

(a) Inventories in the balance sheet comprise:

	The group	
	2005	2004
	$'000	$'000
Crude oil and spare parts	**442,818**	190,946
Petroleum and petrochemical products	**221,728**	224,832
	664,546	415,778

The inventories is stated at cost.

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	The group	
	2005	2004
	$'000	$'000
Carrying amount of inventories sold	**11,823,250**	8,066,258

17 TRADE AND OTHER RECEIVABLES

	The group		*The company*	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Dividend receivable from a subsidiary	**–**	–	**100,000**	100,000
Trade receivables and bills receivable	**71,679**	122,760	**–**	–
Deposits and prepayments	**48,498**	39,150	**–**	–
	120,177	161,910	**100,000**	100,000

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

(Expressed in Hong Kong dollars unless otherwise indicated)

17 TRADE AND OTHER RECEIVABLES (Continued)

Included in trade and other receivables are trade debtors and bills receivable (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	The group	
	2005	2004
	$'000	$'000
Current	**70,088**	111,954
1 to 3 months overdue	**999**	9,938
More than 3 months overdue but less than 12 months overdue	**592**	868
	71,679	122,760

The group's credit policy as set out in note 29(a).

18 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.

19 CASH AND CASH EQUIVALENTS

	The group		*The company*	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Cash at bank and in hand	**152,385**	118,909	**7**	7
Bank overdrafts (note 22)	**–**	(1,196)	**–**	–
Cash and cash equivalents in the consolidated cash flow statement	**152,385**	117,713	**7**	7

20 TRADE AND OTHER PAYABLES

	The group		*The company*	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Bills payable	**120,638**	60,561	**–**	–
Trade payables	**9,873**	34,497	**–**	–
Creditors and accrued charges	**130,086**	149,922	**99**	2,051
	260,597	244,980	**99**	2,051

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	
	2005	2004
	$'000	$'000
Due within 1 month or on demand	**8,154**	26,105
Due after 1 month but within 3 months	**122,351**	66,115
Due after 3 months but within 6 months	**6**	2,838
	130,511	95,058

21 LOAN FROM FELLOW SUBSIDIARY

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

22 BANK LOANS AND OVERDRAFTS

As at 31 December 2005, the bank loans and overdrafts were repayable as follows:

	The group	
	2005	2004
	$'000	$'000
Within 1 year or on demand	**161,526**	300,653
After 1 year but within 2 years	**11,361**	–
	172,887	300,653

As at 31 December 2005, the unsecured bank loans and overdrafts were as follows:

	2005	2004
	$'000	$'000
Unsecured bank overdrafts (note 19)	**–**	1,196
Bank loans		
– secured	**5,768**	–
– unsecured	**167,119**	299,457
	172,887	300,653

At 31 December 2005, the banking facilities of a subsidiary were secured by its land use rights with carrying value of $13,539,000.

Included in bank loans and overdrafts are the amounts dominated in the following currencies:

	The group	
	2005	2004
	$'000	$'000
United States Dollars	**USD5,000**	USD32,770
Hong Kong Dollars	**HKD128,321**	HKD1,196
Renminbi Yuan	**RMB6,000**	RMB48,000

23 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The group	
	2005	2004
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	**5,250**	6,017
Balance of PRC income tax payable	**7,160**	4,705
Balance of Profits Tax provision relating to prior years	**7,400**	1,382
	19,810	12,104

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

24 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.

25 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.

26 SHARE CAPITAL

	2005		2004	
	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 unless otherwise indicated)

27 CAPITAL AND RESERVES

The group

	Attributable to equity shareholders of the company								
	Share capital $'000	Share premium $'000	Merger reserve $'000	General reserves $'000	Exchange reserve $'000	Retained profits $'000	Total $'000	Minority interest $'000	Total equity $'000
At 1 January 2004	103,683	333,857	23,444	144,437	(792)	783,466	1,388,095	356,409	1,744,504
Final dividends approved in respect of the previous year (note 10(b))	–	–	–	–	–	(15,552)	(15,552)	–	(15,552)
Transfer	–	–	–	32,877	–	(32,877)	–	–	–
Exchange differences on translation of financial statements of the subsidiaries outside Hong Kong	–	–	–	–	(387)	–	(387)	–	(387)
Profit for the year	–	–	–	–	–	154,083	154,083	59,807	213,890
Interim dividends declared in respect of the current year (note 10(a))	–	–	–	–	–	(15,552)	(15,552)	–	(15,552)
Addition through acquisition of subsidiaries	–	–	–	–	–	–	–	5,860	5,860
Dividend paid by a subsidiary to a minority shareholder	–	–	–	–	–	–	–	(18,484)	(18,484)
New contribution from minority shareholders	–	–	–	–	–	–	–	18,195	18,195
At 31 December 2004	103,683	333,857	23,444	177,314	(1,179)	873,568	1,510,687	421,787	1,932,474
At 1 January 2005									
– as previously reported	**103,683**	**333,857**	**23,444**	**177,314**	**(1,179)**	**873,568**	**1,510,687**	**421,787**	**1,932,474**
– opening balance adjustment arising from change in accounting policy – adjustment of negative goodwill	**–**	**–**	**–**	**–**	**–**	**1,714**	**1,714**	**1,006**	**2,720**
– as restated	**103,683**	**333,857**	**23,444**	**177,314**	**(1,179)**	**875,282**	**1,512,401**	**422,793**	**1,935,194**
Final dividends approved in respect of the previous year (note 10(b))	**–**	**–**	**–**	**–**	**–**	**(15,552)**	**(15,552)**	**–**	**(15,552)**
Transfer	**–**	**–**	**–**	**23,251**	**–**	**(23,251)**	**–**	**–**	**–**
Exchange differences on translation of financial statements of the subsidiaries outside Hong Kong	**–**	**–**	**–**	**–**	**38,327**	**–**	**38,327**	**–**	**38,327**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**135,578**	**135,578**	**43,804**	**179,382**
Interim dividends declared in respect of the current year (note 10(a))	**–**	**–**	**–**	**–**	**–**	**(15,552)**	**(15,552)**	**–**	**(15,552)**
Addition through acquisition of subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,678**	**2,678**
At 31 December 2005	**103,683**	**333,857**	**23,444**	**200,565**	**37,148**	**956,505**	**1,655,202**	**469,275**	**2,124,477**

27 CAPITAL AND RESERVES (Continued)

The group (continued)

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.

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 2005 (2004: $4,880,000) arising from the acquisition of subsidiaries before 2001.

The company

	Share capital $'000	Share premium $'000	Contributed surplus $'000	Retained profits $'000	Total equity $'000
At 1 January 2004	103,683	333,857	242,397	105,400	785,337
Final dividends approved in respect of the previous year (note 10(b))	–	–	–	(15,552)	(15,552)
Loss for the year (note 9)	–	–	–	(3,740)	(3,740)
Interim dividends declared in respect of the current year (note 10(a))	–	–	–	(15,552)	(15,552)
At 31 December 2004	103,683	333,857	242,397	70,556	750,493
At 1 January 2005	**103,683**	**333,857**	**242,397**	**70,556**	**750,493**
Final dividends approved in respect of the previous year (note 10(b))	**–**	**–**	**–**	**(15,552)**	**(15,552)**
Loss for the year (note 9)	**–**	**–**	**–**	**(1,004)**	**(1,004)**
Interim dividends declared in respect of the current year (note 10(a))	**–**	**–**	**–**	**(15,552)**	**(15,552)**
At 31 December 2005	**103,683**	**333,857**	**242,397**	**38,448**	**718,385**

27 CAPITAL AND 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 2005, the aggregate amount of reserves available for distribution to equity shareholders of the company was $280,845,000 (2004: $312,953,000). After the balance sheet date the directors proposed a final dividend of 1.5 cents per share (2004: 1.5 cents per share), amounting to $15,552,000 (2004: $15,552,000). This dividend has not been recognised as a liability at the balance sheet date.

28 ACQUISITION OF SUBSIDIARIES

During the year, the group acquired several subsidiaries for a total consideration of $1,250,000, satisfied in cash.

	2005 **$'000**	2004 $'000
Net assets acquired		
Fixed assets	**4,678**	42,468
Intangible assets	**–**	23,981
Inventories	**16,135**	14,847
Trade and other receivables	**9,808**	10,440
Cash at bank and in hand	**804**	8,851
Trade and other payables	**(27,497)**	(24,069)
Minority interests	**(2,678)**	(5,860)
Net identifiable assets and liabilities	**1,250**	70,658
Total purchase prices paid, satisfied in cash	**1,250**	70,658
Less: cash of subsidiaries acquired	**(804)**	(8,851)
Net cash outflow in respect of the purchase of subsidiaries	**446**	61,807

29 FINANCIAL INSTRUMENTS

Exposure of credit, liquidity, interest rate and currency risks arises in the normal course of the group's business. These risks are limited by the group's financial management policies and practices described below.

(a) Credit risk

The group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 90 days from the date of billing. Normally, the group does not obtain collateral from customers.

At the balance sheet date, the group has a certain concentration of credit risk as 25% (2004: 26%) and 65% (2004: 72%) of the total trade and other receivables was due from the group's largest customer and the five largest customers respectively within the trading of crude oil, petroleum and petrochemical products segment.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, in the balance sheet. Except for the financial guarantee given by the company in respect of a loan undertaken by the subsidiary of the company as disclosed in note 31, the group does not provide any other guarantees which would expose the group to credit risk.

(b) Liquidity risk

Individual operating entities within the group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of short-term loans to cover expected cash demands. Long-term loans are subject to approval by the parent company. The group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(c) Interest rate risk

Effective interest rates analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date.

The group

	2005				2004		
	Effective interest rate %	**Total $'000**	**One year or less $'000**	**1-2 years $'000**	Effective interest rate %	Total $'000	One year or less $'000
Repricing dates for assets/(liabilities)							
Cash and cash equivalents	**2.1%**	**152,385**	**152,385**	**–**	2.0%	118,909	118,909
Bank loans and overdraft	**4.4%**	**(172,887)**	**(161,526)**	**(11,361)**	4.0%	(300,653)	(300,653)
		(20,502)	**(9,141)**	**(11,361)**		(181,744)	(181,744)

(Expressed in Hong Kong dollars unless otherwise indicated)

29 FINANCIAL INSTRUMENTS (Continued)

(d) Foreign currency risk

The group does not undertake significant transactions in a currency other than the functional currency of each entity within the group. Funds are retained by the foreign operations for use with the respective operations. Based on this, management considers the foreign exchange exposure to be low.

Sales and purchases transactions are denominated primarily in United States Dollars and Renminbi. As the HKD is pegged to the USD, and the RMB pegged to the USD within a narrow band, the group does not expect any significant movements in the USD/HKD or RMB/HKD exchange rate.

The foreign currency bank loans and overdraft is disclosed in note 22.

(e) Fair value

All financial assets and financial liabilities are not materially different from their fair value as at 31 December 2004 and 2005 due to short-term in nature.

30 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2005 not provided for in the financial statements were as follows:

	The group	
	2005	2004
	$'000	$'000
Contracted for	**491,413**	23,402
Authorised but not contracted for	**–**	–
	491,413	23,402

(b) At 31 December 2005, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The group and the company			
	2005		2004	
	Petrol station facilities	**Land and buildings**	Petrol station facilities	Land and buildings
	$'000	**$'000**	$'000	$'000
Within 1 year	**2,654**	**546**	2,169	531
After 1 year but within 5 years	**10,513**	**2,183**	8,409	2,123
After 5 years	**22,542**	**9,915**	22,686	10,171
	35,709	**12,644**	33,264	12,825

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 mostly 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.

31 CONTINGENT LIABILITIES

At 31 December 2005, there were contingent liabilities in respect of banking facilities utilised by certain subsidiaries and guaranteed by the company amounting to approximately $135,381,000 (2004: $138,607,000).

32 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the group entered into the following material related party transactions.

(a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2005	2004
	$'000	$'000
Short-term employee benefits	**1,672**	1,053

Total remuneration is included in "staff costs" (see note 5(b)).

(b) 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:

	2005	2004
	$'000	$'000
Crude oil sold by the group (note (i))	**(3,296,755)**	(2,715,246)
Crude oil purchased by the group and related charges (note (i))	**2,411,533**	1,198,421
Petrochemical products sold by the group (note (i))	**(1,496,091)**	(841,236)
Petroleum products purchased by the group (note (i))	**1,835,944**	1,204,875
Insurance premium charged to the group (note (ii))	**4,188**	4,108
Crude oil refining and processing fees charged to the group (note (iii))	**40,762**	48,857
Rentals charged to the group in respect of land and buildings and motor vehicle (note (iv))	**540**	431
Jetty service fees, charged by the group (note (v))	**(314,543)**	(340,049)
Maintenance service fees charged to the group (note (vi))	**–**	2,954
Fuel purchased by the group (note (vii))	**–**	6,774
Operating lease payments in respect of petrol station facilities charged to the group (note (viii))	**1,274**	1,564
Transportation service fees charged to the group (note (ix))	**–**	9,808
Petroleum unloading services fee charged by the group (note x))	**(1,867)**	(2,812)

32 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) (continued)

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:

	2005 **$'000**	2004 $'000
Cost of construction and acquisition of plant and equipment and other attributable overheads charged to the group (note (xi))	–	23,309

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.

32 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(c) 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.

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

(e) 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 $Nil (2004: $17.79 million).

(f) In addition, a subsidiary of the company paid a dividend of approximately $4,428,530 (2004: $18,483,695) to its minority shareholder which is a fellow subsidiary of the group.

(g) The group operates in an economic regime currently predominated by state-owned entities. Apart from transactions with the group's holding companies and fellow subsidiaries, the group conducts a majority of its business activities with entities directly or indirectly owned or controlled by the PRC government and numerous government authorities and agencies (collectively referred to as "state-owned entities") in the ordinary course of business. These transactions mainly include trading of crude oil, petroleum and petrochemical products and are carried out at terms similar to those that would be entered into with non-state-owned entities and have been reflected in the financial statements. The group believes that it has provided meaningful disclosure of related party transactions in Note 32 (b).

33 COMPARATIVE FIGURES

Certain comparative figures have been adjusted and re-classified as a result of the change in accounting policies. Further details are disclosed in note 2.

34 PARENT AND ULTIMATE HOLDING COMPANY

At 31 December 2005, the directors consider the parent and ultimate controlling party of the group to be Sinopec Kantons International Limited and China Petroleum & Chemical Corporation respectively, which are established in British Virgin Island and the PRC respectively. The ultimate controlling party produces financial statements available for public use.

35 ACCOUNTING ESTIMATES AND JUDGEMENT

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

35 ACCOUNTING ESTIMATES AND JUDGEMENT (Continued)

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in Note 1. The Group believes the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the financial statements.

Impairment for long lived assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36 "Impairment of Assets". The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

Depreciation

Property, plant and equipment, are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(Expressed in Hong Kong dollars unless otherwise indicated)

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2005

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2005 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKFRS 6	Exploration for and evaluation of mineral resources	1 January 2006
HK(IFRIC) 4	Determining whether an arrangement contains a lease	1 January 2006
HK(IFRIC) 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	1 January 2006
HK(IFRIC) 6	Liabilities arising from participating in a specific market – Waste electrical and electronic equipment	1 December 2005
HK (IFRIC) 7	Applying the restatement approach under IAS 29 Financial Reporting in hyperinflationary economies	1 March 2006
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007
Amendments to HKAS 19	Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
Amendments to HKAS 21	Net investment in a foreign operation	1 January 2006
Amendments to HKAS 39	Financial instruments:	
	Recognition and measurement:	
	– Cash flow hedge accounting of forecast intragroup transactions	1 January 2006
	– The fair value option	1 January 2006
	– Financial guarantee contracts	1 January 2006

(Expressed in Hong Kong dollars unless otherwise indicated)

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2005 (Continued)

		Effective for accounting periods beginning on or after
Amendments to HKFRS 1	First-time Adoption of Hong Kong Financial Reporting Standards	1 January 2006
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:		
– HKAS 1	Presentation of financial statements	1 January 2006
– HKAS 27	Consolidated and separate financial Statements	1 January 2006
– HKFRS 3	Business combinations	1 January 2006
HKFRS 7	Financial instruments: disclosures	1 January 2007

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the group's financial statements for the period beginning 1 January 2006.

The group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of HKFRS 6, HK(IFRIC) 5, HK(IFRIC) 6, HK(IFRIC) 7 and HKAS 19 and the amendments to HKFRS 1 are not applicable to any of the group's operations and the adoption of the rest of them is unlikely to have a significant impact on the group's results of operations and financial position.