

## CHAIRMAN'S STATEMENT



On behalf of the board, I would like to present the annual report of Hans Energy Group for the year 2005. 2005 was a landmark year for the Group since its successful completion of the substantial business restructuring last year. For the year ended 31 December 2005, the Group's results of the core business in Xiao Hu Island Terminal ("XHIT") recorded growth both in turnover and profit. Its turnover scored HK\$201.8 million (2004: HK\$192.2 million) and the profit attributable to shareholders was HK\$121.1 million (2004: HK\$108.3 million), representing an increase of 5.0% and 11.8% respectively as compared to last year. However, if we compared the reported profit attributable to shareholders of the Company, there was a decrease from HK\$114.8 million to HK\$92.6 million. The drop was mainly due to the fact that in 2004, the financial statements were prepared under the reverse acquisition accounting method in accordance with the Hong Kong Accounting Standards. Under the reverse takeover accounting, the 2004 profit reported did not include the operating results of certain companies of the Group. In addition, there was a gain on disposal of subsidiaries in 2004. Furthermore, when acquiring Union Petro-Chemicals (BVI) Company Limited ("UPC") and its subsidiaries (the "UPC Group") last year, a convertible note of HK\$681 million was issued as part of the consideration, which bears an interest rate of 1% per annum. However, in accounting for the interest on the convertible note for 2005, the Company could not apply the actual interest payment but had to accrue and charge to profit and loss by adopting effective interest method, which resulting an interest charge higher than the note rate of 1%, in compliance with the new HKFRSs. The effect to the net profit was HK\$9.3 million in this regard. Accordingly, the Group's net profit was impacted yet the convertible note holder did not in effect receive any extra interest. If comparing on the same basis as last year, the profit in UPC Group would have been HK\$121.1 million for the year 2005.

Last year, after acquiring XHIT as its core business for future business development, the Group has set its clear long-term strategy to become a leading mid-stream player in the energy sector, focusing in the provision of specialized integrated terminalling, storage and logistics facilities and services for oil, gas and petrochemical products. In a series of transactions, through disposing of its paper product manufacturing business and scaling down the oil and petrochemical product trading activities, the Group transformed itself into an infrastructural and logistic enterprise, in which the Group enjoys a higher profit margin with less risk. The change proved to be a right move to the Group as the operations of XHIT continued strong supported with efficient management and solid customer base established over the years. The Group's future business will be developed along this line with gradual establishment of its oil and liquid petrochemical terminal and storage facilities network, striving to be a leading mid-stream player in the energy sector in the Mainland China.

This year, the Group brought the delighted and encouraging news of being granted by the National Development and Reform Committee the final approval for developing the terminal for oil, gas and liquid petrochemical products in Dongguan. Looking forward to 2006, the Group will focus on the construction of the Dongguan terminal and facilities and establishing the business thereon. Upon completion, which is expected in mid 2007, it is believed that with the aggregate storage capacity and jetty throughput, the Group will play a commanding position in the region and the Group's competitive edge in the provision of specialized integrated terminal services for oil and

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petrochemical products business will be enhanced. China became the second largest oil importer worldwide in 2004. We believe that with the strong economy in the Mainland, the demand for oil and petrochemical products is expected to continue to grow.

**Hans Energy Group** is one of the few among Hong Kong listed companies, having its own port for oil, gas and petrochemical products. Our core equipment and facilities form an efficient logistics service chain, delivering quality services to customers. The synergy created through the integration of the wharf jetties and storage tank farm is incomparable by other storage service providers. Furthermore, the port of XHIT has been classified as a Class A open port by PRC authorities. This enables XHIT to cater not only domestic tankers but for foreign cargoes as well, thus creating a competitive edge for the Group to earn port income. XHIT is equipped with top class production facilities and licensed to handle hazardous chemicals, including those classified as Category A Dangerous goods in national standards of the PRC. In addition, Hans Energy Group has established its brand name and reputation with many other competitive advantages, among which includes that the terminal's storage tank farm is registered as a bonded warehouse, good tradition and history established over the years, proven track records in the industry, efficient and systematic approach in management. These all together allow the Group to build up the mutual trust with our customers, establish the long-term partner relationship thus maintain a solid base of high value customers. With this strong foundation, the Group targets to develop as a leading mid-stream player the energy sector thus is planning to launch more terminals in important ports along the coastal cities of the Mainland China in coming years.

The business philosophy of Hans management is simple: get on top of the market; understand and keep close to the need of our customers. Wherever the market demand exists, we will build the facilities to serve our customers. The Dongguan new terminal project perfectly demonstrates our philosophy: it is built to capture the demand opportunities arise in the course of production expansion for adjacent refineries inside the Guangdong province. The Group's current development strategy is "Back on the mainland bases, Stand on Hong Kong establishment, and stride out to the worldwide arena". To achieve, we need to expedite the streamlining of internal organization structure, strengthen management system and skills, and improve operational efficiency by implementing various measures. We believe with the Group's business globalization, Hans' capabilities against risks and uncertainties will be strengthened. We aim to well equip ourselves in order to face the intensified market fluctuations and competitions. Self improvement and taking a pro-active approach will be the positive way to face and win the challenges. In addition, in the course of development and expansion, the Group emphasizes the importance of building skillful and strong human resources. The Group is implementing measures to motivate staff in establishing their self confidence and recognition towards further excellence, dedication and loyalty, hence for the best interests of the Group.

The Group's abilities to maintain a relatively high net profit margin stemmed on the efficiency of operating scale, which successfully reduce the average operating costs. The operation size with sufficient scale improves the efficiency and economic returns. We pay much attention to control costs and minimize unnecessary spending and

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wastage. Apart from these, we offer high quality service to attract orders of high value-added products. We tailor-make some of our tanks and build features to meet our customers' requirements and special storage environment. In this connection, we are able to obtain long leasing order from our customers, which provides a stable income streams and sufficient operating scale for the Group. However, Hans has established clearly its business strategy of focusing in the core business without involving in other activities such as commodity trading, or product transportation services. We believe this will bring to the shareholders higher return with lower risk. We shall not be distracted from our core businesses merely for higher turnover numbers.

The Group maintains the policy to be a conscientious corporate citizen and active community participant. We believe that high standards in safety, health and environment are the Group's critical success factors. These drive our business excellence and create competitive edge. We place great emphasis on social responsibility and environmental protection and preservation. Externally, all our terminal operations seek to comply with all relevant laws and regulations and to obtain all the necessary licences and permits from the relevant government authorities to operate the business in a safe and lawful manner. Internally, operating teams are motivated for continuous good performance in safety and rewards are hedged to meeting the target of zero accident.

On behalf of the board, I would like to express my heartfelt gratitude for the continuing support of the shareholders and business partners to the Group over the years, as well as the efforts and hard work of all directors, the management and staff of the Group.

**David An**

*Chairman*

Hong Kong, 30 March 2006