# Notes on Unaudited Interim Financial Report

*(EXPRESSED IN HONG KONG DOLLARS)*

## 1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issuance on 29 August 2006.

The accounting policies have been consistently applied by Hans Energy Company Limited ("the Company") and its subsidiaries ("the Group") and are consistent with those adopted in the 2005 annual financial statements, with an accounting policy adopted in relation to compensation income, which is applicable for the period ended 30 June 2006. Compensation income is recognised when the right to receive payment is established.

On 4 April 2006, a new subsidiary, 東莞市東洲國際石化倉儲有限公司（"DZ"）was established and its principal activities are storage and transshipment. The company has not commenced operations during the period from 4 April to 30 June 2006. The assets and liabilities of DZ as at 30 June 2006 and the results for the period from 4 April to 30 June 2006 were included in the Group's consolidated financial statements. There have been no other changes in the scope of consolidation.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.



This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2005 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set out financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 9.

The financial information relating to the financial year ended 31 December 2005 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2005 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 30 March 2006.

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2006. The Board of Directors has determined the accounting policies expected to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2006, on the basis of HKFRSs currently in issue.

The HKFRSs will be effective or available for voluntary early adoption in the annual financial statements for the year ending 31 December 2006 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequently to the date of issuance of this interim financial report. Therefore the policies that will be applied in the group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim report.

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## 2 SEGMENT REPORTING

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

Reporting information on the Group's business segments is as follows:

| | Turnover Six months ended 30 June | | Segment results Six months ended 30 June | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Provision of transshipment and storage facilities | **76,590** | 94,995 | **55,120** | 73,425 |
| Port income | **7,996** | 10,290 | **6,686** | 8,519 |
| | **84,586** | 105,285 | **61,806** | 81,944 |
| Compensation income | | | **86,971** | – |
| Interest income | | | **3,837** | 3,774 |
| Unallocated corporate income | | | **606** | 477 |
| Unallocated corporate expenses | | | **(26,227)** | (10,384) |
| Finance costs | | | **(6,736)** | (12,069) |
| Profit before taxation | | | **120,257** | 63,742 |
| Income tax | | | **(11,710)** | (4,345) |
| Profit for the period | | | **108,547** | 59,397 |

## 3 COMPENSATION INCOME

During the six months ended 30 June 2006, the Group received compensation from a third party of $86,971,000 (net of PRC business tax; 30 June 2005: $nil), in respect of loss of income caused by the construction work carried out adjacent to Xiao Hu Island Terminal by the third party. There are neither unfilled conditions nor other contingencies attached to the receipt or usage of this compensation income.

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## 4 OTHER NET INCOME

| | Six months ended 30 June | |
|---|---|---|
| | **2006** | 2005 |
| | ***$'000*** | *$'000* |
| Interest income | **3,837** | 3,774 |
| Rental receivable from investment property | **288** | 106 |
| Others | **318** | 371 |
| | **4,443** | 4,251 |

## 5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

| | Six months ended 30 June | |
|---|---|---|
| | **2006** | 2005 |
| | ***$'000*** | *$'000* |
| (a) Finance costs: | | |
| Interest on bank borrowings wholly repayable within five years | **–** | 2,861 |
| Interest on convertible notes | **6,736** | 9,208 |
| | **6,736** | 12,069 |
| (b) Staff costs: | | |
| Contributions to defined contribution retirement plan | **459** | 262 |
| Salaries, wages and other benefits | **5,255** | 8,163 |
| Directors' salaries and other benefits | **12,133** | 1,778 |
| | **17,847** | 10,203 |
| (c) Other items: | | |
| Depreciation and amortisation | **13,895** | 12,300 |
| Loss on disposal of property, plant and equipment | **16** | 14 |
| Operating lease charges: minimum lease payment – buildings | **1,868** | 1,059 |

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## 6 INCOME TAX

| | Six months ended 30 June | |
|---|---|---|
| | **2006** | 2005 |
| | ***$'000*** | *$'000* |
| The charge comprises: | | |
| Current tax – PRC Enterprise Income Tax for the period | **8,779** | 5,545 |
| Deferred taxation | **2,931** | (1,200) |
| | **11,710** | 4,345 |

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



The subsidiary in the People's Republic of China (the "PRC"), GD (Panyu) is entitled to exemption from PRC Enterprise Income Tax for five years starting from its first profit-making year, followed by a 50% relief for the five years thereafter, in accordance with the approval from the PRC authority issued in 2002 regarding its port development business. The full PRC Enterprise Income Tax rate applicable to GD (Panyu) is 15% and the reduced rate is 7.5%. The first year of GD (Panyu) subject to PRC Enterprise Income Tax at the reduced rate of 7.5% commenced on 1 January 2004.

## 7 DIVIDEND

Dividend attributable to the previous financial year, approved and paid during the interim period

| | Six months ended 30 June | |
|---|---|---|
| | **2006** | 2005 |
| | ***$'000*** | *$'000* |
| Final dividend in respect of the previous financial year, approved and paid during the following interim period, of nil (six months ended 30 June 2005: $1.0 cent per share) | **–** | 26,200 |

The directors do not recommend a payment of interim dividend in respect of the period ended 30 June 2006 (Six months ended 30 June 2005: nil).

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## 8 EARNINGS PER SHARE

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

| | Six months ended 30 June | |
|---|---|---|
| | **2006** | 2005 |
| | ***$'000*** | *$'000* |
| Profit attributable to ordinary equity shareholders (basic) | **97,915** | 53,729 |
| Effect of interest on liability component of Convertible Notes | **6,736** | 9,208 |
| Profit attributable to ordinary equity shareholders (diluted) | **104,651** | 62,937 |
| | **Number of shares** | **Number of shares** |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **2,620,000,000** | 2,171,381,215 |
| Effect of conversion of Convertible Notes | **1,270,000,000** | 1,678,839,779 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | **3,890,000,000** | 3,850,220,994 |

## 9 MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

*ACQUISITION AND DISPOSALS*

During the six months ended 30 June 2006, the Group acquired items of dock and storage facilities with a cost of approximately $432,000 (six months ended 30 June 2005: $17,600,000). Items of dock and storage facilities with net book value of approximately $45,000 were disposed of during the six months ended 30 June 2006 (six months ended 30 June 2005: $36,000), resulting in a loss on disposal of approximately $16,000 (six months ended 30 June 2005: $14,000).

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## 10 TRADE AND OTHER RECEIVABLES

Subject to negotiation , credit is generally only available for major customers with well-established trading records. The Group allows an average credit period of 30 to 90 days to its trade customers.

Included in trade and other receivables are trade receivables of approximately $8,518,000 (31 December 2005: $8,860,000) and compensation receivable of approximately $90,877,000 (31 December 2005: $nil)

The ageing analysis of trade receivables is as follows:

| | **At 30 June 2006** | At 31 December 2005 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Due within 30 days | **8,518** | 8,860 |



## 11 PROMISSORY NOTES

On 24 December 2004, the Company issued promissory notes with a principal amount of $200,000,000 to Vand Petro-Chemicals (BVI) Company Limited ("Vand Petro-Chemicals") as part of the consideration for the acquisition of Union Petro-Chemicals (BVI) Company Limited ("UPC"). The promissory notes are interest free and were originally repayable on or before 24 June 2006. Pursuant to the supplementary agreement between Vand Petro-Chemicals and the Company dated 23 June 2006, the maturity date of the promissory notes was extended to 31 December 2006.

## 12 CONVERTIBLE NOTES

On 24 December 2004, the Company issued convertible notes with a principal amount of $681,000,000 to Vand Petro-Chemicals as part of the consideration for the acquisition of UPC.

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

On 15 March 2005, Vand Petro-Chemicals exercised its rights to convert part of the convertible notes with a principal amount of $300 million for the issue of 1,000 million ordinary shares of $0.10 each at the conversion price of $0.30 each. No convertible notes were converted during the period ended 30 June 2006.

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## 13 COMMITMENTS

*(A) CAPITAL COMMITMENTS OUTSTANDING AT 30 JUNE 2006 NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT WERE AS FOLLOWS:*

| | 30 June 2006 $'000 | 31 December 2005 $'000 |
|---|---|---|
| Contracted for | **158,000** | 375 |
| Authorised but not contracted for | **405,000** | 583,000 |
| | **563,000** | 583,375 |

*(B) AT 30 JUNE 2006, THE TOTAL FUTURE MINIMUM LEASE PAYMENTS UNDER NON-CANCELLABLE OPERATING LEASES ARE PAYABLE AS FOLLOWS:*

| | 30 June 2006 $'000 | 31 December 2005 $'000 |
|---|---|---|
| Within 1 year | **2,646** | 3,399 |
| After 1 year but within 5 years | **1,545** | 3,909 |
| | **4,191** | 7,308 |



## 14 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel receive compensations in form of salaries, other allowances, discretionary bonuses and retirement scheme contribution. Key management personnel received total compensation of $12,491,000 for the six months ended 30 June 2006 (six months ended 30 June 2005: $3,376,000). Total remuneration is included in administrative expenses.