NewOcean Energy Holdings Limited
新海能源集團有限公司

(Incorporated in Bermuda with limited liability)
（於百慕達註冊成立之有限公司）

Stock Code 股份代號：342

Interim Report 2007

The Board of Directors (the "Board") of NewOcean Energy Holdings Limited (the "Company") presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007 together with comparative figures for the corresponding period in 2006. These condensed consolidated interim results have not been audited, but have been reviewed by the Company's audit committee.

Condensed Consolidated Income Statement

	Notes	**30.06.2007 (Unaudited) *HK$'000***	30.06.2006 (Unaudited) *HK$'000*
Revenue		**1,557,312**	1,250,507
Cost of sales		**(1,487,732)**	(1,193,955)
Gross profit		**69,580**	56,552
Other income		**24,391**	12,186
Selling and distribution expenses		**(22,921)**	(12,170)
Administrative expenses		**(27,611)**	(20,312)
Finance costs		**(18,114)**	(13,789)
Share of loss of a jointly controlled entity		**(227)**	(248)
Recognition of share-based payments	*13*	**—**	(5,855)
Profit before taxation	*4*	**25,098**	16,364
Taxation	*5*	**1,807**	881
Profit for the period		**26,905**	17,245
Earnings per share	*7*		
Basic		**5.59 cents**	3.58 cents
Diluted		**5.57 cents**	3.58 cents

Condensed Consolidated Balance Sheet

	Notes	**30.06.2007 (Unaudited) *HK$'000***	31.12.2006 (Audited) *HK$'000*
Non-current assets			
Property, plant and equipment	*8*	**471,191**	438,592
Prepaid lease payments for lands		**52,374**	51,823
Prepaid lease payments for coast		**12,163**	12,137
Goodwill		**101,003**	84,428
Interest in a jointly controlled entity		**11,705**	11,932
Available-for-sale investment		**25,086**	—
Other assets		**—**	65,694
Deferred tax assets		**2,677**	2,636
		676,199	667,242
Current assets			
Inventories		**145,734**	57,970
Trade debtors and bills receivable	*9*	**274,903**	139,338
Other debtors, deposits and prepayments		**155,948**	129,558
Prepaid lease payments for lands		**2,125**	2,061
Prepaid lease payments for coast		**704**	683
Amount due from a jointly controlled entity		**1,418**	270
Pledged bank deposits		**24,334**	12,633
Pledged bank deposits related to currency swap		**281,333**	301,024
Bank balances and cash		**49,611**	151,034
		936,110	794,571

Condensed Consolidated Balance Sheet

(Continued)

	Notes	30.06.2007 (Unaudited) HK$'000	31.12.2006 (Audited) HK$'000
Current liabilities			
Trade creditors and bills payable	10	**352,099**	284,714
Other creditors and accrued charges		**51,448**	87,409
Tax liabilities		**9,132**	9,286
Borrowings, partly secured — repayable within one year	11	**215,669**	108,286
Borrowings related to currency swap, secured — repayable within one year	11	**288,733**	293,158
		917,081	782,853
Net current assets		**19,029**	11,718
Total assets less current liabilities		**695,228**	678,960
Capital and reserves			
Share capital	12	**48,168**	48,168
Share premium and other reserves		**425,434**	397,782
Equity attributable to equity holders of the Company		**473,602**	445,950
Minority interests		**1,531**	1,531
Total equity		**475,133**	447,481
Non-current liabilities			
Deferred tax liabilities		**8,246**	9,246
Borrowings, partly secured — repayable over one year	11	**211,849**	222,233
		220,095	231,479
		695,228	678,960

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company										
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Statutory surplus reserves HK$'000	Exchange reserve HK$'000	Share option reserve HK$'000	Con-tributed surplus accounts HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2006	48,168	199,299	122,085	–	4,948	–	1,667	12,765	388,932	1,531	390,463
Exchange differences arising from translation of financial statements of overseas subsidiaries recognized directly in equity	–	–	–	–	(421)	–	–	–	(421)	–	(421)
Profit for the period	–	–	–	–	–	–	–	17,245	17,245	–	17,245
Total recognized income and expense for the period	–	–	–	–	(421)	–	–	17,245	16,824	–	16,824
Dividend paid	–	–	–	–	–	–	–	(5,780)	(5,780)	–	(5,780)
Recognition of share-based payments	–	–	–	–	–	5,855	–	–	5,855	–	5,855
At 30 June 2006	48,168	199,299	122,085	–	4,527	5,855	1,667	24,230	405,831	1,531	407,362
At 1 January 2007	48,168	199,299	122,085	1,113	17,434	5,855	1,667	50,329	445,950	1,531	447,481
Exchange differences arising from translation of financial statements of overseas subsidiaries recognized directly in equity	–	–	–	–	5,564	–	–	–	5,564	–	5,564
Reserves released upon the lapse of share options	–	–	–	–	–	(344)	–	344	–	–	–
Net income (expense) recognised directly in equity	–	–	–	–	5,564	(344)	–	344	5,564	–	5,564
Profit for the period	–	–	–	–	–	–	–	26,905	26,905	–	26,905
Total recognized income and expense for the period	–	–	–	–	5,564	(344)	–	27,249	32,469	–	32,469
Dividend paid	–	–	–	–	–	–	–	(4,817)	(4,817)	–	(4,817)
At 30 June 2007	**48,168**	**199,299**	**122,085**	**1,113**	**22,998**	**5,511**	**1,667**	**72,761**	**473,602**	**1,531**	**475,133**

The special reserve of the Group represents the difference between the share capital, share premium and capital redemption reserve of the Group's former ultimate holding company whose shares were exchanged for the Company's shares and the nominal amount of the share capital issued by the Company pursuant to a scheme of arrangement dated 14 April 1999.

The statutory surplus reserves represent enterprise development and general reserve funds appropriated from the profit after taxation of subsidiaries established in the People's Republic of China (the "PRC") in accordance with the PRC laws and regulations.

Condensed Consolidated Cash Flow Statement

	30.06.2007 **(Unaudited)** ***HK$'000***	30.06.2006 (Unaudited) *HK$'000*
Net cash (used in) generated from operating activities	**(199,372)**	42,984
Net cash generated from (used in) investing activities	**24,260**	(36,630)
Net cash generated from (used in) financing activities	**69,075**	(21,586)
Net decrease in cash and cash equivalents	**(106,037)**	(15,232)
Cash and cash equivalents at beginning of the period	**151,034**	57,479
Effect of foreign exchange rate changes	**4,614**	(421)
Cash and cash equivalents at end of the period	**49,611**	41,826
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**49,611**	41,826

Notes to the Condensed Consolidated Financial Statements

1. Basis of Preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

2. Principal Accounting Policies

The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2006 except for the following accounting policy which is applicable to the period ended 30 June 2007.

Available-for-sale investments

Available-for-sale investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

In the current period, the Group has applied, for the first time, a new standard, amendment and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2007.

Notes to the Condensed Consolidated Financial Statements *(Continued)*

2. Principal Accounting Policies *(Continued)*

The adoption of the new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognized.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) — Int 11	HKFRS 2: Group and Treasury Share Transactions[2]
HK(IFRIC) — Int 12	Service Concession Arrangements[3]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 March 2007
[3] Effective for annual periods beginning on or after 1 January 2008

The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

Notes to the Condensed Consolidated Financial Statements *(Continued)*

3. Segmental Information

The Group is principally engaged in the sale and distribution of liquefied petroleum gas ("LPG") and sale of electronic products. These businesses are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

Business segments

30.06.2007 (Unaudited)

	Sale and distribution of LPG *HK$'000*	Sale of electronic products *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Segment revenue	1,449,055	108,257	—	1,557,312
Segment result	29,567	18,456	—	48,023
Interest income	—	—	2,458	2,458
Unallocated corporate expenses	—	—	(7,042)	(7,042)
Finance costs	—	—	(18,114)	(18,114)
Share of loss of a jointly controlled entity	(227)	—	—	(227)
Profit (loss) before taxation	29,340	18,456	(22,698)	25,098
Taxation				1,807
Profit for the period				26,905

Notes to the Condensed Consolidated Financial Statements *(Continued)*

3. Segmental Information *(Continued)*

Business segments *(Continued)*

30.06.2006 (Unaudited)

	Sale and distribution of LPG *HK$'000*	Sale of electronic products *HK$'000*	Leasing of investment properties, property, plant and equipment *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Segment revenue	1,216,496	31,864	2,147	—	1,250,507
Segment result	41,882	347	1,757	—	43,986
Interest income	—	—	—	4,348	4,348
Unallocated corporate expenses	—	—	—	(12,078)	(12,078)
Finance costs	—	—	—	(13,789)	(13,789)
Share of loss of a jointly controlled entity	(248)	—	—	—	(248)
Recognition of share-based payments	—	—	—	(5,855)	(5,855)
Profit (loss) before taxation	41,634	347	1,757	(27,374)	16,364
Taxation					881
Profit for the period					17,245

During the year ended 31 December 2006, the Group decided to discontinue the operation on leasing of investment properties, property, plant and equipment. On 2 September 2006, the Group entered into a sale agreement to dispose of the investment properties. The disposal was completed on 8 September 2006, on which the title of the investment properties passed to the acquirer.

Notes to the Condensed Consolidated Financial Statements *(Continued)*

4. Profit Before Taxation

Profit before taxation is stated after charging the following items:

	30.06.2007 (Unaudited) ***HK$'000***	30.06.2006 (Unaudited) *HK$'000*
Depreciation for property, plant and equipment	**7,846**	7,338
Amortization of prepaid lease payments for lands	**1,044**	962
Amortization of prepaid lease payments for coast	**346**	329
Total depreciation and amortization	**9,236**	8,629

5. Taxation

	30.06.2007 (Unaudited) ***HK$'000***	30.06.2006 (Unaudited) *HK$'000*
Current tax:		
Hong Kong	**—**	—
Other regions in the PRC	**(249)**	(33)
Deferred tax	**2,056**	914
	1,807	881

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company's subsidiaries operating in Hong Kong incurred a tax loss for the period.

The current tax for other regions in the PRC represents PRC enterprise income tax, which is calculated at the rates prevailing, in respect of the Company's subsidiaries operating in the PRC.

Notes to the Condensed Consolidated Financial Statements *(Continued)*

6. Dividend

On 25 June 2007, a dividend of HK1 cent per share (2006: HK1.2 cents per share) was paid to shareholders as the final dividend for 2006.

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: nil).

7. Earnings per Share

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	30.06.2007 (Unaudited) ***HK$'000***	30.06.2006 (Unaudited) *HK$'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share (Profit for the period attributable to equity holders of the Company)	**26,905**	17,245
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**481,676,687**	481,676,687
Effect of dilutive potential ordinary shares: share options	**1,206,977**	259,636
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**482,883,664**	481,936,323

Notes to the Condensed Consolidated Financial Statements *(Continued)*

8. Movements in Property, Plant and Equipment

During the period, property, plant and equipment of approximately HK$3,445,000 were acquired upon the acquisition of 100% of the entire equity interest of Deqing Nanxiong LPG Co., Limited ("Deqing").

9. Trade Debtors and Bills Receivable

The credit terms of the Group range from 0 to 180 days. The aged analysis of trade debtors is as follows:

	30.06.2007 (Unaudited) *HK$'000*	31.12.2006 (Audited) *HK$'000*
0 to 30 days	**212,634**	77,277
31 to 60 days	**3,951**	2,213
61 to 90 days	**34,716**	217
91 to 120 days	**17,934**	11
More than 120 days	**5,668**	108
	274,903	79,826
Bills receivable	**—**	59,512
	274,903	139,338

Notes to the Condensed Consolidated Financial Statements *(Continued)*

10. Trade Creditors and Bills Payable

The aged analysis of trade creditors is as follows:

	30.06.2007	31.12.2006
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
0 to 30 days	**165,495**	158,094
31 to 60 days	**53**	—
61 to 90 days	**1,559**	—
More than 120 days	**3,734**	—
	170,841	158,094
Bills payable	**181,258**	126,620
	352,099	284,714

Notes to the Condensed Consolidated Financial Statements *(Continued)*

11. Borrowings

	30.06.2007 (Unaudited) HK$'000	31.12.2006 (Audited) HK$'000
Bank trust receipt loans	**192,302**	104,036
Bank trust receipt loans related to currency swap	**288,733**	293,158
Other bank loans	**184,027**	176,838
Other long-term loans	**51,189**	49,645
	716,251	623,677
Analysed as:		
Secured	**502,695**	533,890
Unsecured	**213,556**	89,787
	716,251	623,677
Carrying amount repayable:		
On demand or within one year	**504,402**	401,444
More than one year, but not exceeding two years	**84,847**	81,726
More than two years, but not exceeding five years	**127,002**	140,507
	716,251	623,677
Less: Amount due within one year shown under current liabilities	**(504,402)**	(401,444)
	211,849	222,233

Notes to the Condensed Consolidated Financial Statements *(Continued)*

12. Share Capital

Ordinary shares of HK$0.10 each (31.12.2006: HK$0.10 each)

	Number of Shares	Amount
		HK$'000
Authorised share capital:		
At 31 December 2006 and 30 June 2007	20,000,000,000	2,000,000
Issued and fully paid share capital:		
At 31 December 2006 and 30 June 2007	481,676,687	48,168

13. Share-based Payment Transactions

During the period ended 30 June 2007, no option was granted by the Company.

During the previous period ended 30 June 2006, on 15 May 2006, share options entitling the holders to subscribe for a total of 30,500,000 shares were granted by the Company to the directors and senior management/other participants of the Group at a nominal consideration of HK$1.00 payable by each grantee. These options may be exercised at any time commencing 17 June 2006 to 31 December 2015, at the exercise price of HK$0.69 per share. The number of share options granted to Shum Siu Hung, Chiu Sing Chung, Raymond, Cheung Kwan Hung, Anthony and Ma Man Hoi, Joseph were approved at the special general meeting of the Company held on 16 June 2006.

Notes to the Condensed Consolidated Financial Statements *(Continued)*

13. Share-based Payment Transactions *(Continued)*

Valuation of options

According to the Black-Scholes pricing model (the "Model"), the estimated fair value of the share options granted during the period ended 30 June, 2006 was HK$5,855,000. The following table lists the weighted average inputs to the model used for the period ended 30 June 2006.

Weighted average share price	HK$0.73
Exercise price	HK$0.69
Expected volatility	59.36%
Expected life in years	1
Risk free rate	4.57%
Expected dividend yield	1.50%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous one year. The expected life used in the model was based on management's best estimation taking into account non-transferability and other behavioral consideration. Risk free rate was determined by reference to the yield of 1 year Exchange Fund Notes at the date of grant. Expected dividend yield was based on historical dividend yield of the shares of the company.

The Group recognized a total expense of approximately HK$5,855,000 in the consolidated income statement for the period ended 30 June, 2006 in relation to share options granted by the Company.

14. Acquisition of a Subsidiary

On 1 January 2007, the Group acquired 100% of equity interest of Deqing for a cash consideration of approximately HK$16,075,000. This acquisition has been accounted for using the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was approximately HK$13,532,000.

Notes to the Condensed Consolidated Financial Statements *(Continued)*

14. Acquisition of a Subsidiary *(Continued)*

The net assets acquired in the transaction, and the goodwill arising are as follows:

	Acquiree's carrying amount before combination *HK$'000*	Fair value adjustments *HK$'000*	Fair value *HK$'000*
Net assets acquired:			
Property, plant and equipment	372	3,073	3,445
Inventories	742	—	742
Trade debtors	384	—	384
Other debtors, deposits and prepayments	379	—	379
Bank balances and cash	119	—	119
Trade creditors	(1,409)	—	(1,409)
Other creditors and accrued charges	(103)	—	(103)
Deferred tax liabilities	—	(1,014)	(1,014)
	484	2,059	2,543
Goodwill			13,532
Total consideration, satisfied by cash			16,075
Net cash outflow arising on acquisition:			
Cash consideration paid			(16,075)
Cash and cash equivalents acquired			119
			(15,956)

Notes to the Condensed Consolidated Financial Statements *(Continued)*

14. Acquisition of a Subsidiary *(Continued)*

The goodwill arising on the acquisition of Deqing is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

Deqing contributed approximately HK$2,974,000 to the Group's revenue and incurred a loss of approximately HK$383,000 during the period between the date of acquisition and the balance sheet date.

15. Contingent Liabilities

The Group had no significant contingent liabilities at both 30 June 2007 and 31 December 2006.

16. Pledge of Assets

At 30 June 2007, bank deposits of approximately HK$24,334,000 (31.12.2006: HK$12,633,000) were pledged to banks to secure general banking facilities granted to the Group. Moreover, bank deposits of approximately HK$281,333,000 (31.12.2006: HK$301,024,000) were pledged for currency swap transactions contracted with banks.

17. Lease Commitments

The Group as lessee:

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30.06.2007 (Unaudited) *HK$'000*	31.12.2006 (Audited) *HK$'000*
Within one year	**18,664**	1,587
In the second to fifth years inclusive	**30,047**	176
Over five years	**—**	50
	48,711	1,813

Notes to the Condensed Consolidated Financial Statements *(Continued)*

18. Other Commitments

Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:

	30.06.2007 (Unaudited) *HK$'000*	31.12.2006 (Audited) *HK$'000*
Investment in a jointly controlled entity	**—**	1,916
Purchase of plant and equipment	**132,230**	77,946
	132,230	79,862

19. Related Party Transactions

During the period, the Group entered into the following significant transactions with related parties:

	30.06.2007 (Unaudited) *HK$'000*	30.06.2006 (Unaudited) *HK$'000*
Sales to a jointly controlled entity	**4,436**	—
Rental expenses paid to Shum Ho, Neo	**228**	228

The goods were sold to a jointly controlled entity at prices similar to those prices offered to third party customers.

Shum Ho, Neo is the son of Shum Siu Hung, one of the directors of the Company.

Notes to the Condensed Consolidated Financial Statements *(Continued)*

19. Related Party Transactions *(Continued)*

On 16 May 2006, Sound Management Services Limited, a wholly-owned subsidiary of the Company, entered into an office tenancy agreement with Shum Ho, Neo for the use of office premises provided by Shum Ho, Neo located on 20th Floor, Times Tower, 393 Jaffe Road, Wanchai, Hong Kong at HK$38,000 per calendar month for a period of one year commencing 16 May 2006. On 16 May 2007, the agreement was renewed for one year to 15 May 2008 with the same terms.

In the opinion of the Company's directors, the rental amounts were based on market rates at the time when the tenancy agreements were signed.

Compensation of key management personnel

The remuneration of executive directors and other members of key management during the period were as follows:

	30.06.2007 (Unaudited) *HK$'000*	30.06.2006 (Unaudited) *HK$'000*
Short-term benefits	**2,399**	2,363
Post-employment benefits	**30**	24
Share-based payments	**—**	3,264
	2,429	5,651

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

Notes to the Condensed Consolidated Financial Statements *(Continued)*

20. Post Balance Sheet Events

On 27 December 2006 and 29 December 2006, the Company's indirect wholly-owned subsidiary Qingxin NewOcean Transportation Company Limited ("NewOcean Transportation") entered into a subscription agreement and a supplemental agreement respectively with third parties independent to the Group, for the acquisition of the 51% equity interest in Guangzhou Shi Menghua LPG Company Limited ("Menghua LPG"). On 1 July 2007, NewOcean Transportation and Mr. Hu Shifa, one of the third parties, entered into another supplemental agreement, which principally provides for modification of the arrangements for price and equity holding ratio adjustments under the subscription agreement of 2006, and the cancellation of Mr. Hu's rights and obligations in respect of the First Year Profit as defined in the subscription agreement and the supplemental agreement of 2006. A circular dated 2 August 2007 containing details of the transactions was dispatched to the shareholders of the Company.

Interim Dividend

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: nil).

Management Discussion and Analysis

General

The Group continued to maintain high business growth for the half year ended 30 June 2007. During the period, it recorded a turnover of approximately HK$1,557,312,000, a growth of 24.53% from the turnover of HK$1,250,507,000 for the period ended 30 June 2006. The net profit of the Group for the period amounted to HK$26,905,000, a marked increase of 56.02% in comparison with the net profit of HK$17,245,000 for the period ended 30 June 2006. As at 30 June 2007, the Company has 481,676,687 issued and paid up ordinary shares. Basic earning per share for the period ended 30 June 2007 was HK5.59 cents, a 56.15% increase compared with the basic earning per share of HK3.58 cents for the period ended 30 June 2006.

Business Review and Analysis

Summary of Overall Business Development

In the first half of 2007, the Group executed with prominent results a series of business development plans formulated earlier in 2006. Approximately 330,000 tons of sales of LPG were achieved, representing an increase of about 20% compared with the sales of about 275,000 tons in the same period of 2006. The Zhuhai Terminal imported about 257,000 tons, of which 220,000 tons were wholesaled to the downstream market and the remaining 37,000 tons were internally allocated to the Group's own bottle filling plants. The Group's bottle filling plants in various cities of Guangdong and Guangxi Province together recorded total retail sales of about 110,000 tons, a moderate increase of about 10% compared with the sales of about 100,000 tons in the same period in 2006. Out of the total retail sales of 110,000 tons, about 73,000 tons were purchased from refineries in the domestic market, and the remaining 37,000 tons were supplied by the Zhuhai Terminal.

Management Discussion and Analysis *(Continued)*

Business Review and Analysis *(Continued)*

Summary of Overall Business Development (Continued)

Apart from continuing business growth, it is particularly worthwhile to note:

(1) Phase One construction of the LPG storage expansion in the Zhuhai Terminal was basically completed in February 2007. The storage capacity of the Zhuhai Terminal was increased from 2,100 tons to 9,600 tons. Phase Two construction, which followed immediately, is expected to be completed in October 2007. By then, the storage capacity of the Zhuhai Terminal will be expanded to 15,600 tons. Expansion of the storage capacity will reduce the moorage time needed by LPG carriers to complete cargo discharging. This has the effect of reducing our LPG purchase cost by cutting down on carrier rental overheads. The positive effect was quite evident in the first half of 2007. Furthermore, now being equipped with a number of spherical tanks for separate of storage of propane and butane, the Zhuhai Terminal can supply LPG with very specific mixture ratios. This ability has extended its market to the hi-end industrial LPG market and brought about an improvement in wholesaling margin.

(2) According to China Custom Statistics, the Zhuhai Terminal moved up from being the fifth largest LPG terminal (in terms of import volume) in China at the end of 2006 to the third largest in the first half of 2007. It also achieved the second lowest average cost of purchase amongst the top 10 largest LPG terminals in China. All these demonstrate the benefit of the economy of scale that the Zhuhai Terminal has all along been pursuing.

(3) In early 2007, the Group successfully secured term supply contracts from two reputable international LPG traders, namely, Glencore and Vitol. Term supply contracts benefit the operation of the Zhuhai Terminal in many respects, including stable supply, providing a back-up for term sales contracts, establishment of a self-hedged business model and mitigation of price risk, all these will bring about enduring operational benefits.

Management Discussion and Analysis *(Continued)*

Business Review and Analysis *(Continued)*

Summary of Overall Business Development (Continued)

(4) At least as important as the expansion of the storage capacity at the Zhuhai Terminal is its storage turnover rate. The management always hold efficiency in cargo handling as being the most effective means to increase storage turnover. Since early 2007, the Management have been conducting a feasibility study on a plan to build two additional 5,000 tons berths on the Terminal's coastal line for this purpose. The plan received strong support from the relevant government departments of Zhuhai City, and construction is scheduled to commence in early 2008. It is estimated that with two additional berths the annual throughput capacity of the Zhuhai Terminal will double to 1,500,000 tons of LPG, with a further capacity for 2,000,000 tons of oil products. The Zhuhai Terminal therefore stands poised now to become the most efficient terminal in Southern China.

LPG Business

Market Situation

The market segregation between local and imported LPG — local LPG for the general public and imported LPG for industrial users and automobiles, is taking clear shape in the first half of 2007. High international LPG prices, increased local LPG production in China, and improvement in transportation of locally produced LPG all bring about a new stage of competition between LPG produced locally and imported LPG. The era when imported LPG dominates price movement in Southern China has now come to an end.

In the first half of 2007, suppliers of local LPG performed the role of price regulators, they effectively stabilized LPG wholesaling prices in Southern China (which rose slowly from about RMB5,000/ton in February to RMB5,600/ton in June). Such pattern of price movement was quite advantageous to downstream retail operators because they have sufficient time to adjust their retail price, transfer the increased cost to the end users, and to maintain a reasonable profit margin. However, to most Class I terminal operators this poses a dilemma. As they relied mainly on imported LPG, their purchase cost during the period remained at a high figure of US$550/ton to US$630/ton, squeezing their profit margin and in some cases forcing these operators to trade at a loss. With the exception of the Group's Zhuhai Terminal, almost all Class I operators substantially reduced their LPG intake from abroad. Some had to suffer shrunken business volume in order to minimize loss. There is strong hint that relocation of market share amongst major players in LPG wholesaling in Southern China is now underway.

Management Discussion and Analysis *(Continued)*

Business Review and Analysis *(Continued)*

LPG Business *(Continued)*

LPG Wholesaling

With respect to LPG wholesaling, the Group has all along been taking a business strategy different from that of other Class I terminals in Southern China. The Group focuses on enhancing its storage turnover rate to achieve business expansion, and providing highly efficient logistic services to foster a long term customer relationship. Besides making these marketing efforts, the Group has since the second half of 2006 been exploring two new markets and has had considerable success:

(1) **The overseas market that is outside Southern China, but in the vicinity of the Zhuhai Terminal (including Hong Kong, Macau, Philippines and Vietnam)** — The Zhuhai Terminal purchases LPG from overseas supplier and sells back to the overseas market with cost price and sales price both pegged to international reference price. It successfully achieved significant business growth and avoided direct competition with local LPG. The Group has entered into term sales contracts with E1 Corporation of Korea and Sojitz Company of Japan (both are international LPG traders), and increased its sales to China Resources Hong Kong. Sales to these three customers totalled about 20,000 tons per month, on an annual basis the sales will represent about 40% of the Group's total wholesaling volume planned for the year 2007.

(2) **Industrial users and auto-gas operators in Southern China using exclusively imported LPG** — As a requirement, these customers purchase LPG with specific mixing proportions (comprising propane and butane) and import quality. They are willing to pay international price for the purchase of imported LPG. The Group has entered into a term sales contract with the major auto-gas operator in Guangzhou. The amount of about 10,000 tons per month from the contract represents on an annual basics about 20% of the Group's planned total wholesaling volume in 2007.

In addition to the above, the Group continued its joint purchase cooperation (sales on cost plus basis) with Guangzhou Zhen Rong and Zhuhai Gas though the volume was slightly reduced to about 90,000 tons in the first half of 2007. The Group anticipates that the sales under joint purchase cooperation will make up about 30% of the Group's planned total wholesaling volume in 2007.

From the above, it is quite obvious that the buyers for about 90% of the Group's planned purchase in 2007 have been locked in, and the selling prices are all cost linked. The net earning from the Group's LPG wholesaling is therefore safely secured.

Management Discussion and Analysis *(Continued)*

Business Review and Analysis *(Continued)*

LPG Business *(Continued)*

LPG Retailing

The Group's retail business maintained moderate growth in the first half of 2007. Supplies of LPG to the Group's bottle filling plants changed, from 45% by the Zhuhai Terminal and 55% by local refineries to 33% by the Zhuhai Terminal and 67% by local refineries. Such change effectively lowered the cost of purchase and improved the earning capability of the Group's retail business.

The Group acquired a 51% interest in Menghua LPG at the beginning of 2007, and increased the shareholding to 90% in August 2007. This is the largest LPG retail operation acquisition ever made by the Group. The four bottle filling plants operated by Menghua LPG are selling about 150 tons per day, occupying about 11% of the market share in Guangzhou. It is anticipated that such acquisition will effectively contribute to the substantial growth of retail business volume of the Group in 2007.

Oil Products Storage Project

With respect to the oil products storage project, a joint venture between Caltex South China Investment Ltd. and the Group is working on the preparations for the construction. Construction is anticipated to commence in the beginning of 2008 and be completed in early 2009. The development progress of this project has been postponed for one year.

Electronics Business

Since the second half of 2006, the Group concentrates more on mobile phones trading. This business involves design of mobile phones by the Group, with production and assembly conduct by designated factories in China. Currently the products are sold to Thailand, Vietnam, Laos and other countries along the Mekong River. Due to good market response to the products, including mobile phones, sold to these markets, there was a noticeable increase in the profit contribution by the electronic business.

Management Discussion and Analysis *(Continued)*

Business Outlook

Maintaining its strong growth momentum in the past several years, the Group is expected to achieve total LPG sales volume exceeding 800,000 tons in 2007 about 600,000 tons of which being wholesale and 200,000 tons being retail. Turnover for the whole year is expected to exceed HK$3.3 billion. The Group is fully prepared for commencement of construction of the oil products storage project and the additional berths in 2008, paving the way for the great leap of the Zhuhai Terminal in its next stage of development.

Liquidity and Financial Review

At the period end, the Group maintained bank deposits and cash amounting to approximately HK$355,278,000 (including pledged bank deposits of approximately HK$24,334,000 and pledged bank deposits related to currency swap of approximately HK$281,333,000) (31.12.2006: HK$464,691,000 including pledged bank deposits of approximately HK$12,633,000 and pledged bank deposits related to currency swap of approximately HK$301,024,000). Current ratio and gearing ratio were 1.02:1 (31.12.2006: 1.01:1) and 0.71:1 (31.12.2006: 0.69:1) respectively. The latter was calculated on the basis of total liabilities of approximately HK$1,137,176,000 (31.12.2006: HK$1,014,332,000) divided by total assets of approximately HK$1,612,309,000 (31.12.2006: HK$1,461,813,000).

Human Resources

As at 30 June 2007, the Group employed approximately 370 employees in Hong Kong and mainland China. The Group remunerated the employees based on their performance, experience and prevailing market practices.

Change in Directorship

On 16 June 2007, to the grief of all directors and staff members of the Group, Mr. Ma Man Hoi, Joseph, independent non-executive director of the Company, passed away due to an illness. The independent non-executive directors of the Company currently consist of Mr. Cheung Kwan Hung, Anthony, Mr. Chan Yuk Wai, Benedict and Dr. Xu Mingshe.

Directors' and Chief Executives' interests in Shares and Underlying Shares

As at 30 June 2007, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the registered required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

(a) Interests in ordinary shares of HK$0.10 each of the Company (long position)

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Shum Siu Hung	Beneficial Owner	20,811,779	4.32%
	Family *(note 1)*	133,212,621	27.66%
Wu Hong Cho	Other *(note 2)*	6,660,631	1.38%
Cen Ziniu	Other *(note 2)*	1,332,126	0.28%
Shum Chun, Lawrence	Other *(note 2)*	19,981,893	4.15%

Note:

1. These interests reflect the interests of Shum Siu Hung in the 133,212,621 shares of the Company held by Uniocean Investments Limited ("Uniocean"), a company owned as to 64% by Tong Shiu Ming, spouse of Shum Siu Hung.

2. These interests reflect the proportional interests of these directors in the 133,212,621 shares of the Company held by Uniocean, being the same block of shares referred to in Note 1. Uniocean is owned as to 5% by Wu Hong Cho, 1% by Cen Ziniu and 15% by Shum Chun, Lawrence.

Directors' and Chief Executives' interests in Shares and Underlying Shares *(Continued)*

(b) Share options

Name of director	Capacity	Option type	Subscription price per Share *HK$*	Number of Underlying Shares	Outstanding as at 30.06.2007
Shum Siu Hung	Beneficial Owner	2002A	1.30	3,000,000	3,000,000
		2006B	0.69	9,000,000	9,000,000
Chiu Sing Chung, Raymond	Beneficial Owner	2006B	0.69	6,000,000	6,000,000
Cen Ziniu	Beneficial Owner	2002A	1.30	3,000,000	3,000,000
Cheung Kwan Hung, Anthony	Beneficial Owner	2006B	0.69	1,000,000	1,000,000

Notes:

1. "2002A" denotes options granted on 14 March 2002 under the Old Share Option Scheme of the Company exercisable during the period from 15 September 2002 to 14 September 2007.

2. "2006B" denotes options granted on 16 June 2006 under the New Share Option Scheme of the Company exercisable during the period from 17 June 2006 to 31 December 2015.

Save as disclosed above, as at 30 June 2007, the Company had not been notified of any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Substantial Shareholders

As at 30 June 2007, the following persons had interests or short positions in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO:

(a) Interests in ordinary shares of HK$0.10 each of the Company (long position)

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Shum Siu Hung	Beneficial Owner	20,811,779	4.32%
	Family interest *(note 1)*	133,212,621	27.66%
Tong Shiu Ming	Held by corporation *(note 1)*	133,212,621	27.66%
	Family interest *(note 2)*	20,811,779	4.32%
Yam Tak Cheung	Held by corporation *(note 3)*	30,000,000	6.23%

Notes:

1. 133,212,621 shares were held by Uniocean, being the same block of shares as referred to in Note 1 to paragraph (a) in the section "Directors and chief executives' interests and short positions in shares and underlying shares" above.

2. The interest reflects the family interest of Tong Shiu Ming in 20,811,779 shares held by Shum Siu Hung, being the same block of shares as referred to in paragraph (a) in the section "Directors and chief executives' interests and short positions in shares and underlying shares" above.

3. 30,000,000 shares of the Company were held by Integrated Asset Management (Asia) Limited ("Integrated Asset"). Yam Tak Cheung owned 100% of Integrated Asset and was deemed to be the controlling shareholder of Integrated Asset.

Substantial Shareholders *(Continued)*

(b) Share options

Name of shareholder	Capacity	Subscription price per Share *HK$*	Number of Underlying Shares	Outstanding as at 30.06.2007
Tong Shiu Ming	Family interest *(Note)*	1.30	3,000,000	3,000,000
		0.69	9,000,000	9,000,000

Note:

These blocks of options to subscribe for 3,000,000 and 9,000,000 shares respectively were held by Shum Siu Hung, the spouse of Tong Shiu Ming, and were the same blocks of options as referred to in paragraph (b) in the section "Directors and chief executives' interests and short positions in shares and underlying shares' above.

Save as disclosed above as at 30 June 2007, no person had an interest or short position in the shares or underlying shares of the Company which would fall to be recorded in the registered to be kept by the Company pursuant to section 336 of the SFO, or which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

Purchase, Sale and Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2007.

Audit Committee

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters with the directors, including a review of the unaudited condensed consolidated accounts for the six months ended 30 June 2007.

Corporate Governance

The Company complied with the provision of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules on the Stock Exchange throughout the six months ended 30 June 2007 with the exception that the independent non-executive directors are not appointed for a specific term as provided in the CG Code. Under the Bye-laws of the Company, independent non-executive directors of the Company shall retire by rotation and their appointment will be reviewed when they are due for re-election. In the opinion of the directors, this arrangement meets the same objectives as the CG Code.

Compliance with the Model Code for Securities Transactions by Directors

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as its own code of conducting regarding securities transactions (the "ST Code"). Having made specific enquiry of the directors, all directors of the Company had complied with the required standards as set out in the ST Code during the six months ended 30 June 2007.

By order of the Board
Shum Siu Hung
Chairman

Hong Kong, 19 September 2007