Interim Report 2005

新海環保能源集團有限公司
NewOcean Green Energy Holdings Limited
(Incorporated in the Bermuda with limited liability)

The Board of Directors (the "Board") of NewOcean Green Energy Holdings Limited (the "Company") presents the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2005 together with comparative figures for the corresponding period in 2004. These condensed consolidated results have not been audited, but have been reviewed by the Company's audit committee.

Condensed Consolidated Income Statement

	Notes	**6 months ended 30.06.2005 (Unaudited)** *HK$'000*	6 months ended 30.06.2004 (Restated) *HK$'000*
Revenue	*3*	**656,200**	449,824
Cost of sales		**(614,039)**	(406,526)
Gross profit		**42,161**	43,298
Other operating income		**871**	2,062
Distribution costs		**(8,391)**	(3,351)
Administrative expenses		**(14,080)**	(16,442)
Finance costs		**(2,703)**	(1,571)
Share of loss of a jointly controlled entity		**(154)**	(97)
Profit before taxation	*4*	**17,704**	23,899
Income tax credit	*5*	**2,757**	259
Profit for the period		**20,461**	24,158
Attributable to:			
Equity holders of the parent		**20,332**	24,185
Minority interests		**129**	(27)
		20,461	24,158
Earnings per share	*7*		
Basic		**4.22 cents**	6.15 cents
Diluted		**4.22 cents**	6.09 cents

Condensed Consolidated Balance Sheet

	Notes	30.06.2005 (Unaudited) HK$'000	31.12.2004 (Restated) HK$'000
Non-current assets			
Property, plant and equipment	8	179,029	168,317
Investment properties		35,025	35,025
Intangible assets		58,562	32,548
Interests in a jointly controlled entity		12,598	12,752
Prepaid lease payments	8	59,435	59,044
Other asset		—	32,028
Deferred tax assets		684	—
		345,333	339,714
Current assets			
Inventories		76,979	2,582
Trade debtors	9	105,210	77,590
Other debtors, deposits and prepayments		43,953	29,420
Prepaid lease payments		2,530	2,000
Amounts due from minority shareholders of subsidiaries		357	357
Amount due from a former shareholder of a subsidiary		3,509	3,509
Pledged bank deposits		9,726	3,004
Bank balances and cash		68,418	55,937
		310,682	174,399
Current liabilities			
Trade creditors and bills payable	10	94,412	23,969
Other creditors and accrued charges		35,312	21,673
Tax liabilities		8,023	8,023
Borrowings, partly secured — repayable within one year		131,416	91,253
		269,163	144,918
Net current assets		41,519	29,481
Total assets less current liabilities		386,852	369,195
Capital and reserves			
Share capital	11	48,168	48,168
Share premium and reserves		322,143	306,460
Equity attributable to equity holders of the parent		370,311	354,628
Minority interests		6,368	4,709
Total equity		376,679	359,337
Non-current liabilities			
Deferred tax liabilities		10,173	9,858
		10,173	9,858
		386,852	369,195

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the parent									
	Share Capital	Share Premium	Special Reserve	Asset Revaluation Reserve	Exchange Reserve	Contributed Surplus Account	Deficit	Total	Minority Interest	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2004	36,652	44,499	122,085	538	1,225	1,667	(34,983)	171,683	2,470	174,153
Exchange differences arising from translation of financial statements of overseas subsidiaries	–	–	–	–	178	–	–	178	–	178
Net income recognized directly in equity	–	–	–	–	178	–	–	178	–	178
Profit for the period	–	–	–	–	–	–	24,185	24,185	(27)	24,158
Total income recognized directly for the period	–	–	–	–	178	–	24,185	24,363	(27)	24,336
Acquisition of additional registered capital in subsidiaries	–	–	–	–	–	–	–	–	(241)	(241)
Issue of subscription shares *(note a)*	828	9,770	–	–	–	–	–	10,598	–	10,598
Issue of shares as consideration for acquisition of a subsidiary *(note b)*	4,688	67,031	–	–	–	–	–	71,719	–	71,719
Placing of new shares *(note c)*	6,000	81,000	–	–	–	–	–	87,000	–	87,000
Share issue expenses	–	(3,002)	–	–	–	–	–	(3,002)	–	(3,002)
Dividend paid	–	–	–	–	–	–	(3,853)	(3,853)	–	(3,853)
At 30th June, 2004	48,168	199,298	122,085	538	1,403	1,667	(14,651)	358,508	2,202	360,710

	Attributable to equity holders of the parent									
	Share Capital	Share Premium	Special Reserve	Asset Revaluation Reserve	Exchange Reserve	Contributed Surplus Account	Deficit	Total	Minority Interest	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2005	48,168	199,299	122,085	–	1,529	1,667	(18,120)	354,628	4,709	359,337
Exchange differences arising from translation of financial statements of overseas subsidiaries	–	–	–	–	168	–	–	168	–	168
Net income recognized directly in equity	–	–	–	–	168	–	–	168	–	168
Profit for the period	–	–	–	–	–	–	20,332	20,332	129	20,461
Total income recognized directly for the period	–	–	–	–	168	–	20,332	20,500	129	20,629
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	1,530	1,530
Dividend paid	–	–	–	–	–	–	(4,817)	(4,817)	–	(4,817)
At 30th June, 2005	48,168	199,299	122,085	–	1,697	1,667	(2,605)	370,311	6,368	376,679

Notes:

(a) On 15th December, 2003, the Company has entered into a subscription agreement with Uniocean Investments Limited ("Uniocean"), the substantial shareholder of the Company, pursuant to which Uniocean has conditionally agreed to subscribe and the Company has conditionally agreed to issue and allot of 82,800,000 new shares of the Company at a subscription price of HK$0.128 per share ("Subscription Agreement"). The subscription Agreement was completed on 5th March, 2004.

(b) On 5th March, 2004, the Company issued 468,750,000 new ordinary shares of HK$0.01 each as part of the consideration for acquisition of the entire registered capital of Zhuhai Iwatani LPG Co. Ltd. The total market value of the shares issued by the Company on the date of acquisition was HK$71,720,000. Details of this transaction were set out in the Company's circular dated 13th February, 2004.

(c) On 9th March, 2004, Uniocean and the Company entered into a placing agreement with a placing agent, pursuant to which the placing agent would on a best effort basis procure purchasers to acquire, and Uniocean would sell 600,000,000 existing shares at a price of HK$0.145 per share. Pursuant to a subscription agreement entered into by Uniocean and the Company on 9th March, 2004, Uniocean has conditionally agreed to subscribe and the Company has conditionally agreed to issue and allot of 600,000,000 new shares of the Company at a subscription price of HK$0.145 per share. The placement and subscription were completed on 23rd March, 2004.

Condensed Consolidated Cash Flow Statement

	6 months ended 30.06.2005 (Unaudited) *HK$'000*	6 months ended 30.06.2004 (Unaudited) *HK$'000*
Net cash generated from (used in) operating activities	(5,110)	1,486
Net cash used in investing activities	(17,922)	(71,103)
Net cash generated from financing activities	35,345	144,342
Net increase in cash and cash equivalents	12,313	74,725
Cash and cash equivalents at beginning of the period	55,937	10,014
Effect of foreign exchange rate changes	168	178
Cash and cash equivalents at end of the period	68,418	84,917
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	68,418	84,976
Bank overdrafts	—	(59)
	68,418	84,917

Notes to the Condensed Consolidated Financial Statements

1. Basis of Preparation and Principal Accounting Policies

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

The condensed financial statements have been prepared on the historical cost basis except for certain properties, plant and machinery and investment properties, which are measured at fair values or revalued amounts, as appropriate.

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

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

Business Combinations

In the current period, the Group has applied HKFRS 3, Business Combination, which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarized below:

Goodwill

In previous periods, goodwill arising on acquisitions was capitalized on the balance sheet and amortised over its estimated useful life. The Group has discontinued amortising such goodwill from 1st January, 2005 onwards and goodwill will be tested for impairment at least annually/in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

1. **Basis of Preparation and Principal Accounting Policies** *(continued)*

Financial Instruments

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

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group classifies and measure its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss", "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method.

Owner-occupied Leasehold Interest in Land

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

1. **Basis of Preparation and Principal Accounting Policies** *(continued)*

Coast Use Rights

In previous periods, the coast use rights were stated in balance sheet at cost less accumulated amortisation and any identified impairment loss. Amortisation of the coast use rights was charged so as to write off the cost of the asset over the estimated useful life using the straight-line method. In the current period, the Group has applied HKAS 17 Leases. The coast use rights are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively.

Investment Properties

In the current period, the Group has, for the first time, applied HKAS 40 Investment Property. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognized directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor Standard were measured at open market values, with revaluation surplus or deficit credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January, 2005 onwards.

2. Summary of the Effects of the Changes in Accounting Policies

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

	6 months ended 30.06.2005 HK$'000	6 months ended 30.06.2004 HK$'000
Decrease in amortization of goodwill	1,464,000	–

The cumulative effects of the application of the new HKFRSs as at 31st December, 2004 and 1st January, 2005 are summarized below:

	As at 31st December, 2004 (Originally stated) HK$'000	Adjustment HK$'000	As at 31st December, 2004 (Restated) HK$'000	Adjustment HK$'000	As at 1st January, 2005 (Restated) HK$'000
Balance Sheet Items Affected					
Property, plant and equipment	215,916	(47,599)	168,317	–	168,317
Intangible assets	45,993	(13,445)	32,548	–	32,548
Prepaid lease payments	–	61,044	61,044	–	61,044
Total effects on assets and liabilities	261,909	–	261,909	–	261,909
Minority interests	–	4,709	4,709	–	4,709
Total effects on equity	–	4,709	4,709	–	4,709
Minority interests	4,709	(4,709)	–	–	–
	4,709	(4,709)	–	–	–

3. Segmental Information

The Group is principally engaged in the sale and distribution of liquefied petroleum gas, the sale of electronic products and the leasing of investment properties, property, plant and equipment. These businesses are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

Business segments

Six months ended 30.06.2005

	Sale and Distribution of Liquefied Petroleum Gas	Sale of Electronic Products	Leasing of Investment Properties, Property, Plant and Equipment	Unallocated	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenues						
External sales	564,336	81,264	2,951	7,649	–	656,200
Inter-segment sales	–	–	376	–	(376)	–
Total revenue	564,336	81,264	3,327	7,649	(376)	656,200
Segment results	14,709	9,820	222	765	–	25,516
Unallocated corporate expenses	–	–	–	(4,955)	–	(4,955)
Finance costs	–	–	–	(2,703)	–	(2,703)
Share of loss of a jointly controlled entity	–	–	–	(154)	–	(154)
Profit (loss) before taxation	14,709	9,820	222	(7,047)	–	17,704

3. **Segmental Information** *(continued)*

Six months ended 30.06.2004

	Sale and Distribution of Liquefied Petroleum Gas	Sale of Electronic Products	Leasing of Investment Properties, Property, Plant and Equipment	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenues	430,808	16,952	2,064	–	449,824
Segment results	31,205	3,141	(25)	2,063	36,384
Amortization of goodwill	(769)	(103)	–	–	(872)
Unallocated corporate expenses	–	–	–	(9,945)	(9,945)
Finance costs	–	–	–	(1,571)	(1,571)
Share of loss of a jointly controlled entity	–	–	–	(97)	(97)
Profit (loss) before taxation	30,436	3,038	(25)	(9,550)	23,899

4. **Profit Before Taxation**

Profit before taxation is stated after charging the following items:

	6 months ended 30.06.2005	6 months ended 30.06.2004
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**7,926**	5,708
Amortization of goodwill	**–**	872
Amortization of goodwill on acquisition of a jointly controlled entity	**–**	105
Total depreciation and amortization	**7,926**	6,685

5. Income Tax Credit

	6 months ended 30.06.2005 *HK$'000*	6 months ended 30.06.2004 *HK$'000*
Current tax:		
Hong Kong	–	–
Other regions in the People's Republic of China (the "PRC")	(54)	(16)
Deferred tax:		
Current period	2,811	275
Income tax credit	2,757	259

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.

6. Dividend

On 24th June, 2005, a dividend of HK1 cent per share (2004: HK0.08 cent per share of HK$0.01 each, being equal to HK0.8 cent per share of HK$0.10 each after the 10 to 1 consolidation of the Company's shares on 9th November, 2004) was paid to shareholders as the final dividend for 2004.

The directors do not recommend the payment of an interim dividend.

7. Earnings Per Share

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

	6 months ended 30.06.2005 *HK$'000*	6 months ended 30.06.2004 *HK$'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to equity holders of the parent)	**20,332**	24,185
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**481,676,687**	393,317,506
Effect of dilutive potential ordinary shares: share options	**123,911**	3,906,555
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**481,800,598**	397,224,061

Both the weighted average number of ordinary shares for the purpose of basic earnings per share and the effect of dilutive potential ordinary shares for the period ended 30th June, 2004 have been adjusted for the share consolidation on 9th November, 2004.

8. Movements in Property, Plant and Equipment, Investment Properties and Prepaid Lease Payments

During the period, property, plant and equipment and prepaid lease payments of approximately HK$9,700,000 were acquired upon the acquisition of 80% of the entire equity interest of Qingxin Yong Long Gas and Chemical Company Limited.

At 30th June, 2005, the directors consider the fair values of the Group's investment properties do not differ significantly from the carrying amount at 31st December, 2004.

9. Trade Debtors

The credit terms of the Group range from 0 to 90 days. The aging analysis of trade debtors is as follows:

	30.06.2005 *HK$'000*	31.12.2004 *HK$'000*
0 to 30 days	99,864	65,385
31 to 60 days	3,971	9,977
61 to 90 days	12	321
91 to 120 days	13	—
More than 120 days	1,350	1,907
	105,210	77,590

10. Trade Creditors and Bills Payable

The aging analysis of trade creditors is as follows:

	30.06.2005 *HK$'000*	31.12.2004 *HK$'000*
0 to 30 days	77,667	7,331
31 to 60 days	208	42
61 to 90 days	—	—
91 to 120 days	—	14
More than 120 days	797	1,756
	78,672	9,143
Bills payable	15,740	14,826
	94,412	23,969

11. Share Capital

Ordinary shares of HK$0.10 each

	Number of Shares 30.06.2005	Number of Shares 31.12.2004	Amount 30.06.2005 *HK$'000*	Amount 31.12.2004 *HK$'000*
Authorised share capital:	20,000,000,000	20,000,000,000	2,000,000	2,000,000
Issued and fully paid share capital:				
At the beginning of the period/year	481,676,687	3,665,216,873	48,168	36,652
Issue of subscription shares *(note a)*	–	82,800,000	–	828
Issue of shares as consideration for acquisition of a subsidiary *(note b)*	–	468,750,000	–	4,688
Placing of new shares *(note c)*	–	600,000,000	–	6,000
Share consolidation *(note d)*	–	(4,335,090,186)	–	–
At the end of the period/year	481,676,687	481,676,687	48,168	48,168

11. **Share Capital** *(continued)*

Notes:

(a) On 15th December, 2003, the Company has entered into a subscription agreement with Uniocean Investments Limited ("Uniocean"), the substantial shareholder of the Company, pursuant to which Uniocean has conditionally agreed to subscribe and the Company has conditionally agreed to issue and allot of 82,800,000 new shares of the Company at a subscription price of HK$0.128 per share ("Subscription Agreement"). The subscription Agreement was completed on 5th March, 2004.

(b) On 5th March, 2004, the Company issued 468,750,000 new ordinary shares of HK$0.01 each as part of the consideration for acquisition of the entire registered capital of Zhuhai Iwatani LPG Co. Ltd. The total market value of the shares issued by the Company on the date of acquisition was HK$71,720,000. Details of this transaction were set out in the Company's circular dated 13th February, 2004.

(c) On 9th March, 2004, Uniocean and the Company entered into a placing agreement with a placing agent, pursuant to which the placing agent would on a best effort basis procure purchasers to acquire, and Uniocean would sell 600,000,000 existing shares at a price of HK$0.145 per share. Pursuant to a subscription agreement entered into by Uniocean and the Company on 9th March, 2004, Uniocean has conditionally agreed to subscribe and the Company has conditionally agreed to issue and allot of 600,000,000 new shares of the Company at a subscription price of HK$0.145 per share. The placement and subscription were completed on 23rd March, 2004.

(d) Pursuant to the special resolution passed on 8th November, 2004, the Company consolidated every 10 issued and unissued shares of HK$0.01 each into one share of HK$0.10 each. The share consolidation took effect on 9th November, 2004.

12. Acquisition of a Subsidiary

On 7th January, 2005, the Group acquired 80% of equity interest of Qingxin Yong Long Gas and Chemical Company Limited ("Yong Long") for cash consideration of approximately HK$32,000,000. This transaction has been accounted for using the acquisition method of accounting.

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

	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Property, plant and equipment	2,275	6,390	8,665
Prepaid lease payments	1,035	(14)	1,021
Trade debtors	311	—	311
Other debtors, deposits and prepayments	119	—	119
Bank and cash balances	33	—	33
Other creditors and accrued charges	(55)	—	(55)
Deferred tax liabilities	—	(2,441)	(2,441)
	3,718	3,935	7,653
Minority interests			(1,531)
			6,122
Goodwill			26,013
Total consideration, satisfied by cash			32,135
Net cash outflow arising on acquisition:			
Cash consideration paid			(32,135)
Cash and cash equivalents acquired			33
			(32,102)

12. Acquisition of a Subsidiary *(continued)*

The goodwill arising on the acquisition of Yong Long 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.

Yong Long contributed approximately HK$11,400,000 revenue and HK$750,000 to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1st January, 2005, total group revenue for the period would have been HK$656,700,000 and profit for the period would have been HK$20,362,000. The proforma information is for illustrative purposes only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2005, nor is it intended to be a projection of future results.

13. Contingent Liabilities

At 30th June, 2005 and 31st December, 2004, the Company was a guarantor to an agent for import of LPG under an agency agreement entered into between a subsidiary of the Company and the agent. The guarantee was not utilized by the agent at both balance sheet dates. The agency agreement will expire in October 2005.

The Group had no significant contingent liabilities at the balance sheet date.

14. Pledge of Assets

At 30th June, 2005, the Group has pledged prepaid lease payments having an aggregate net book value of HK$2,046,000 (31.12.2004: HK$2,082,000) and bank deposits amounting to HK$9,726,000 (31.12.2004: HK$3,004,000) to secure general banking facilities granted to the Group.

15. **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:

	30.06.2005	31.12.2004
	HK$'000	*HK$'000*
Within one year	**3,414**	1,058
In the second to fifth years inclusive	**2,857**	3,547
Over five years	**28,886**	28,548
	35,157	33,153

The Group as lessor:

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	30.06.2005	31.12.2004
	HK$'000	*HK$'000*
Within one year	**3,680**	2,515
In the second to fifth years inclusive	**3,027**	3,439
Over five years	**2,736**	3,107
	9,443	9,061

16. **Other Commitments**

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

	30.06.2005	31.12.2004
	HK$'000	*HK$'000*
Investment in subsidiaries	**2,225**	9,695
Investment in an investee company	**1,885**	1,885
Purchase of plant and equipment	**1,962**	10,751
	6,072	22,331

17. Related Party Transactions

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

	6 months ended 30.06.2005 *HK$'000*	6 months ended 30.06.2004 *HK$'000*
Rental expenses paid to Hunsworth Industrial Limited ("Hunsworth")	–	359
Rental expenses paid to Shum Ho, Neo	228	57
Sales to a jointly controlled entity	72	–

Shum Siu Hung, Chairman of the Group and his spouse, Tong Shiu Ming, are the substantial shareholders of the Company and they are shareholders of Hunsworth. Shum Siu Hung is the director of Hunsworth. Shum Ho, Neo is the son of Shum Siu Hung and Tong Shiu Ming.

On 1st March, 2004, Sound Management Services Limited ("Sound Management"), a wholly owned subsidiary of the Company, renewed an office tenancy agreement with Hunsworth for the use of office premises provided by Hunsworth located at 8A, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong at HK$80,000 per calendar month for a period of two and a half months commencing 1st March, 2004. This agreement was terminated on 15th May, 2004.

On 16th May, 2004, Sound Management entered into an office tenancy agreement with Shum Ho, Neo for the use of office premises provided by Shum Ho, Neo located at 20th Floor, Times Tower, 393 Jaffe Road, Wanchai, Hong Kong at HK$38,000 per calendar month for a period of twelve months commencing 16th May, 2004. On 16th May, 2005, both parties entered into a new tenancy agreement, the agreed rental was HK$38,000 per calendar month for a period of one year commencing 16th May, 2005.

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

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

Interim Dividend

The Board does not recommend the payment of interim dividend for the six months ended 30th June, 2005 (six months ended 30th June, 2004: nil).

Management Discussion and Analysis

Introduction

In 2005, the Group continued to adopt the business strategy (formulated since the acquisition of the Zhuhai LPG Terminal in 2004) of expanding its client base and enhancing its market share with view to promote Zhuhai LPG Terminal towards the economy of scale operation at aggressive pace. In the first half of 2005, the Group achieved a turnover of HK$656,200,000 (2004: HK$449,824,000), an increase of 45.88% comparing with the same period of 2004. Gross profit margin as a whole was 6.43% (2004: 9.63%), down by 3.2% point from the same period of 2004. Net Profit of the Group was HK$20,332,000 (2004: HK$24,185,000) and the earning per share was 4.22 HK cents (2004: 6.09 HK cents), a decrease of 30.71% from the same period of the previous year.

LPG Business

The Group recorded an LPG sales volume of approximately 160,000 MTs (2004: about 130,000 MTs) for the first half of 2005, an increase of 23.07% from the same period of 2004. The China LPG market was especially challenging as international oil price remained high and drove up the LPG purchase costs. When facing this tough situation, in addition to streamlining its internal management, the Group has been expanding and strengthening its cooperation with other LPG operators with focus on eliminating the non-value-added procedures and steps traditionally existed in the LPG transactions in China. By taking these measures, the Group successfully maintained its profitability, enhanced its market share and established a solid foundation for value creation on long term basis.

1. Zhuhai LPG Terminal Operation

In the first half of 2005, the Zhuhai LPG Terminal again had achieved a number of breakthroughs in its operation: (1) The Terminal Company had time-chartered an LPG barge of 570 MTs by which it effectively expanded its sales network coverage to Hai Nan Island, Shenzhen, Shantou and the nearby area; (2) The Terminal Company had entered into a joint purchase arrangement with two major LPG operators whereby the Terminal Company imported refrigerated LPG shipments and distributed substantial portion to the joint purchase partners by barges and tanker trucks in a highly efficient manner. Such arrangement effectively resolved the existing storage capacity (2,100 MTs) constraint and reduced the LPG purchase costs; (3) The joint purchase arrangement commenced in June. Zhuhai LPG Terminal, for the very first time imported 23,000 MTs of LPG in one shipment. Within five days, the loading and discharging works were completed in an efficient way and the average discharge rate was 4,600 MTs per day (2.2 times of storage turnover in one day). It adequately demonstrated that the throughput capacity of Zhuhai LPG Terminal would well exceed one millions MTs per annum.

Zhuhai LPG Terminal imported 114,000 MTs for the first half of 2005. It distributed its import partly to the wholesale buyers and partly to the Group's bottling plants (the bottle filling and distribution stations) in Guangdong and Guangxi. It set the path for the Group's long-term goal of exercising collective purchase and distribution within its internal operations.

2. Bottling Plants Operation

For the first half of 2005, the bottling plants had to face very tough situation. Despite of several increases of the selling price of bottled LPG, the gross margin was still narrowed as a result of the increase of purchase costs. Sales volume had not decreased, but the growth rate obviously slowed down. The Yong Long Bottling Plant in Qingyuan of Guangdong that was acquired in early 2005 operated in a proper way and there was growth in operation. Management had integrated the structure of the operation of Yong Long and Bai Fu Yang in order to simplify the operation procedures and effectively reduce the administration costs by way of sharing of resources and centralization of purchase. The operation of the bottling plants in Guangxi area faced the same situation as that of those in Guangdong area; although the growth in business had slowed down, their market share was maintained. The purchase of LPG from northern China by railway tanks which started in early 2005 indeed also helped to relax the cost pressure.

As it is anticipated that import of refrigerated LPG by Zhuhai LPG Terminal will increase in the second half of 2005, the Group's bottling plants will have a cheaper source of LPG supply. That will enhance their competitiveness and improve their gross margin.

Electronic Business

Starting from January 2003, the Group contracted out the manufacture and sales of the electronics business. In the first half of 2005, income from leasing of investment properties, property, plant and equipment was about HK$2 million. Presently, the Group only maintained general trading of electronic components.

Business Outlook

For the second half of 2005, with the joint purchase arrangement, the import and sales volume of Zhuhai LPG Terminal will grow substantially (at the end of August, the total import amount in 2005 had reached approximately 180,000 MTs). Because of the price difference of US$25 to 35 per MT for refrigerated LPG, and the appreciation of RMB, the gross margin will be obviously improved. Moreover, with the logistic backup of Zhuhai LPG Terminal, the Group's bottling plants will also be able to enhance its competitiveness and profitability.

To further expand the market share and enhance its competitiveness, the Group will continue to expand its investments in Guangdong and Guangxi area by acquiring bottling plants with profit potentials. Further, the construction of additional LPG storage to 15,000 MTs and the construction of 80,000 MTs oil storage (the Group is actively discussing with a strategic partner on the cooperation in the project) is schedule to commence in the second half of 2005. The sales volume of 1 millions MTs LPG and 1.5 millions MTs oil by the Zhuhai LPG Terminal is achievable in the foreseeable future.

Liquidity and Financial Review

At the period end, the Group maintained bank deposits and cash amounting to HK$78,144,000 (including pledged bank deposits of HK$9,726,000). Current ratio, quick ratio and gearing ratio were 1.15:1, 0.87:1 and 0.43:1 respectively. The latter was calculated based on total liabilities of HK$279,336,000 and total assets of HK$656,015,000.

Human Resources

As at 30th June, 2005, the Group employed approximately 310 employees in Hong Kong and mainland China. The Group remunerated the employees based on their performance, experience and prevailing market practices.

Appointment of New Directors

On 22nd June and 30th June, 2005, Mr. Ma Man Hoi, Joseph and Mr. Shum Siu Hung were appointed as new directors of the Company respectively. Information on Mr. Ma and Mr. Shum were announced by the Company on the date of appointment. Mr. Ma, designated as independent non-executive director, has no service contract with the Company and annual director's fee of HK$100,000 is payable to Mr. Ma as determined by the Board. Mr. Shum, designated as Chairman and executive director, has no service contract with the Company and will receive no emolument from the Company. Mr. Ma's emolument was determined on the basis of experience, degree of responsibility and the amount of time involved in the carrying out of the directors' duties.

Directors' Interests in Shares and Rights to Acquire Shares

At 30th June, 2005, the interests of the directors and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(a) Long Position of ordinary shares of HK$0.10 each of the Company

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%
Wu Hong Cho	Other	*(note)*	6,660,631	1.38%
Cen Ziniu	Other	*(note)*	1,332,126	0.28%
Shum Chun, Lawrence	Other	*(note)*	19,981,893	4.15%
Cheng Wai Leung	Beneficial Owner		120,000	–

Note: These interests reflect the interests in the 133,212,621 shares of the Company held by Uniocean Investments Limited ("Uniocean"). Uniocean is owned as to 15% by Shum Chun, Lawrence ("SCL"), 15% by a brother of SCL, 64% by Tong Shiu Ming, mother of SCL, 5% by Wu Hong Cho and 1% by Cen Ziniu.

(b) Share Options

Name of director	Capacity		Number of options held	Number of underlying shares
Shum Siu Hung	Beneficial Owner		6,500,000	6,500,000
	Family	*(note)*	3,500,000	3,500,000
Wu Hong Cho	Beneficial Owner		2,500,000	2,500,000
Cen Ziniu	Beneficial Owner		6,000,000	6,000,000
Cheng Wai Leung	Beneficial Owner		4,000,000	4,000,000

Note: 3,500,000 options were deemed to be interested by Shum Siu Hung, spouse of Tong Shiu Ming, as family interests.

Save as disclosed above and other than nominee shares in certain subsidiaries held by certain directors in trust for the Group, none of the directors nor chief executives nor any of their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30th June, 2005.

Substantial Shareholders

As at 30th June, 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that other than the interests disclosed above in respect of certain directors and chief executives, the following shareholders had notified the Company of relevant interest and short positions in the issued capital of the Company.

(a) Long Position of ordinary shares of HK$0.10 each of the Company

Name of shareholder	Capacity		Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Tong Shiu Ming	Held by corporation	*(note 1)*	133,212,621	27.66%
	Family interest	*(note 2)*	20,811,779	4.32%
Cheah Cheng Hye	Held by corporation	*(note 3)*	53,799,000	11.17%
Yam Tak Cheung	Held by corporation	*(note 4)*	30,000,000	6.23%

Notes:

1. 133,212,621 shares of the Company were held by Uniocean.

2. 20,811,779 shares of the Company were deemed to be interested by Tong Shiu Ming, spouse of Shum Siu Hung, as family interests.

3. 35,124,000 shares of the Company were held by Value Partners A Fund, a fund managed by Value Partners Limited ("Value Partners"), and 18,675,000 shares of the Company were held by Value Partners. Cheah Cheng Hye owned 31.82% of Value Partners and was deemed to be the controlling shareholder of Value Partners.

4. 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.

(b) Share Options

Name of shareholder	Capacity	Number of options held	Number of underlying shares
Tong Shiu Ming	Beneficial owner	3,500,000	3,500,000
Shum Siu Hung	Beneficial owner	6,500,000	6,500,000

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 30th June, 2005.

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 30th June, 2005.

Corporate Governance

The Company complied with the Code of Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange of Hong Kong Limited ("Stock Exchange") throughout the 6 months ended 30th June, 2005 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 30th June, 2005.

By order of the Board
Shum Siu Hung
Chairman

Hong Kong, 15th September, 2005