

# Chemoil Energy Limited

2008 Consolidated Financial Statements



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## **REPORT OF THE DIRECTORS**

The directors submit their report together with the audited financial statements for the year ended 31 December 2008.

### **Principal activities and geographical analysis of operations**

The Company and its subsidiaries are mainly engaged as global traders in marine fuel products.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 31 to the financial statements.

### **Results and appropriations**

The results of the Group for the year are set out in the consolidated income statement on page 7. The directors will be recommending a final dividend of 0.5 US cent per ordinary share, totalling US\$6,462,000 at the annual general meeting on 24 April 2009.

### **Reserves**

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity, notes 22 and 23 to the financial statements.

### **Donations**

Charitable and other donations made by the Group during the year amounted to US\$7,194.

### **Property, plant and equipment**

Details of the movements in property, plant and equipment of the Group and the Company are set out in note 15 to the financial statements.

### **Share capital**

Details of the movements in share capital of the Company are set out in note 20 to the financial statements.

### **Directors**

The directors who held office during the year and up to the date of this report were:

#### **Executive director**

Clyde Michael Bandy

Robert Viswanathan Chandran

Sharon Stacey Johnston Chandran

deceased on 7 January 2008

re-designated as non-executive director  
on 3 September 2008

### **Non-executive directors**

Vivian Pearl Johnston Chandran	
Koji Takayanagi	resigned on 3 December 2008
Masanobu Takagi	appointed on 3 December 2008
Fuminobu Oda	
Harrison Chang	appointed on 12 June 2008
Sharon Stacey Johnston Chandran	previously executive director re-designated as non-executive director on 3 September 2008

### **Independent non-executive directors**

Michael Lim Choo San	
Philip Calvin Anderson	
Peter Michael Meade	appointed on 26 February 2008

In accordance with Article 119 of the Company's Articles of Association, Mr. Michael Bandy, Mr. Michael Lim, Mr. Harrison Chang and Mr. Masanobu Takagi shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

### **Directors' interests in contracts**

During the year, the Group entered into the following transactions with related parties in which a director, Mrs. Vivian Pearl Johnston Chandran has interests:

<u>Name of the entity</u>	<u>Nature of transaction</u>	<u>Amount in US\$'000</u>
Pebble Beach Shipping Co	Goods and services sold, payment made on behalf and reimbursed	6,447
Baron S. Shipping Corporation	Operating hire paid	3,420
American Healthnet Inc.	Goods and services sold and interest income received	851
Signal Hill Holding	Payment made on behalf and reimbursable	536
Andorra Services Ltd, Hong Kong	Goods and services purchased, interest income received, payment made on behalf and reimbursed, acquisition of business and acquisition of shares in Chemoil Middle East DMCC.	767

Apart from the above, no other contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### **Arrangements to purchase shares or debentures**

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, except for share options granted as presented below:

## Share options

Share options are granted to certain directors. The options are exercisable starting one year from the grant date and will vest over a period of two years for directors. The options have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

### The options were granted at nil consideration.

Details of the share options outstanding as at 31 December 2008 which have been granted to directors under the scheme are as follows:

Name of Directors	Date of grant	Exercise price	No. of ordinary shares under option				End of financial year
			Beginning of financial year	Granted during financial year	Forfeited during financial year	Exercised during financial year	
Clyde Michael Bandy	27.08.2007	US\$0.586	176,000	-	-	-	176,000
	12.12.2008	US\$0.174	-	4,500,000	-	-	4,500,000
Philip Calvin Anderson	27.08.2007	US\$0.586	164,000	-	-	-	164,000
	12.12.2008	US\$0.174	-	176,000	-	-	176,000
Michael Lim Choo San	27.08.2007	US\$0.586	176,000	-	-	-	176,000
	12.12.2008	US\$0.174	-	176,000	-	-	176,000
Peter Michael Meade	12.12.2008	US\$0.174	-	176,000	-	-	176,000

Details of the options issued are set out in note 20 to the financial statements

## Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## Subsequent events

Details of significant events occurring after the balance sheet date are set out in note 40 to the financial statements.

## Auditor

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the directors

Clyde Michael Bandy  
Chairman

Michael Lim Choo San  
Director

20 March 2009

**INDEPENDENT AUDITOR'S REPORT**  
TO THE SHAREHOLDERS OF CHEMOIL ENERGY LIMITED  
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Chemoil Energy Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 6 to 80, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Directors' responsibility for the financial statements**

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
Certified Public Accountants  
Hong Kong  
20 March 2009

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## BALANCE SHEETS

As at 31 December 2008

(In US\$'000, unless otherwise stated)

	Note	Group		Company	
		2008	2007	2008	2007
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	4	77,521	60,109	8,052	4,831
Derivative financial instruments	5	41,934	2,965	–	228
Other financial assets at fair value through profit or loss	6	668	1,604	668	1,604
Income tax recoverable		669	847	–	–
Other current assets	7	25,295	54,632	1,444	472
Trade and other receivables	8	248,899	458,899	244,072	156,413
Inventories	9	122,913	384,853	–	–
		<b>517,899</b>	<b>963,909</b>	<b>254,236</b>	<b>163,548</b>
<b>Non-current assets</b>					
Other non-current assets	10	2,700	2,657	–	–
Investments in associates	11	38,611	46,754	14,691	25,621
Investments in joint ventures	12	17,571	11,129	11,462	8,331
Investments in subsidiaries	13	–	–	45,981	34,742
Intangible assets	14	16,576	4,020	–	–
Property, plant and equipment	15	233,048	192,389	18	22
Deferred income tax assets	16	13,261	2,053	–	–
		<b>321,767</b>	<b>259,002</b>	<b>72,152</b>	<b>68,716</b>
<b>Total assets</b>		<b>839,666</b>	<b>1,222,911</b>	<b>326,388</b>	<b>232,264</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	17	208,566	307,537	36,732	44,384
Derivative financial instruments	5	11,278	24,858	4,793	1,121
Current income tax liabilities		2,121	6,283	–	–
Borrowings	18	126,350	460,750	80,208	4,657
Provisions for other liabilities and charges	19	3,579	1,639	–	–
		<b>351,894</b>	<b>801,067</b>	<b>121,733</b>	<b>50,162</b>
<b>Non-current liabilities</b>					
Borrowings	18	187,695	162,809	40,366	46,701
Derivative financial instruments	5	6,212	932	5,418	932
Deferred income tax liabilities	16	2,587	4,844	–	–
		<b>196,494</b>	<b>168,585</b>	<b>45,784</b>	<b>47,633</b>
<b>Total liabilities</b>		<b>548,388</b>	<b>969,652</b>	<b>167,517</b>	<b>97,795</b>
<b>NET ASSETS</b>		<b>291,278</b>	<b>253,259</b>	<b>158,871</b>	<b>134,469</b>
<b>EQUITY</b>					
<b>Capital and reserves attributable to equity holders of the Company</b>					
Share capital	20	2	2	2	2
Share premium	20	85,816	85,816	85,816	85,816
Merger reserve	21	3,529	3,529	–	–
Other reserves	22	(8,725)	(240)	1,574	947
Retained earnings	23	204,759	164,152	71,479	47,704
		<b>285,381</b>	<b>253,259</b>	<b>158,871</b>	<b>134,469</b>
Minority interest		5,897	–	–	–
<b>Total equity</b>		<b>291,278</b>	<b>253,259</b>	<b>158,871</b>	<b>134,469</b>

The accompanying notes form an integral part of these financial statements.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

(In US\$'000, unless otherwise stated)

	Note	2008	2007
Revenue	25	8,662,129	5,364,662
Other gains/(losses) – net	25	134,584	(73,136)
		<b>8,796,713</b>	<b>5,291,526</b>
Expenses			
– Inventories recognised as an expense		8,429,287	5,026,205
– Barging and pipelines costs		69,172	53,499
– Chartering and other shipping related expenses		29,651	18,591
– Rentals for office premises, storage tanks and motor vehicles		43,768	37,404
– Demurrage costs		27,259	17,953
– Employee benefits	26	42,493	21,151
– Marketing and communication expenses		7,801	4,191
– Service and commission expenses		14,700	10,780
– Other expenses		53,452	32,468
– Depreciation and amortisation		14,873	7,613
– Finance expense	28	36,361	24,164
Total expenses	29	<b>8,768,817</b>	<b>5,254,019</b>
Share of results of associates and joint ventures – net		6,326	2,225
Profit before income tax		<b>34,222</b>	<b>39,732</b>
Income tax credit/(expense)	30	11,977	(9,415)
<b>Profit for the year</b>		<b>46,199</b>	<b>30,317</b>
<b>Attributable to:</b>			
Equity holders of the Company		47,069	30,331
Minority interest		(870)	(14)
Earnings per share for profit attributable to the equity holders of the Company (expressed in cents per share)	32		
– Basic		3.64	2.35
– Diluted		3.64	2.33

The accompanying notes form an integral part of these financial statements.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2008

(In US\$'000, unless otherwise stated)

	Note	Attributable to equity holders of the Company					Minority interest	Total equity
		Share capital	Merger reserve	Share premium	Other reserves	Retained earnings		
<b>Balance at 1 January 2008</b>	2	3,529	85,816	(240)	164,152	–	253,259	
Currency translation differences recognised directly in equity	22	–	–	–	220	–	(968)	(748)
Cash flow hedges								
– Fair value loss	22	–	–	–	(11,278)	–	–	(11,278)
– Transfers	22	–	–	–	1,946	–	–	1,946
Profit for the year		–	–	–	–	47,069	(870)	46,199
<b>Total recognised income/(loss) for the year</b>		–	–	–	(9,112)	47,069	(1,838)	36,119
Dividends relating to 2007	33	–	–	–	–	(6,462)	–	(6,462)
Acquisition of a subsidiary	4	–	–	–	–	–	7,735	7,735
Employee share option scheme:								
Value of services rendered	22	–	–	–	627	–	–	627
<b>Balance at 31 December 2008</b>		<b>2</b>	<b>3,529</b>	<b>85,816</b>	<b>(8,725)</b>	<b>204,759</b>	<b>5,897</b>	<b>291,278</b>
<b>Balance at 1 January 2007</b>		<b>2</b>	<b>3,529</b>	<b>85,816</b>	<b>222</b>	<b>146,747</b>	<b>–</b>	<b>236,316</b>
Currency translation differences recognised directly in equity	22	–	–	–	457	–	–	457
Cash flow hedges								
– Fair value loss	22	–	–	–	(1,825)	–	–	(1,825)
Profit for the year		–	–	–	–	30,331	(14)	30,317
<b>Total recognised income/(loss) for the year</b>		–	–	–	(1,368)	30,331	(14)	28,949
Dividends relating to 2006	33	–	–	–	–	(12,926)	–	(12,926)
Acquisition of a subsidiary	4	–	–	–	–	–	14	14
Employee share option scheme:								
Value of services rendered	22	–	–	–	906	–	–	906
<b>Balance at 31 December 2007</b>		<b>2</b>	<b>3,529</b>	<b>85,816</b>	<b>(240)</b>	<b>164,152</b>	<b>–</b>	<b>253,259</b>

The accompanying notes form an integral part of these financial statements.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

(In US\$'000, unless otherwise stated)

	Note	2008	2007
<b>Cash flows from operating activities</b>			
Profit for the year		46,199	30,317
Adjustments for:			
Income tax expense		(11,977)	9,415
Share option expense	26	627	906
Depreciation and amortisation		14,873	7,613
Net gain on disposals of property, plant and equipment	25	(551)	(6,484)
Gain on disposal of other financial assets at fair value through profit or loss	25	-	(193)
Fair value losses on other financial assets at fair value through profit or loss	25	936	129
Share of results of associates and joint ventures		(6,326)	(2,225)
Unrealised translation gains		(6,110)	-
Interest income	25	(1,991)	(5,032)
Finance expense	28	36,361	24,164
		<u>72,041</u>	<u>58,610</u>
Changes in working capital, net of effects of acquisitions and disposals of subsidiaries			
Derivative financial instruments		(56,602)	29,954
Other assets		34,650	(21,650)
Trade and other receivables		227,430	(137,643)
Inventories		261,955	(211,935)
Trade and other payables		(118,166)	118,069
Provisions for other liabilities and charges		1,940	(887)
Cash generated from/(used in) operations		<u>423,248</u>	<u>(165,482)</u>
Income tax paid		(6,576)	(4,695)
<b>Net cash generated from/(used in) operating activities</b>		<u>416,672</u>	<u>(170,177)</u>
<b>Cash flows from investing activities</b>			
Advance for purchase of property, plant and equipment	7	-	(8,602)
Purchase of other financial assets at fair value through profit or loss		-	(1,857)
Purchases of property, plant and equipment	15	(29,459)	(194,022)
Proceeds from disposal of property, plant and equipment		9,145	26,235
Purchases of intangible assets	14	(1,260)	(1,600)
Investment in associates	11	(364)	(25,946)
Investment in joint ventures	12	(5,631)	(8,331)
Proceeds from disposal of investment in associates		-	34
Acquisition of a subsidiary, net of cash received	4	(3,803)	(11,639)
Proceeds from disposal of other financial assets at fair value through profit or loss		-	1,160
Interest received		1,991	5,032
Dividends received		1,567	728
<b>Net cash used in investing activities</b>		<u>(27,814)</u>	<u>(218,808)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		1,567	728
Repayments of borrowings		485,827	402,235
Interest paid		(749,005)	(27,106)
Bank balances and deposits pledged with banks for bank loans		(36,361)	(24,164)
Dividends paid to shareholders	33	(3,038)	3,381
		(6,462)	(12,926)
<b>Net cash (used in)/generated from financing activities</b>		<u>(309,039)</u>	<u>341,420</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>79,819</u>	<u>(47,565)</u>
Cash and cash equivalents at beginning of financial year		(30,200)	17,365
<b>Cash and cash equivalents at end of financial year</b>	4	<u><u>49,619</u></u>	<u><u>(30,200)</u></u>

The accompanying notes form an integral part of these financial statements.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

*For the year ended 31 December 2008*

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(In US\$'000, unless otherwise stated)

### 1. General information

Chemoil Energy Limited (the 'Company') and its subsidiaries (together the 'Group') are mainly global traders in marine fuel products. The Group operates in major ports such as Long Beach, Houston, New Orleans, New York, Panama, Rotterdam, Fujairah and Singapore.

The Company is a limited liability company incorporated and domiciled in Hong Kong. The address of its registered office is Suites 4301-5, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

The Company has its primary listing on the main board of the Singapore Exchange Securities Trading Limited ("SGX-ST").

These financial statements were authorised for issue by the Board of Directors of the Company on 20 March 2009.

### 2. Summary of significant accounting policies

#### 2.1 Basis of preparation

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The acquisition of the entire equity interest in Chemoil Corporation by the Company on 31 August 2006 was accounted for using the "pooling-of-interest" method as the Company and Chemoil Corporation were under the common control of the same controlling shareholders before and after the acquisition (Note 2.15).

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

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### 2. Summary of significant accounting policies (continued)

#### 2.1 Basis of preparation (continued)

##### ***Standards, amendments and interpretations to published standards effective in 2008***

The Group has adopted the following amendments and interpretations to published standards, which are relevant to its operations.

- Reclassification of financial assets: Amendments to HKAS 39 'Financial instruments: Recognition and measurement' and HKFRS 7 'Financial instruments: Disclosures'
- HK(IFRIC 11) – Int 11, 'HKFRS 2 – Group and treasury shares transaction'
- HK(IFRIC 14) – Int14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'

The adoption of the above mentioned amendments and interpretations does not have any significant impact on these financial statements.

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the Group's operations:

- HK(IFRIC) – Int 12, 'Service concession arrangements'

#### 2.2 Consolidation

##### (a) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition of subsidiaries under the common control of the Company's shareholders have been consolidated using the "pooling of interests" method as explained in Note 2.1.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

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### 2. Summary of significant accounting policies (continued)

#### 2.2 Consolidation (continued)

##### (a) *Subsidiaries (continued)*

The acquisition of subsidiaries not under the common control of the Company's shareholders are consolidated using the purchase method of accounting whereby the results of subsidiaries acquired during the financial year are included from the date of acquisition up to the date when control ceases. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see Note 2.6).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

##### (b) *Transactions and minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group, and are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

##### (c) *Associates and joint ventures*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are initially recognised at cost. The Group's investments in associates include goodwill identified on acquisition, net of any accumulated impairment loss (see Note 2.7).

The Group's joint ventures are entities over which the Group has contractual arrangements to jointly share the control over the economic activity of the entities with one or more parties. The Group's interests in joint ventures are accounted for in the consolidated financial statements using equity method of accounting, net of any accumulated impairment loss (see Note 2.7), and are initially recognised at cost.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

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### 2. Summary of significant accounting policies (continued)

#### 2.2 Consolidation (continued)

##### (c) Associates and joint ventures (continued)

The Group's share of its associates' and joint ventures' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with policies adopted by the Group.

Dilution gains and losses arising in investments in associates and joint ventures are recognised in the income statement.

#### 2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment, that are subject to risks and returns that are different from those of segments operating in other economic environments.

#### 2.4 Foreign currency translation

##### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in United States Dollar ('US\$'), which is the Company's functional and presentation currency.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

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### 2. Summary of significant accounting policies (continued)

#### 2.4 Foreign currency translation (continued)

##### (b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of fair value gain or loss.

##### (c) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

*For the year ended 31 December 2008*

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### 2. Summary of significant accounting policies (continued)

#### 2.5 Property, plant and equipment

Freehold land is initially recognised at cost and subsequently stated at cost less accumulated impairment losses. Other property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses (Note 2.7). Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Freehold land and construction work in progress are not depreciated. Depreciation on other items of property, plant and equipment are calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings and improvements	5 – 30 years
Office and computer equipment, furniture and fittings	3 – 5 years
Equipment and terminals	15 years
Vessels	5 – 30 years
Motor vehicles	10 years

Fully depreciated property, plant and equipment are retained in the financial statements until they are no longer in use.

The assets' residual values, useful lives, and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains/(losses) – net' in the income statement.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

*For the year ended 31 December 2008*

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### 2. Summary of significant accounting policies (continued)

#### 2.6 Intangible assets

##### (a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'Intangible assets'. Goodwill on acquisitions of associates is included in 'Investments in associates' and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose (Note 2.7).

##### (b) Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- (i) it is technically feasible to complete the software product so that it will be available for use;
- (ii) management intends to complete the software product and use or sell it;
- (iii) there is an ability to use or sell the software product;
- (iv) it can be demonstrated how the software product will generate probable future economic benefits;
- (v) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- (vi) the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

*For the year ended 31 December 2008*

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### 2. Summary of significant accounting policies (continued)

#### 2.6 Intangible assets (continued)

##### (c) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over three to five years, which is the expected life of the customer relationship.

#### 2.7 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

#### 2.8 Financial assets

##### (a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

##### (i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss consist of financial assets held for trading. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Derivatives are categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

*For the year ended 31 December 2008*

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### 2. Summary of significant accounting policies (continued)

#### 2.8 Financial assets (continued)

(a) Classification (continued)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'Trade and other receivables' (Note 2.12) and 'Cash and cash equivalents' (Note 2.13) in the balance sheet.

(b) Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

(c) Initial measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value.

(d) Subsequent measurement

Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Other gains/(losses) – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

(e) Determination of fair value

The fair values of quoted financial assets are based on current bid prices.

(f) Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

*For the year ended 31 December 2008*

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### 2. Summary of significant accounting policies (continued)

#### 2.9 Financial guarantees

The Company has issued corporate guarantees to banks for borrowings of its subsidiaries. These guarantees are financial guarantees as they require the Company to reimburse the banks if the subsidiaries fail to make principal or interest payments when due in accordance with the terms of their borrowings.

Financial guarantees are initially recognised at their fair values plus transaction costs in the Company's balance sheet.

Financial guarantees are subsequently amortised to the income statement over the period of the subsidiaries' borrowings, unless it is probable that the Company will reimburse the bank for an amount higher than the unamortised amount. In this case, the financial guarantees shall be carried at the expected amount payable to the bank in the Company's balance sheet.

Intragroup transactions are eliminated on consolidation.

#### 2.10 Derivative financial instruments and hedging activities

A derivative financial instrument is initially recognised at fair value on the date the contract is entered into and is subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategies for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives designated as hedging instruments are highly effective in offsetting changes in fair value or cash flows of the hedged items.

##### (a) Cash flow hedge

The Group has entered into interest rate swaps that are cash flow hedges for the Group's exposure to interest rate risk on its borrowings. These contracts entitle the Group to receive interest at floating rates on notional principal amounts and oblige the Group to pay interest at fixed rates on the same notional principal amounts, thus allowing the Group to raise borrowings at floating rates and swap them into fixed rates.

The fair value changes on the effective portion of interest rate swaps designated as cash flow hedges are recognised in the hedging reserve and transferred to the income statement when the interest expense on the borrowings are recognised in the income statement. The fair value changes on the ineffective portion of interest rate swaps are recognised immediately in the income statement.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

*For the year ended 31 December 2008*

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### 2. Summary of significant accounting policies (continued)

#### 2.10 Derivative financial instruments and hedging activities (continued)

##### (b) Derivatives that do not qualify for hedge accounting

The Group also uses derivative instruments for risk management purposes. Although these derivatives are linked to the inventory or underlying transactions, they do not meet the criteria for hedge accounting as defined by the Hong Kong Accounting Standard ("HKAS") 39 "Financial Instruments: Recognition and measurement" and thus do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the income statement within 'Other gains/ (losses) – net'.

#### 2.11 Inventories

Inventories are stated at fair value less costs to sell, with changes in fair value less costs to sell recognised in the income statement in the period of change.

#### 2.12 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within "Other expenses". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against "Other expenses" in the income statement.

#### 2.13 Cash and cash equivalents

For the purposes of presentation in the consolidated cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, net of bank overdrafts and bank balances and deposits pledged with banks for bank loans. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

*For the year ended 31 December 2008*

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### **2. Summary of significant accounting policies (continued)**

#### **2.14 Share capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### **2.15 Merger reserve**

In applying the pooling of interests method (Note 2.1), the consolidated income statement and consolidated cash flow statement include the results of operations and cash flows of the companies comprising the Group as at 31 August 2006 as if the structure of the Group had been in existence prior to that date. The assets and liabilities are brought into the consolidated balance sheets at their existing carrying amounts. Any difference between the amount recorded as share capital issued and the amount for the share capital acquired are adjusted against equity. Expenditure incurred in relation to a uniting of interests is recognised as an expense in the period incurred.

#### **2.16 Trade and other payables**

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### **2.17 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### **2.18 Borrowing costs**

Borrowing costs incurred to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the asset for its intended use. The amount of borrowing cost capitalised in an asset is the actual borrowing costs incurred during the period less any investment income on the temporary investment of those borrowings.

Other borrowing costs are recognised on a time-proportion basis in the income statement using the effective interest method.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

*For the year ended 31 December 2008*

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### 2. Summary of significant accounting policies (continued)

#### 2.19 Current and deferred income taxes

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries, joint ventures and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

#### 2.20 Employee benefits

##### *Pension obligations*

##### (i) Defined benefit plans

The Group operates various pension schemes, including defined benefit plans. These defined benefit plans provide defined pension benefits to employees on or after retirement, the amount of which depends on one or more factors such as age, salary and years of service.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligations at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. When plan assets, together with adjustments for unrecognised actuarial gains or losses and unrecognised past-service costs, exceed pension obligations, the balance is classified as a current asset.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

*For the year ended 31 December 2008*

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### 2. Summary of significant accounting policies (continued)

#### 2.20 Employee benefits (continued)

##### *Pension obligations (continued)*

##### (i) Defined benefit plans

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the income statement in the period in which they arise.

Past-service costs are recognised immediately in income, unless the changes in the pension plan are conditional on the employees remaining in service for a specific period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

##### (ii) Defined contribution plans

The Group has defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

##### (iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the income statement with a corresponding increase in the share option reserve over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted on the date of the grant, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in the assumptions about the number of options that are expected to vest. The total amount to be expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to the share option reserve over the remaining vesting period.

When the options are exercised, the proceeds received net of any directly attributable transaction costs and the related balance previously recognised in the share option reserve are credited to share capital (nominal value) and share premium.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

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### 2. Summary of significant accounting policies(continued)

#### 2.20 Employee benefits (continued)

##### *Pension obligations (continued)*

##### (iv) Bonus plans

The Group recognises a liability and an expense for bonuses. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

#### 2.21 Provisions

Provisions for restructuring and legal claims are recognised when the Group has a present legal or constructive present obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Changes in the estimated timing or amount of the expenditure or discount rate are recognised in the income statement when the changes arise.

#### 2.22 Investments in subsidiaries, joint ventures and associates

Investments in subsidiaries, joint ventures and associates are carried at cost less accumulated impairment losses in the Company's balance sheet. On disposal of investments in subsidiaries, joint ventures and associated companies, the difference between disposal proceeds and the carrying amounts of the investments are recognised in the income statement.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

*For the year ended 31 December 2008*

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### 2. Summary of significant accounting policies (continued)

#### 2.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of sales tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised as follows:

- (a) Sales of goods are recognised upon passing of title to the customer which generally coincides with delivery and acceptance of the goods sold.
- (b) Chartering income on time charters is recognised when the services are rendered, on a time proportion basis according to the agreements in place.
- (c) Demurrage income is recognised if a claim is considered probable.
- (d) Revenue from the sale of software products is recognised when the sale is completed with the passing of the title. Revenue from software development is recognised based on software developed and billed to clients as per the terms of the specific contracts.
- (e) Revenue from the provision of services is recognised when the services are rendered.
- (f) Other rental income from operating leases is recognised on a straight-line basis over the lease term.
- (g) Interest income is recognised on a time proportion basis, using the effective interest method.
- (h) Dividend income is recognised when the right to receive payment is established.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

*For the year ended 31 December 2008*

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### 2. Summary of significant accounting policies (continued)

#### 2.24 Leases

- (a) When the Group is the lessee:

##### Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment made to the lessor as penalty is recognised as an expense when termination takes place.

##### Finance leases

Leases where the Group assumes substantially all risks and rewards incidental to ownership of the leased assets are classified as finance leases.

The leased assets and the corresponding lease liabilities (net of finance charges) under finance leases are recognised on the balance sheet as property, plant and equipment and borrowings respectively, at the inception of the leases based on the lower of the fair value of the leased assets and the present value of the minimum lease payments.

Each lease payment is apportioned between the finance expense and the reduction of the outstanding lease liability. The finance expense is recognised in the income statement on a basis that reflects a constant periodic rate of interest on the finance lease liability.

- (b) When the Group is the lessor:

##### Operating leases

Leases of property, plant and equipment where the Group retains substantially all risks and rewards incidental to ownership are classified as operating leases.

Rental income from operating leases (net of any incentives given to lessees) is recognised in the income statement on a straight-line basis over the lease term.

Initial direct costs incurred by the Group in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense in the income statement over the lease term on the same basis as the lease income.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

*For the year ended 31 December 2008*

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### 2. Summary of significant accounting policies (continued)

#### 2.25 Dividend distribution

Interim dividends are recorded in the financial year in which they are declared payable. Final dividends are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

#### 2.26 Standards, interpretations and amendments to published standards that are not yet effective

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

HKAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) from 1 January 2009 but the revised standard is not expected to have any impact on the Group financial statements as the Group has been capitalising the relevant borrowing costs.

HKAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard requires all changes in equity arising from transactions with owners in their capacity as owners to be presented separately from components of comprehensive income. Components of comprehensive income are not permitted to be included in statement of changes in equity; rather the revised standard provides the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate statement of profit and loss followed by a statement of comprehensive income). In addition, entities making restatements or reclassifications of comparative information will be required to present a restated balance sheet as at the beginning of the comparative period. The revisions also include changes in the titles of some of the financial statements' primary statements. The Group will apply the revised standard from 1 January 2009 and provide comparative information that conforms to the requirements of the revised standard. The key impact of the application of the revised standard is the presentation of an additional primary statement, the Statement of Comprehensive Income. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other standards.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

*For the year ended 31 December 2008*

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### 2. Summary of significant accounting policies (continued)

#### 2.26 Standards, interpretations and amendments to published standards that are not yet effective (continued)

HKAS 32 (Amendment), 'Financial instruments: Presentation' and HKAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply the HKAS 32 (Amendment) and HKAS 1 (Amendment) from 1 January 2009. As the Group currently does not have financial instruments that are addressed within the amended standards, the amended standards are currently not applicable to the Group.

HKFRS 1 (Amendment) 'First time adoption of HKFRS', and HKAS 27 'Consolidated and separate financial statements' (effective from 1 January 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying value amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities, and associates in the separate financial statements. The amendment also removes the definition of the cost method from HKAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment will not have any impact on the Group's financial statements.

HKAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests (previously known as minority interests) to be recorded in equity if there is no change in control after the transaction, and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to its fair value and a gain/loss is recognised in the income statement. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010. Currently, the Group record the effects of such transactions in goodwill and gain/loss in the income statement for acquisitions and disposals of non-controlling interests respectively.

HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 July 2009). The amended standard clarifies how the principles that determine whether a hedged risk or portion of cash flow is eligible for designation should be applied in particular situations. The Group will apply HKAS 39 (Amendment) from 1 January 2010. It is not expected to have an impact on the Group's financial statements.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

*For the year ended 31 December 2008*

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### 2. Summary of significant accounting policies (continued)

#### 2.26 Standards, interpretations and amendments to published standards that are not yet effective (continued)

HKFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions and need to be included in the grant date fair value of the share-based payment transactions; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. The amendment also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment i.e., acceleration of the expense based on grant date fair value. The Group will apply HKFRS 2 (Amendment) from 1 January 2009. Currently, the Group operates an employee share option scheme and the scheme consists mainly of service and performance conditions. Consequently, the amended standard is not expected to have any significant impact to the Group.

HKFRS 8, 'Operating segments' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management.

HKFRS 3 (Revised), 'Business Combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

HKFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to HKFRS 1, 'First-time adoption') (effective from 1 July 2009). The amendment is part of the Hong Kong Institute of Certified Public Accountants ("HKICPA") improvements to HKFRS published in October 2008. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to HKFRS 1 states that these amendments are applied prospectively from the date of transition to HKFRSs. The Group will apply the HKFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

*For the year ended 31 December 2008*

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### 2. Summary of significant accounting policies (continued)

#### 2.26 Standards, interpretations and amendments to published standards that are not yet effective (continued)

HKAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009). The amendment is part of the HKICPA's improvements to HKFRS published in October 2008. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in HKAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between HKAS 39 and HKAS 23. The Group will apply HKAS 23 (Amendment) from 1 January 2009 but it is not expected to have any impact on the Group financial statements as interest expense are calculated using the effective interest method.

HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation', and HKFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). The amendment is part of the HKICPA's improvements to HKFRS published in October 2008. An investment in associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the HKAS 28 (Amendment) to impairment tests related to investments in subsidiaries and any related impairment losses from 1 January 2009.

HKAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). The amendment is part of the HKICPA's improvements to HKFRS published in October 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the HKAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

HKAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). The amendment is part of the HKICPA's improvements to HKFRS published in October 2008. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the HKAS 38 (Amendment) from 1 January 2009.

HKAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009). The amendment is part of the HKICPA's improvements to HKFRS published in October 2008.

\* The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

*For the year ended 31 December 2008*

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### 2. Summary of significant accounting policies (continued)

#### 2.26 Standards, interpretations and amendments to published standards that are not yet effective (continued)

- The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
- The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
- HKAS 37, 'Provisions, contingent liabilities and contingent assets' requires contingent liabilities to be disclosed, not recognised. HKAS 19 has been amended to be consistent.

The Group will apply the HKAS 19 (Amendment) from 1 January 2009. It is not expected to have a material impact on the Group's financial statements.

HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009). The amendment is part of the HKICPA's improvements to HKFRS published in October 2008.

- This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.
- The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition.
- The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes the example of a segment so that the guidance is consistent with HKFRS 8, 'Operating segments', which requires disclosure for segments to be based on information, reported to the chief operating decision-maker.
- When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

The Group will apply the HKAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's income statement.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

*For the year ended 31 December 2008*

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### 2. Summary of significant accounting policies (continued)

#### 2.26 Standards, interpretations and amendments to published standards that are not yet effective (continued)

HKAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment is part of the HKICPA's improvements to HKFRS published in October 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with HKAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the HKAS 1 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's financial statements.

There are a number of minor amendments to HKFRS 7, 'Financial instruments: Disclosures', HKAS8, 'Accounting policies, changes in accounting estimates and errors', HKAS 10, 'Events after the reporting period', HKAS 18 'Revenue' and HKAS 34, 'Interim financial reporting', which are part of the HKICPA's improvements to HKFRS published in October 2008 (not addressed above). These amendments are unlikely to have an impact on the Group's accounts and have therefore not been analysed in detail.

HK (IFRIC) – Int 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008). HK (IFRIC) – Int 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of HKAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The Group will apply HK (IFRIC) – Int 16 from 1 January 2009. It is not expected to have an impact on the Group's financial statements.

### 3. Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### (a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 14).

If the management's estimated growth rate had been lower by 1%, the carrying value of goodwill would not be materially affected.

If the management's estimated pre-tax discount rate applied to the discounted cash flows had been raised by 1%, the carrying values of goodwill would not be materially affected.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 3. Critical accounting estimates and judgements (continued)

#### (b) Income taxes

The Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the income tax liability. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the income tax and deferred income tax provisions in the period in which such determination is made.

### 4. Cash and cash equivalents

	Group		Company	
	2008	2007	2008	2007
Cash at bank and on hand	52,618	36,037	584	4,171
Short term deposits with financial institutions	24,903	24,072	7,468	660
	<u>77,521</u>	<u>60,109</u>	<u>8,052</u>	<u>4,831</u>

Cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2008	2007	2008	2007
United States Dollar	69,170	50,377	7,842	4,237
Euros	1,109	4,847	-	-
Singapore Dollar	5,595	3,723	195	470
Others	1,647	1,162	15	124
	<u>77,521</u>	<u>60,109</u>	<u>8,052</u>	<u>4,831</u>

Short term deposits with financial institutions have the following weighted average effective interest rates at the balance sheet date:

	Group		Company	
	2008	2007	2008	2007
United States Dollar	0.79%	3.77%	1.90%	4.31%
Others	2.03%	1.63%	-	-

Short term deposits with financial institutions mature within 1 week (2007: 1 week) from balance sheet date.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

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### 4. Cash and cash equivalents (continued)

For the purpose of presenting the consolidated cash flow statements, the consolidated cash and cash equivalents comprise the following:

	<b>Group</b>	
	<b>2008</b>	<b>2007</b>
Cash and cash equivalents	77,521	60,109
Less: Bank balances and deposits pledged with banks for bank loans	(10,162)	(7,124)
Less: Bank overdrafts (Note 18)	(17,740)	(83,185)
	<u>49,619</u>	<u>(30,200)</u>

#### Acquisition of subsidiaries

On 19 February 2008, the Group acquired 100% equity interest in Chemoil Middle East DMCC for a cash consideration of US\$129 from an entity controlled by a director/shareholder of the Company.

On 11 June 2008, the Group acquired an additional 18.34% equity interest in California Software Corporation ("Calsoft") for a cash consideration of US\$5,311. Calsoft became a subsidiary pursuant to the acquisition.

On 26 August 2008, the Group acquired 64% equity interest in LMG Land Development Corporation for a cash consideration of US\$10,717.

On 1 June 2007, the Group acquired 100% equity interest in Olympic Shipping Pte Ltd for a cash consideration of US\$9,100 from an entity controlled by a director/shareholder of the Company.

On 1 July 2007, the Group acquired 100% equity interest in Link Marine Pte Ltd for a cash consideration of US\$100 from an entity controlled by a director/shareholder of the Company.

On 1 July 2007, the Group acquired an additional 42.5% equity interest in Baltic Fuel Inc for a cash consideration of US\$232.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 4. Cash and cash equivalents (continued)

#### Acquisition of subsidiaries (continued)

The aggregate effects of acquisition of subsidiaries on the cash flows of the Group are as follows:

	2008		2007	
	At fair values	Carrying value in acquiree's books	At fair values	Carrying value in acquiree's books
<u>Identifiable assets and liabilities</u>				
Cash and cash equivalents	12,354	12,354	(2,207)	(2,207)
Trade and other receivables	20,878	20,891	1,370	1,370
Inventories	16	16	2,982	2,982
Property, plant and equipment	27,042	24,394	9,187	5,934
Intangible assets	7,336	6,395	1,075	1,075
Deferred income tax assets	132	132	–	–
Other non-current assets	364	603	–	–
Other current assets	1,816	2,005	10	10
Total assets	69,938	66,790	12,417	9,164
Trade and other payables	18,554	18,554	3,105	2,610
Current income tax liabilities	622	622	13	13
Borrowings	19,107	19,107	–	–
Deferred income tax liabilities	1,237	313	4	4
Total liabilities	39,520	38,596	3,122	2,627
Identifiable net assets acquired	30,418	28,194	9,295	6,537
Reclassification from associate to subsidiary	(12,455)		(40)	
Minority interest	(7,735)		(14)	
Goodwill (Note 14)	5,929		191	
Total cash consideration	16,157		9,432	
Less: Cash and cash equivalents in subsidiaries acquired	(12,354)		–	
Add: Bank overdrafts in subsidiaries acquired	–		2,207	
Net cash outflow on acquisition	3,803		11,639	

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 5. Derivative financial instruments

	Group		Company	
	2008	2007	2008	2007
<i>Cash flow hedge</i>				
Interest-rate swaps (Notes 2.10 and 22)	(11,157)	(1,825)	–	–
<i>Non-hedging derivative instruments</i>				
Derivative commodity contracts (Note 2.10)	35,601	(21,246)	–	–
Interest-rate swaps (Note 2.10)	–	–	(10,211)	(1,825)
Interest-rate cap (Note 2.10)	–	18	–	–
Currency forwards (Note 2.10)	–	228	–	–
<b>Total</b>	<b>24,444</b>	<b>(22,825)</b>	<b>(10,211)</b>	<b>(1,825)</b>

Analysed as:

Group	Notional principal amount	2008		Notional principal amount	2007	
		Fair values			Fair values	
		Assets	Liabilities		Assets	Liabilities
Commodity swaps <sup>1</sup>	442,882	39,762	(6,333)	1,752,240	2,672	(21,756)
Commodity futures <sup>1</sup>	45,920	2,172	–	221,724	47	(2,209)
Interest-rate cap <sup>2</sup>	20,000	*	–	20,000	18	–
Currency forwards <sup>3</sup>	–	–	–	11,372	228	–
Interest-rate swaps <sup>4</sup>	174,346	–	(11,157)	80,000	–	(1,825)
		<u>41,934</u>	<u>(17,490)</u>		<u>2,965</u>	<u>(25,790)</u>
Comprises:						
Current portion		41,934	(11,278)		2,965	(24,858)
Non-current portion		–	(6,212)		–	(932)
		<u>41,934</u>	<u>(17,490)</u>		<u>2,965</u>	<u>(25,790)</u>

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 5. Derivative financial instruments (continued)

Analysed as:

Company	Notional principal amount	2008		Notional principal amount	2007	
		Fair values Assets	Liabilities		Fair values Assets	Liabilities
Currency forwards <sup>3</sup>	–	–	–	22,745	228	(228)
Interest-rate swaps <sup>4</sup>	160,000	–	(10,211)	80,000	–	(1,825)
		–	(10,211)		228	(2,053)
Comprises:						
Current portion		–	(4,793)		228	(1,121)
Non-current portion		–	(5,418)		–	(932)
		–	(10,211)		228	(2,053)

<sup>1</sup> Derivative commodity contracts mature within 6 months (2007: 6 months) from balance sheet date.

<sup>2</sup> The interest-rate cap has a strike price of 5% and expires on 31 January 2010.

<sup>3</sup> Currency forward contracts mature within 2 months from balance sheet date.

<sup>4</sup> Interest rate swaps are entered to hedge floating quarterly interest payments on borrowings. Fair value gains and losses on the interest rate swaps recognised in the hedging reserve are transferred to the income statement as part of interest expense over the period of the borrowings. The swaps will mature within 1 to 5 years (2007: 2 years) from balance sheet date.

\* Less than US\$1,000.00.

### 6. Other financial assets at fair value through profit or loss

	Group		Company	
	2008	2007	2008	2007
Listed securities – held for trading				
- Equity securities – Singapore	668	1,604	668	1,604

Changes in fair values of other financial assets at fair value through profit or loss are recorded in 'Other gains/(losses) – net' in the income statement (Note 25). The fair values of all equity securities are based on their current bid prices in an active market.

Other financial assets at fair value through profit or loss are denominated in Singapore Dollar.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 7. Other current assets

	Group		Company	
	2008	2007	2008	2007
Advance for purchase of property, plant and equipment	–	8,602	–	–
Advances to suppliers	13,727	37,846	–	–
Deposits	763	675	21	–
Prepayments	10,805	7,509	1,423	472
	<u>25,295</u>	<u>54,632</u>	<u>1,444</u>	<u>472</u>

### 8. Trade and other receivables – current

	Group		Company	
	2008	2007	2008	2007
Trade receivables:				
– Subsidiaries	–	–	1,409	1,123
– Associates	92	2,543	–	–
– Joint ventures	803	1,410	–	–
– Other related parties	6,039	977	4	–
– Third parties	216,231	405,533	–	–
	<u>223,165</u>	<u>410,463</u>	<u>1,413</u>	<u>1,123</u>
Less: Allowance for impairment of trade receivables – third parties	(3,249)	(1,323)	–	–
Trade receivables – net	<u>219,916</u>	<u>409,140</u>	<u>1,413</u>	<u>1,123</u>
Loans to subsidiaries	–	–	–	51,935
Other receivables:				
– Subsidiaries	–	–	236,973	66,566
– Joint ventures	3	4	–	–
– Other related parties	4,660	144	–	38
– Third parties	24,320	49,611	5,686	36,751
	<u>28,983</u>	<u>49,759</u>	<u>242,659</u>	<u>103,355</u>
	<u>248,899</u>	<u>458,899</u>	<u>244,072</u>	<u>156,413</u>

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large number of customers who are internationally dispersed.

Trade and other receivables of the Group amounting to US\$6,417 (2007: US\$405,008) at balance sheet date have been pledged as security for bank borrowings (Note 18).

Trade receivables of the Group amounting to US\$77,963 (2007: US\$286,973) have been sold to a financial institution pursuant to a Receivables Purchase Agreement. The gross amount of trade receivables secured under the agreement is US\$126,199 (2007: US\$330,813). As the sale of these receivables does not qualify for derecognition under the provisions of HKAS 39, 'Financial Instruments: Recognition and Measurement', they continue to be included as the Group's trade receivables and the proceeds received from the financial institution are recognised as borrowings (Note 18).

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

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### 8. Trade and other receivables – current (continued)

Loans to subsidiaries are unsecured, interest free and repayable on demand.

Non-trade receivables from subsidiaries and joint ventures are unsecured, interest free and are repayable within twelve months.

Non-trade receivables from other related parties are unsecured, interest-bearing at an average rate of 9.92% and are repayable on demand.

Other related parties comprise controlling shareholders of the Company and entities controlled/significantly influenced by the controlling shareholders of the Company.

Trade and other receivables are predominantly denominated in United States Dollar.

Impairment loss on trade receivables of the Group of US\$1,715 was recognised and included in "Other expenses". In 2007, an impairment loss of US\$873 for the Group was written back.

### 9. Inventories

	Group	
	2008	2007
Marine fuels at fair value less costs to sell	122,913	384,853

Inventories amounting to US\$16,779 (2007: US\$303,558) at balance sheet date have been pledged as security for bank borrowings (Note 18).

### 10. Other non-current assets

	Group	
	2008	2007
Prepayments	2,125	2,254
Deposits	575	403
	<u>2,700</u>	<u>2,657</u>

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 11. Investments in associates

	Group		Company	
	2008	2007	2008	2007
Equity investments at cost			14,691	25,621
Beginning of financial year	46,754	18,970		
Additions during the financial year	364	25,946		
Share of results	5,326	2,640		
Reclassification of an associate to subsidiary	(12,455)	(40)		
Disposals during the financial year	–	(34)		
Dividends received	(1,378)	(728)		
End of financial year	38,611	46,754		
Investments in associates include goodwill of	12,854	14,132		

The summarised financial information of associates are as follows:

	2008	2007
– Assets	520,216	801,310
– Liabilities	443,912	714,023
– Revenues	5,403,232	3,752,028
– Net profit	19,533	13,449
Share of associates' contingent liabilities incurred jointly with other investors	–	–
Contingent liabilities in which the Group is severally liable	–	–

	Group				Company			
	2008		2007		2008		2007	
	Net book value	Fair value	Net book value	Fair value	Net book value	Fair value	Net book value	Fair value
Investment in an associate for which there is a published price quotation	*	*	13,084	13,752	*	*	11,238	13,292

\* On 11 June 2008, the Company acquired an additional 18.34 % equity interest in California Software Company Ltd, upon which California Software Company Ltd became a subsidiary and its results have been consolidated with effect from 11 June 2008. Details of the acquisition are disclosed in Note 13.

The fair value of investment in an associate for which there is a published price quotation was determined by reference to the relevant stock exchange quoted bid price.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 11. Investments in associates (continued)

Details of significant associates of the Group are as follows:

Name of company	Principal activities	Country of business/ incorporation	Class of share held	Equity holding	
				2008 %	2007 %
Galaxy Energy Group Ltd	Oil Trading	British Virgin Islands	Ordinary	25.00	25.00
California Software Company Ltd and its subsidiaries	Software Development	India and United States of America	Ordinary	*	49.36
Burando Holding B.V.	Logistical maritime service provider	Netherlands	Ordinary	49.00	49.00

\* On 11 June 2008, the Company acquired an additional 18.34 % equity interest in California Software Company Ltd, upon which California Software Company Ltd became a subsidiary and its results have been consolidated with effect from 11 June 2008. Details of the acquisition are disclosed in Note 13.

### 12. Investments in joint ventures

	Group		Company	
	2008	2007	2008	2007
Equity investments at cost			11,462	8,331
Beginning of financial year	11,129	3,239		
Additions during the financial year	5,631	8,331		
Share of results	1,000	(415)		
Dividends received	(189)	(26)		
End of financial year	17,571	11,129		
Investments in joint ventures include goodwill of				

## CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

#### 12. Investments in joint ventures (continued)

The following amounts represent the Group's share of the assets and liabilities, and results of the joint ventures:

	Group	
	2008	2007
Assets:		
– Current assets	68,066	138,050
– Non-current assets	10,835	7,839
	78,901	145,889
Liabilities:		
– Current liabilities	62,340	135,760
– Non-current liabilities	18	4
	62,358	135,764
Net assets	16,543	10,125
Income	1,664,271	1,587,195
Expenses	1,662,702	1,587,981
Profit/(loss) before tax	1,569	(786)
Income tax	(569)	371
Profit/(loss) after tax	1,000	(415)
Capital commitments in relation to interest in joint ventures	5,000	–
Share of joint ventures' capital commitments	3,969	3,643
Contingent liabilities in relation to interest in joint ventures	–	–
Share of joint ventures' contingent liabilities	–	–

Details of the joint ventures of the Group are as follows:

Name of company	Principal activities	Country of business/ incorporation	Class of share held	Equity holding	
				2008 %	2007 %
IPC (USA), Inc.	Oil Trading	United States of America	Ordinary	50	50
Belgrave Investors Corp	Barging services	British Virgin Islands	Ordinary	50	50
GPS Chemoil LLC (FZC)	Terminal management services	United Arab Emirates	Ordinary	40*	40*

\* GPS Chemoil LLC (FZC) is deemed to be a joint venture of the Company as the appointment of its directors and the allocation of voting rights for key business decisions, require the unanimous approval of its venturers.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

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### 13. Investments in subsidiaries

	Company	
	2008	2007
Unquoted equity shares, at cost	45,981	34,742

Details of significant subsidiaries are included in Note 39.

#### Acquisition of subsidiaries in 2008

##### **Chemoil Middle East DMCC**

On 19 February 2008, the Group acquired a 100% equity interest in Chemoil Middle East DMCC for a consideration of US\$129. The fair value of the identifiable net assets of Chemoil Middle East DMCC at the date of acquisition amounted to US\$129.

Chemoil Middle East DMCC contributed revenue of US\$92,339 and net loss of US\$9,538 to the Group for the period from 19 February 2008 to 31 December 2008. Chemoil Middle East DMCC's assets and liabilities at 31 December 2008 were US\$13,826 and US\$23,255 respectively. If the acquisition had occurred on 1 January 2008, the Group's revenue would have been US\$8,662,129 and net profit would have been US\$46,199.

##### **California Software Company**

On 11 June 2008, the Group acquired an additional 18.34% equity interest in California Software Company for a consideration of US\$5,311. As a result, its equity interest in California Software Company increased to 67.70% as at 31 December 2008.

The fair value of the identifiable net assets of California Software Company at the date of acquisition amounted to US\$22,401, resulting in goodwill on acquisition of US\$3,100. The goodwill is attributable to significant synergies expected to arise after the acquisition.

California Software Company contributed revenue of US\$29,404 and net loss of US\$2,536 to the Group for the period from 11 June 2008 to 31 December 2008. California Software Company's assets and liabilities at 31 December 2008 were US\$54,667 and US\$37,840 respectively. If the acquisition had occurred on 1 January 2008, the Group's revenue would have been US\$8,690,631 and net profit would have been US\$45,606, of which a loss of US\$293 had been equity accounted for prior to 11 June 2008.

##### **LMG Land Development**

On 26 August 2008, the Group acquired a 64% equity interest in LMG Land Development for a consideration of US\$10,717. The fair value of the identifiable net assets of LMG Land Development at the date of acquisition amounted to US\$7,887, resulting in goodwill on acquisition of US\$2,829. The goodwill is attributable to significant synergies expected to arise after the acquisition.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

*For the year ended 31 December 2008*

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### 13. Investments in subsidiaries (continued)

#### Acquisition of subsidiaries in 2008

LMG Land Development contributed revenue of US\$541 and net income of US\$27 to the Group for the period from 26 August 2008 to 31 December 2008. LMG Land Development's assets and liabilities at 31 December 2008 were US\$7,241 and US\$1,736 respectively. If the acquisition had occurred on 1 January 2008, the Group's revenue would have been US\$8,662,984 and net profit would have been US\$46,192.

#### Acquisition of subsidiaries in 2007

##### **Baltic Fuel Inc.**

On 1 July 2007, the Company acquired an additional 42.5% equity interest in Baltic Fuel Inc for a consideration of US\$232. As a result, its equity interest in Baltic Fuel Inc increased to 85% as at 31 December 2007.

The fair value of the additional 42.5% share of the identifiable net assets of Baltic Fuel Inc. at the date of acquisition amounted to US\$40, resulting in goodwill on acquisition of US\$191. The goodwill is attributable to the significant synergies expected to arise after the acquisition.

Baltic Fuel Inc. contributed revenue of US\$5,092 and net loss of US\$1,060 to the Group for the period from 1 July 2007 to 31 December 2007. Baltic Fuel Inc.'s assets and liabilities at 31 December 2007 were US\$57,231 and US\$58,197 respectively. If the acquisition had occurred on 1 January 2007, the Group's revenue would have been US\$5,365,668 and net profit would have been US\$29,897 of which US\$178 had been equity accounted for prior to July 2007.

##### **Link Marine Pte Ltd**

On 1 July 2007, the Group acquired a 100% equity interest in Link Marine Pte Ltd for a consideration of US\$100. The fair value of the identifiable net assets of Link Marine Pte Ltd at the date of acquisition amounted to US\$100.

Link Marine Pte Ltd contributed revenue of US\$406 and net loss of US\$8 to the Group for the period from 1 July 2007 to 31 December 2007. Link Marine Pte Ltd's assets and liabilities at 31 December 2007 were US\$452 and US\$359 respectively. If the acquisition had occurred on 1 January 2007, the Group's revenue would have been US\$5,365,359 and net profit would have been US\$30,473.

##### **Olympic Shipping Pte Ltd**

On 1 July 2007, the Group acquired a 100% equity interest in Olympic Shipping Pte Ltd for a consideration of US\$9,100. The fair value of the identifiable net assets of Olympic Shipping Pte Ltd at the date of acquisition amounted to US\$9,100.

Olympic Shipping Pte Ltd contributed revenue of US\$2,639 and net gain of US\$1,691 to the Group for the period from 1 July 2007 to 31 December 2007. Olympic Shipping Pte Ltd's assets and liabilities at 31 December 2007 were US\$11,092 and US\$301 respectively. If the acquisition had occurred on 1 January 2007, the Group's revenue would have been US\$5,364,882 and net profit would have been US\$31,165.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 14. Intangible assets

	Group	
	2008	2007
Goodwill arising on acquisition (Note 14(a))	7,568	1,817
Software costs (Note 14(b))	6,801	2,203
Contractual customer relationships (Note 14(c))	2,207	–
	<u>16,576</u>	<u>4,020</u>

#### (a) Goodwill arising on acquisition

	Group	
	2008	2007
<i>Cost</i>		
Beginning of financial year	1,817	1,626
Acquisition of subsidiaries (Note 4)	5,929	191
Currency translation differences	(178)	–
End of financial year	<u>7,568</u>	<u>1,817</u>
<i>Accumulated impairment</i>		
Beginning and end of financial year	–	–
Net book value	<u>7,568</u>	<u>1,817</u>

#### *Impairment test for goodwill*

Goodwill is allocated to the Group's cash-generating units (CGU) identified as according to the countries of operations:

	Group	
	2008	2007
Netherlands	1,817	1,817
Philippines	2,651	–
India	3,100	–
	<u>7,568</u>	<u>1,817</u>

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate in which the CGU operates.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 14. Intangible assets (continued)

#### (a) Goodwill arising on acquisition (continued)

Key assumptions used for value-in-use calculations are as follows:

	Netherlands	Philippines	India
Growth rate <sup>1</sup>	5%	2%	5%
Discount rate <sup>2</sup>	8%	14%	14%

<sup>1</sup> Weighted average growth rate used to extrapolate cash flows beyond the budget period.

<sup>2</sup> Pre-tax discount rate applied to cash flow projections.

The weighted average growth rate used is consistent with the forecasts included in industry reports. The discount rate used is pre-tax and reflect specific risks relating to the relevant segments.

#### (b) Software costs

	Group	
	2008	2007
<i>Cost</i>		
Beginning of financial year	5,054	3,594
Currency translation differences	(208)	–
Acquisition of subsidiaries (Note 4)	5,129	–
Additions	1,260	1,600
Disposals	(946)	(140)
End of financial year	<u>10,289</u>	<u>5,054</u>
<i>Accumulated amortisation</i>		
Beginning of financial year	2,851	1,523
Currency translation differences	(15)	–
Disposals	(946)	(140)
Charge for the year	1,598	1,468
End of financial year	<u>3,488</u>	<u>2,851</u>
Net book value	<u>6,801</u>	<u>2,203</u>

#### (c) Contractual customer relationships

	Group	
	2008	2007
<i>Cost</i>		
Beginning of financial year	–	–
Acquisition of subsidiaries (Note 4)	2,207	–
End of financial year	<u>2,207</u>	<u>–</u>
<i>Accumulated amortisation</i>		
Beginning and end of financial year	–	–
Net book value	<u>2,207</u>	<u>–</u>

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 15. Property, plant and equipment

	Freehold Land and buildings	Office and computer equipment, furniture and fittings	Equipment and terminals	Vessels	Motor vehicles	Construction work in progress	Total
<b>Group</b>							
<b>Cost</b>							
At 1 January 2008	2,356	4,754	26,518	31,308	407	144,385	209,728
Currency translation differences	(425)	(403)	8,576	–	41	(2,172)	5,617
Acquisition of subsidiaries	8,447	1,581	936	–	129	15,949	27,042
Additions	10,132	3,115	7,436	6,039	120	2,617	29,459
Disposals	(161)	(393)	(104)	(9,100)	(102)	–	(9,860)
Transfers	11,284	2,291	123,089	20,970	–	(157,634)	–
At 31 December 2008	31,633	10,945	166,451	49,217	595	3,145	261,986
<b>Accumulated depreciation</b>							
At 1 January 2008	608	2,154	13,031	1,395	151	–	17,339
Currency translation differences	(2)	(104)	(39)	6	–	–	(139)
Charge for the year	778	2,031	6,920	3,206	67	–	13,002
Disposals	(57)	(500)	–	(611)	(96)	–	(1,264)
At 31 December 2008	1,327	3,581	19,912	3,996	122	–	28,938
<b>Net book value</b>							
At 31 December 2008	30,306	7,364	146,539	45,221	473	3,145	233,048
<b>Group</b>							
<b>Cost</b>							
At 1 January 2007	1,137	3,782	21,475	–	278	571	27,243
Currency translation differences	–	62	–	–	–	–	62
Acquisition of subsidiaries	–	35	–	9,100	52	–	9,187
Additions	1,219	804	4,792	42,745	77	144,385	194,022
Disposals	–	(249)	–	(20,537)	–	–	(20,786)
Transfers	–	320	251	–	–	(571)	–
At 31 December 2007	2,356	4,754	26,518	31,308	407	144,385	209,728
<b>Accumulated depreciation</b>							
At 1 January 2007	214	1,327	10,763	–	88	–	12,392
Currency translation differences	–	89	–	–	–	–	89
Charge for the year	394	987	2,268	2,181	63	–	5,893
Disposals	–	(249)	–	(786)	–	–	(1,035)
At 31 December 2007	608	2,154	13,031	1,395	151	–	17,339
<b>Net book value</b>							
At 31 December 2007	1,748	2,600	13,487	29,913	256	144,385	192,389

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 15. Property, plant and equipment (continued)

<b>Company</b>	<b>Office and computer equipment, furniture and fittings/Total</b>
Cost	
At 1 January 2008	23
Additions	–
At 31 December 2008	<u>23</u>
Accumulated depreciation	
At 1 January 2008	1
Charge for the year	4
At 31 December 2008	<u>5</u>
Net book value	
At 31 December 2008	<u>18</u>
<b>Company</b>	
Cost	
At 1 January 2007	–
Additions	23
At 31 December 2007	<u>23</u>
Accumulated depreciation	
At 1 January 2007	–
Charge for the year	1
At 31 December 2007	<u>1</u>
Net book value	
At 31 December 2007	<u>22</u>

- (a) Included in additions in the consolidated financial statements are motor vehicles acquired under finance lease amounting to US\$120 (2007: US\$77).
- (b) The carrying amount of the Group's motor vehicles held under finance lease amounted to US\$228 as at 31 December 2008 (2007: US\$117).
- (c) Borrowings of the Group of US\$210,172 (2007: US\$177,036) and Company of US\$44,074 (2007: US\$51,358), are secured on property, plant and equipment of the Group with carrying amounts of US\$218,387 (2007: US\$203,461) and US\$10,458 (2007: US\$18,896) respectively, and all related rent/lease receivables (Note 18).
- (d) The Group's borrowing cost of US\$2,712 on the financing specifically entered into for the construction of terminals, was capitalised during the financial year 2007.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 16. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown on the balance sheet as follows:

	Group	
	2008	2007
Deferred tax assets:		
– Deferred tax assets to be recovered within one year	(10,329)	(2,053)
– Deferred tax to be recovered after one year	(2,932)	–
	(13,261)	(2,053)
Deferred tax liabilities:		
– Deferred tax liability to be settled within one year	356	2,675
– Deferred tax liability to be settled after one year	2,231	2,169
	2,587	4,844
Deferred tax (assets)/liabilities -net	(10,674)	2,791

The movement in the deferred income tax account is as follows:

	Group	
	2008	2007
Beginning of financial year	2,791	4,188
Currency translation differences	(32)	–
Acquisition of subsidiaries	1,105	3
Income statement credit (Note 30)	(14,538)	(1,400)
End of financial year	(10,674)	2,791

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

### Deferred tax liabilities

	Accelerated tax depreciation	Fair value gains	Others	Total
At 1 January 2008	3,479	2,675	–	6,154
Acquisition of subsidiaries	313	924	–	1,237
Currency translation differences	–	(32)	–	(32)
Charged/(credited) to income statement	868	(1,496)	1,242	614
At 31 December 2008	4,660	2,071	1,242	7,973
At 1 January 2007	4,032	1,285	–	5,317
Acquisition of subsidiaries	13	–	–	13
(Credited)/charged to income statement	(566)	1,390	–	824
At 31 December 2007	3,479	2,675	–	6,154

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 16. Deferred income tax (continued)

#### Deferred tax assets

	Tax losses	Provisions	Investment allowance	Others	Total
At 1 January 2008	(2,053)	(1,310)	-	-	(3,363)
Acquisition of subsidiaries	(132)	-	-	-	(132)
(Credited)/charged to income statement	(12,309)	406	(2,932)	(317)	(15,152)
At 31 December 2008	(14,494)	(904)	(2,932)	(317)	(18,647)
At 1 January 2007	(267)	(862)	-	-	(1,129)
Acquisition of subsidiaries	(10)	-	-	-	(10)
Credited to income statement	(1,776)	(448)	-	-	(2,224)
At 31 December 2007	(2,053)	(1,310)	-	-	(3,363)

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

### 17. Trade and other payables

	Group		Company	
	2008	2007	2008	2007
Trade payables to:				
- Third parties	154,656	269,034	5,591	1,166
- Subsidiaries	-	-	30,935	42,837
- Associates	14,945	249	2	-
- Joint ventures	-	341	-	-
- Other related parties	153	318	13	-
	169,754	269,942	36,541	44,003
Accrued interest payable on borrowings	1,567	2,913	191	381
Other accruals for operating expenses	37,245	34,682	-	-
	208,566	307,537	36,732	44,384

Trade and other payables are predominantly denominated in United States Dollar.

Other related parties comprise controlling shareholders of the Company and entities controlled/significantly influenced by the controlling shareholders of the Company.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 18. Borrowings

	Group		Company	
	2008	2007	2008	2007
<u>Current</u>				
Advances from financial institutions under Receivables Purchase Agreement (Note 8)	77,963	286,973	-	-
Loan from a subsidiary	-	-	76,500	-
Bank overdrafts (Note 4)	17,740	83,185	-	-
Bank loans	30,607	90,572	3,708	4,657
Finance lease liabilities (Note 24)	40	20	-	-
	<u>126,350</u>	<u>460,750</u>	<u>80,208</u>	<u>4,657</u>
<u>Non-current</u>				
Bank loans	187,535	162,721	40,366	46,701
Finance lease liabilities (Note 24)	160	88	-	-
	<u>187,695</u>	<u>162,809</u>	<u>40,366</u>	<u>46,701</u>
Total	<u>314,045</u>	<u>623,559</u>	<u>120,574</u>	<u>51,358</u>

(a) Security of borrowings

Total borrowings include secured liabilities of US\$309,872 (2007: US\$623,451) and US\$44,074 (2007: US\$51,358) for the Group and Company respectively.

Advances from financial institutions under the Receivables Purchase Agreement are secured against the trade receivables (Note 8). Bank loans and bank overdrafts are secured over bank balances and deposits (Note 4), trade receivables (Note 8), inventories (Note 9) and property, plant and equipment and lease rentals (Note 15). Finance lease liabilities are secured by the rights to the leased motor vehicles (Note 15), which will be revert to the lessor in the event of default by the Group.

(b) Maturity of borrowings

The current borrowings (excluding finance lease liabilities) of the Group and Company have an average maturity of 2 month (2007: 2 months) from the end of the balance sheet date. The non-current borrowings (excluding finance lease liabilities) have the following maturities from the end of the balance sheet date:

	Group		Company	
	2008	2007	2008	2007
Later than one year and not later than five years	135,624	117,023	40,366	46,701
Later than five years	51,911	45,698	-	-
	<u>187,535</u>	<u>162,721</u>	<u>40,366</u>	<u>46,701</u>

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 18. Borrowings (continued)

#### (c) Currency risk

The carrying amounts of total current and non-current borrowings are denominated in the following currencies:

	Group		Company	
	2008	2007	2008	2007
United States Dollar	285,220	623,450	120,574	51,358
Singapore Dollar	175	109	–	–
Indian Rupee	19,231	–	–	–
Philippine Peso	9,419	–	–	–
	<u>314,045</u>	<u>623,559</u>	<u>120,574</u>	<u>51,358</u>

#### (d) Interest rate risks

The weighted average effective interest rates of current and non-current borrowings at the balance sheet date are as follows:

	Group		Company	
	2008	2007	2008	2007
Advances from financial institutions under Receivables Purchase Agreement	4.20%	5.67%	–	–
Bank overdrafts	2.68%	6.49%	–	–
Bank loans	4.38%	6.18%	3.19%	6.89%
Finance lease liabilities	<u>3.24%</u>	<u>2.95%</u>	<u>–</u>	<u>–</u>

Borrowings (excluding finance lease liabilities) are at variable rates with repricing within 3 months (2007: 3 months) of the balance sheet date.

#### (e) Carrying amounts and fair values

The carrying amounts of borrowings approximate their fair values.

### 19. Provisions for other liabilities and charges

	Group	
	2008	2007
Legal claims	<u>3,579</u>	<u>1,639</u>

The provisions are in respect of certain legal claims brought against the Group by customers and vendors. In the opinion of the directors, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at balance sheet date. The directors consider that disclosure of further details of these claims would seriously prejudice the Group's negotiating position and accordingly further information on the nature of the obligation has not been provided.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 19. Provisions for other liabilities and charges (continued)

Movement in provision for legal claims is as follows:

	Group	
	2008	2007
Beginning of financial year	1,639	2,526
Provision made	5,697	60
Write-back of provision	(904)	(819)
Utilised	(2,853)	(128)
End of financial year	<u>3,579</u>	<u>1,639</u>

The provision made/written-back has been recognised within 'Other expenses' in the income statement.

### 20. Share capital and premium

	Number of shares (thousands)	Share capital	Share premium	Total
<b>Group and Company 2008 and 2007</b>				
Beginning and end of financial year	<u>1,292,612</u>	<u>2</u>	<u>85,816</u>	<u>85,818</u>

As at 31 December 2008, the authorised share capital of the Company is HK\$1,000,000 (2007: HK\$1,000,000) comprising 80,000,000,000 shares (2007: 80,000,000,000 shares) with a par value of HK\$0.0000125 per share (2007: HK\$0.0000125 per share).

All issued ordinary shares are fully paid.

#### *Share options*

Share options are granted to directors and to selected employees. The exercise price of the options is determined at the average of the closing prices of the Company's shares on the Singapore Exchange for five market days immediately preceding the date of grant. The options are exercisable starting one year from the grant date and will vest over a period of two years for directors and five years for employees. The options have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 20. Share capital and premium (continued)

Movement in the number of unissued ordinary shares under option and their exercise prices are as follows:

#### Group and Company

Date of grant	← No. of ordinary shares under option →				End of financial year
	Beginning of financial year	Granted during financial year	Forfeited during financial year	Exercised during financial year	
<b>2008</b>					
14.12.2006	26,317,041	–	(2,051,017)	–	24,266,024
27.08.2007	516,000	–	–	–	516,000
25.09.2007	4,876,368	–	(396,309)	–	4,480,059
12.12.2008	–	5,028,000	–	–	5,028,000
12.12.2008	–	4,250,000	–	–	4,250,000
	<b>31,709,409</b>	<b>9,278,000</b>	<b>(2,447,326)</b>	<b>–</b>	<b>38,540,083</b>
<b>2007</b>					
14.12.2006	29,916,790	–	(3,599,749)	–	26,317,041
27.08.2007	–	516,000	–	–	516,000
25.09.2007	–	4,876,368	–	–	4,876,368
	<b>29,916,790</b>	<b>5,392,368</b>	<b>(3,599,749)</b>	<b>–</b>	<b>31,709,409</b>

Out of the outstanding options for 38,540,083 (2007: 31,709,409) shares, options for 10,860,421 (2007: 4,853,205) shares are exercisable at the balance sheet date. There are no options exercised in 2008 and 2007.

The fair value of options granted during the period determined using the Binomial valuation model was US\$437 (2007: US\$303). The significant inputs into the model are presented below. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last two years.

Date of grant	Standard deviation of expected share price returns	Dividend yield	Annual risk-free interest rate	Exercise price	Exercise period
14.12.2006	30.0%	1.5%	4.8%	US\$0.450	14.12.2007 – 13.12.2017
27.08.2007	30.0%	1.5%	3.1%	US\$0.586	27.08.2008 – 26.08.2018
25.09.2007	30.0%	1.5%	4.0%	US\$0.483	25.09.2008 – 24.09.2018
12.12.2008	66.0%	1.5%	0.56%	US\$0.174	12.12.2009 – 11.12.2019
12.12.2008	66.0%	1.5%	0.56%	US\$0.174	12.12.2009 – 11.12.2019

## CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

#### 21. Merger reserve

The excess of the nominal value of the shares of Chemoil Corporation acquired by the Company in 2006 over the nominal value of the shares issued by the Company in exchange for Chemoil Corporation's shares has been taken to shareholders' equity as "Merger Reserve" and adjusted retrospectively in the consolidated financial statements.

#### 22. Other reserves

	2008	Group 2007	Company 2008	2007
(a) Composition:				
Share option reserve	1,574	947	1,574	947
Currency translation reserve	858	638	–	–
Hedging reserve	(11,157)	(1,825)	–	–
	<u>(8,725)</u>	<u>(240)</u>	<u>1,574</u>	<u>947</u>
(b) Movements:				
<b>(i) Share option reserve</b>				
Beginning of financial year	947	41	947	41
Employee share option scheme:				
– Value of employee services (Notes 20 and 26)	627	906	627	906
End of financial year	<u>1,574</u>	<u>947</u>	<u>1,574</u>	<u>947</u>
<b>(ii) Currency translation reserve</b>				
Beginning of financial year	638	181	–	–
Net currency translation differences of financial statements of foreign subsidiaries	220	457	–	–
End of financial year	<u>858</u>	<u>638</u>	<u>–</u>	<u>–</u>
<b>(iii) Hedging reserve</b>				
Beginning of financial year	(1,825)	–	–	–
Cash flow hedges				
– Fair value losses	(11,278)	(1,825)	–	–
– Transfer to finance expenses (Note 28)	1,946	–	–	–
End of financial year	<u>(11,157)</u>	<u>(1,825)</u>	<u>–</u>	<u>–</u>

Other reserves are non-distributable.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

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### 23. Retained earnings

The retained earnings of the Group and the Company are distributable. Movement in retained earnings of the Company is as follows:

	Company	
	2008	2007
Beginning of financial year	47,704	23,009
Net profit	30,237	37,621
Dividends (Note 33)	(6,462)	(12,926)
End of financial year	<u>71,479</u>	<u>47,704</u>

The profit attributable shareholders of the Company is dealt with in the financial statements of the Company to the extent of US\$30,237 (2007 US\$37,621).

### 24. Finance lease liabilities

The Group leases motor vehicles from non-related parties under finance leases

	Group	
	2008	2007
Minimum lease payments due:		
– Not later than one year	49	29
– Later than one year but not later than five years	174	93
– Later than five years	20	8
	<u>243</u>	<u>130</u>
Less: Future finance charges	(43)	(22)
Present value of finance lease liabilities	<u>200</u>	<u>108</u>

The present value of finance lease liabilities are analysed as follows:

	Group	
	2008	2007
Not later than one year (Note 18)	40	20
Later than one year: (Note 18)		
– Later than one year but not later than five years	143	78
– Later than five years	17	10
	<u>160</u>	<u>88</u>
	<u>200</u>	<u>108</u>

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 25. Revenue and other gains/(losses) – net

	Group	
	2008	2007
<b>Revenue:</b>		
Sales of fuel	8,541,874	5,312,118
Chartering income	34,100	23,451
Terminal rental	27,755	9,029
Service fees and commission income	1,497	4,763
Sale of software	29,404	–
Demurrage and other claim income	27,499	15,301
	<b>8,662,129</b>	<b>5,364,662</b>
<b>Other gains/(losses) – net:</b>		
Currency exchange gain – net	4,573	174
Gain on disposal of property, plant and equipment	551	6,484
Gain on disposal of other financial assets at fair value through profit or loss	–	193
Fair value losses on other financial assets at fair value through profit or loss	(936)	(129)
Derivative financial instruments gains/(losses) – net	113,835	(84,890)
Insurance claim	14,570	–
Interest income:		
– bank deposits	1,810	5,032
– non-trade receivables from other related parties (Note 8)	181	–
	<b>134,584</b>	<b>(73,136)</b>

### 26. Employee benefit expense

	Group	
	2008	2007
Wages and salaries	41,054	19,427
Compensation expense relating to defined benefit plans (Note 27)	122	334
Employer's contribution to defined contribution plans	690	484
Share options granted to directors and employees (Notes 20 and 22)	627	906
	<b>42,493</b>	<b>21,151</b>

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 27. Post-employment defined benefit plans

The Group has defined benefit pension plans covering eligible employees in certain subsidiaries.

The amounts recognised in the income statement are determined as follows:

	Group	
	2008	2007
Current service cost	79	242
Interest cost	34	88
Administration cost	9	71
Expected return on plan assets	(28)	(74)
Past service cost	28	7
Total pension costs (Note 26)	122	334
Actual return on plan assets	174	74

The amounts recognised in the balance sheet are as follows:

	Group	
	2008	2007
Present value of defined benefit pension obligations funded by plan assets	(501)	(592)
Fair value of plan assets	399	728
	(102)	136
Unrecognised actuarial gains	(70)	(354)
Unrecognised past service cost	172	218
Net defined benefit pension plan assets	-	-

Movement in the present value of the defined benefit pension obligations during the financial year is as follows:

	Group	
	2008	2007
Beginning of financial year	(592)	(1,696)
Current service cost	(79)	(242)
Interest cost	(34)	(88)
Actuarial gains	204	1,026
Settlements	-	408
End of financial year	(501)	(592)

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

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### 27. Post-employment defined benefit plans (continued)

The movement in the fair value of plan assets during the financial year is as follows:

	Group	
	2008	2007
Beginning of financial year	728	1,275
Expected return on plan assets	28	74
Actuarial losses	(525)	(346)
Administration cost	–	–
Pension contributions	168	189
Settlements	–	(464)
End of financial year	<u>399</u>	<u>728</u>

The principal actuarial assumptions used are as follows:

	Group	
	2008	2007
Weighted average discount rate	6.20%	5.20%
Rate of increase in compensation level	2.00%	3.00%
Expected return on plan assets	<u>6.20%</u>	<u>5.20%</u>

### 28. Finance expense

	Group	
	2008	2007
Interest expense:		
– bank loans	34,407	24,162
– finance lease liabilities	8	2
Cash flow hedges – Transfer from equity (Note 22)	1,946	–
Finance expense	<u>36,361</u>	<u>24,164</u>

### 29. Total expenses

Certain expenses such as employee benefit expenses (Note 26), marketing and communication expenses, service and commission expenses, and other expenses include the effects of the new subsidiaries acquired during the year (Note 13).

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 30. Income tax credit/(expense)

	Group 2008	2007
Tax (credit)/expense attributable to profit is made up of:		
Current income tax	2,331	9,594
Deferred income tax (Note 16)	(14,597)	(537)
	(12,266)	9,057
Under/(over) provision in prior years		
– current income tax	230	1,221
– deferred income tax (Note 16)	59	(863)
	(11,977)	9,415

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

Profit before tax and share of results of associates and joint ventures	27,896	37,507
Tax calculated at domestic tax rates applicable to profits in the respective countries	4,379	10,276
Effects of:		
– Income not subject to tax	(4,086)	–
– Expenses not deductible	39	78
– Income tax at concessionary rate	(9,751)	(1,297)
– Tax incentives	(2,847)	–
Tax (credit)/charge	(12,266)	9,057

The weighted average applicable tax rate was 16% (2007: 27%). The decrease is caused by a change in the profitability mix of the Group's activities in the various tax jurisdictions. The tax credits arising from certain activities exceed the tax charge from other activities, resulting in a net tax credit for the year.

No provision for Hong Kong profits tax has been made as the Company's income is derived outside Hong Kong and is not subject to Hong Kong profits tax.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

*For the year ended 31 December 2008*

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### 31. Segment information

(a) Primary reporting format – business segments

At balance sheet date, the Group is organised into three main business segments:

- Retail – Sales of physical supplies of marine fuel and related products to end users such as oil tankers, container ships, dry bulk carriers, and cruise ships.
- Cargo – Sales of marine fuel and related products, such as the components of marine fuel used to blend into marine fuel, to customers such as traders, physical suppliers and resellers.
- Ex-wharf – Sales of marine fuel to customers such as resellers or distributors that accept delivery at our service centres and subsequently resell and deliver the product to end users. The sales are typically made to marine fuel traders, barge companies and other customers.

Others represent chartering income, terminal rental, service fees and commission income, sale of software, demurrage and other claim income, and share of results of associates and joint ventures – net.

The following items are excluded from segment results and included in unallocated income/(costs)

- Other gains/(losses) – net, comprising
  - o derivative financial instruments gains/(losses) – net,
  - o currency exchange gain – net,
  - o interest income,
  - o gain on disposal of property, plant and equipment,
  - o fair value losses on other financial assets at fair value through profit or loss, and
  - o gain on disposal of other financial assets at fair value through profit or loss
  - o insurance claim
- Finance expense; and
- Income tax expense.

Segment assets comprise primarily property, plant and equipment, intangible assets, inventories, and receivables and other current assets, and exclude cash and cash equivalents, deferred income tax assets, income tax recoverable, derivative financial instruments and other financial assets at fair value through profit or loss.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 31. Segment information (continued)

(a) Primary reporting format – business segments (continued)

Segment liabilities comprise payables and provisions for other liabilities and charges, and exclude income tax liabilities, borrowings and derivative financial instruments. Capital expenditure comprises additions to property, plant and equipment and intangible assets, including those acquired through business combinations.

	<u>Retail</u>	<u>Cargo</u>	<u>Ex-wharf</u>	<u>Others</u>	<u>Total</u>
<u>Group</u>					
<b>2008</b>					
<b>Sales</b>	4,276,447	3,307,921	956,602	121,159	8,662,129
<b>Segment result</b>	(100,913)	1,976	157	28,453	(70,327)
Share of results of associates and joint ventures – net	1,063	3,904	–	1,359	6,326
Other gains/(losses) – net					134,584
Finance expense					(36,361)
Profit before income tax					34,222
Income tax credit					11,977
<b>Total profit</b>					<u>46,199</u>
<b>Other segment items:</b>					
Capital expenditure					
– Property, plant and equipment	2,175	–	236	54,090	56,501
– Intangible assets	1,227	–	–	7,369	8,596
Depreciation	2,835	5	210	9,952	13,002
Amortisation	1,494	12	–	365	1,871
Impairment losses/(written back) – Trade and other receivables	557	(11)	(43)	1,212	1,715

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 31. Segment information (continued)

(a) Primary reporting format – business segments (continued)

	<u>Retail</u>	<u>Cargo</u>	<u>Ex-wharf</u>	<u>Others</u>	<u>Total</u>
<u>Group</u>					
<b>2007</b>					
<b>Sales</b>	2,759,701	1,718,455	833,961	52,545	5,364,662
<b>Segment result</b>	62,354	60,361	10,184	1,908	134,807
Share of results of associates and joint ventures – net	(482)	1,447	–	1,260	2,225
Other gains/(losses) – net					(73,136)
Finance expense					(24,164)
Profit before income tax					39,732
Income tax expense					(9,415)
<b>Total profit</b>					<u>30,317</u>
<b>Other segment items:</b>					
Capital expenditure					
– Property, plant and equipment	2,286	72	93	200,758	203,209
– Intangible assets	1,600	–	–	–	1,600
Depreciation	2,707	16	201	2,969	5,893
Amortisation	1,537	–	17	166	1,720
Impairment losses/(written back) – Trade and other receivables	(866)	11	(18)	–	(873)

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 31. Segment information (continued)

(a) Primary reporting format – business segments (continued)

	<u>Retail</u>	<u>Cargo</u>	<u>Ex-wharf</u>	<u>Others</u>	<u>Elimination</u>	<u>Total</u>
<u>Group</u>						
<b>2008</b>						
<b>Segment assets</b>	393,071	92,555	46,350	559,213	(441,758)	649,431
Associates and joint ventures	6,319	17,187	–	32,676	–	56,182
Unallocated assets						134,053
<b>Total assets</b>						<u>839,666</u>
<b>Segment liabilities</b>	311,479	74,996	105,778	236,761	(438,906)	290,108
Unallocated liabilities						258,280
<b>Total liabilities</b>						<u>548,388</u>
<b>2007</b>						
<b>Segment assets</b>	809,698	339,225	80,906	397,090	(529,469)	1,097,450
Associates and joint ventures	2,757	13,970	–	41,156	–	57,883
Unallocated assets						67,578
<b>Total assets</b>						<u>1,222,911</u>
<b>Segment liabilities</b>	548,788	365,343	61,519	161,067	(540,568)	596,149
Unallocated liabilities						373,503
<b>Total liabilities</b>						<u>969,652</u>

The breakdown of the unallocated assets and liabilities are as follows:

	<b>Group</b>	
	<b>2008</b>	<b>2007</b>
Unallocated assets		
– Cash and cash equivalents	77,521	60,109
– Other financial assets at fair value through profit or loss	668	1,604
– Deferred income tax assets	13,261	2,053
– Derivative financial instruments	41,934	2,965
– Income tax recoverable	669	847
	<u>134,053</u>	<u>67,578</u>

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 31. Segment information (continued)

(a) Primary reporting format – business segments (continued)

	Group	
	2008	2007
Unallocated liabilities		
– Derivative financial instruments	17,490	25,790
– Current income tax liabilities	2,121	6,283
– Borrowings less advances from financial institutions under Receivable Purchase Agreement (Note 18)	236,082	336,586
– Deferred tax liabilities	2,587	4,844
	258,280	373,503

(b) Secondary reporting format – geographical segments

Sales by geographical areas are based on the location in which fuel is delivered or services are rendered. Assets and capital expenditure by geographical areas are based on the country in which the assets are located.

The Group operates in three main geographical areas, Americas, Europe and Asia.

#### Sales

	Group	
	2008	2007
Americas	2,929,023	2,368,437
Europe	1,623,235	1,922,029
Asia	4,109,871	1,074,196
<b>Total</b>	8,662,129	5,364,662

#### Total assets

	Group	
	2008	2007
Americas	324,807	661,170
Europe	57,248	150,245
Asia	359,495	350,648
Associates and joint ventures	56,182	57,883
Unallocated assets	41,934	2,965
<b>Total</b>	839,666	1,222,911

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

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### 31. Segment information (continued)

#### (b) Secondary reporting format – geographical segments (continued)

##### Capital expenditure

	Group	
	2008	2007
Americas	5,310	12,188
Asia	59,611	192,115
Europe	176	506
<b>Total</b>	<b>65,097</b>	<b>204,809</b>

### 32. Earnings per share

#### (a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Group	
	2008	2007
Profit attributable to equity holders of the Company	47,069	30,331
Weighted average number of ordinary shares in issue (in thousands)	1,292,612	1,292,612
Basic earnings per share (cents per share)	3.64	2.35

#### (b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Company are share options.

For share options, the weighted average number of shares on issue has been adjusted as if all dilutive share options were exercised. The number of shares that could have been issued upon the exercise of all dilutive share options less the number of shares that could have been issued at fair value (determined as the Company's average share price for the financial year) for the same total proceeds is added to the denominator as the number of shares issued for no consideration. No adjustment is made to the net profit.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 32. Earnings per share (continued)

(b) Diluted earnings per share (continued)

Diluted earnings per share attributable to equity holders of the Company is calculated as follows:

	Group	
	2008	2007
Profit attributable to equity holders of the Company	47,069	30,331
Weighted average number of ordinary shares in issue (in thousands)	1,292,612	1,292,612
Adjustments for share options (in thousands)	-	10,509
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	1,292,612	1,303,121
Diluted earnings per share (cents per share)	3.64	2.33

Diluted earnings per share for 2008 is not adjusted for share options as these share options are anti-dilutive.

### 33. Dividends

	Group	
	2008	2007
Final exempt dividends paid in respect of the previous financial year of 0.50 cent (2007: 1.00 cents) per share	6,462	12,926

At the Annual General Meeting on 24 April 2009, a final exempt dividend of 0.50 cents per share amounting to total of US\$6,462 would be recommended. These financial statements do not reflect this dividend, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the financial year ending 31 December 2009.

### 34. Contingencies

(a) Litigation and claims

The Group is involved in certain lawsuits and claims that arise in the ordinary course of conducting its business. Other than the provisions made in the consolidated financial statements, the directors believe that the Group is not liable under such claims, and that it is not possible to estimate the amount of additional losses, if any, that might result from adverse judgment against the Group.

(b) Guarantees

Company

The Company has issued corporate guarantees to banks for borrowings of certain subsidiaries for credit facilities taken up. These bank loans amount to US\$227,224 (2007: US\$220,080) at the balance sheet date.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

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### 34. Contingencies (continued)

#### (b) Guarantees (continued)

It is not anticipated that any material liabilities will arise from these guarantees.

### 35. Operating leases and commitments

#### (a) Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognised in the financial statements, excluding those relating to 'Investments in associates' (Note 11) and 'Investments in joint ventures' (Note 12), are as follows:

	Group		Company	
	2008	2007	2008	2007
Property, plant and equipment	-	12,638	-	-

The Group's share of the capital commitments of its joint ventures is set out in Note 12.

#### (b) Operating lease expenses

Rentals on operating leases recognised in the income statement comprise the following:

	Group	
	2008	2007
Barges (included in "Barging and pipeline costs")	47,865	39,976
Vessels (included in "Inventories recognised as an expense" and "Chartering and other shipping related expenses")	21,840	25,489
Offices, storage tanks and motor vehicles (included in "Rentals for office premises, storage tanks and motor vehicles")	43,768	37,404
Other equipment (included in "Other expenses")	33	336
	<u>113,506</u>	<u>103,205</u>

#### (c) Operating lease commitments – where a group company is a lessee

The Group leases various offices, storage tanks, motor vehicles and vessels/barges under non-cancellable operating lease agreements. The leases have varying terms and renewal rights.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

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### 35. Operating leases and commitments (continued)

(c) Operating lease commitments – where a group company is a lessee (continued)

The future aggregate minimum lease payments under non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities, are as follows:

	Group	
	2008	2007
Not later than one year	57,616	34,132
Later than one year but not later than five years	85,067	54,688
Later than five years	52,144	57,383
	<u>194,827</u>	<u>146,203</u>

(d) Operating lease commitments – where a group company is a lessor

The Group leases out storage tanks and vessels/barges under non-cancellable operating lease agreements. The leases have varying terms and renewal rights.

The future minimum lease payments receivable under non-cancellable operating leases contracted for at the reporting date but not recognised as receivables, are as follows:

	Group	
	2008	2007
Not later than one year	28,441	22,484
Later than one year but not later than five years	70,448	34,824
Later than five years	15,565	21,386
	<u>114,454</u>	<u>78,694</u>

The details of the Group's assets leased out under operating leases (where the Group is the lessor) as at balance sheet date are as follows:

	Group	
	2008	2007
<b>Property, plant and equipment</b>		
Net book value	149,140	27,227
Accumulated depreciation	11,376	7,225
Depreciation charge for the year	<u>5,152</u>	<u>1,575</u>

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

*For the year ended 31 December 2008*

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### 36. Financial risk management

#### 36.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments, such as commodity swaps and futures, interest rate swaps and currency forwards to hedge certain financial risk exposures.

The Group has a risk management division responsible for identifying, measuring and analysing financial risks of the Group. The risk management division provides periodic reports on the Group's risk exposures to enable management to monitor compliance of the Group's operations with the established risk management policies and procedures.

The risk management division reports directly to the Executive Risk Management Committee (ERMC), which in turn reports to the board of directors. The ERMC committee comprises the Chief Executive Officer, Chief Financial Officer, Vice President of Supply and Distribution and the Head of Risk Management. The ERMC is responsible for setting the Group's risk management parameters such as customer credit limits, risk exposure limits and the risk management policies and procedures.

#### (a) *Market risk*

##### (i) *Foreign currency risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign currency risk arises mainly from future commercial transactions, recognised assets and liabilities and net investment in foreign operations.

The Group's trade purchases and sales are predominantly denominated in United States Dollars, therefore there is no significant exposure to foreign currency risk. In locations where the Group has an exposure to foreign currencies, the Group may enter into forward exchange contracts, when considered necessary.

The Group has certain investment in foreign operations, whose net assets are exposed to foreign currency translation risks. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

The Group's currency exposure based on the information provided to key management is set out in notes 4, 6, 8, 17, and 18.

Due to its minimal exposure to foreign currency risk, the Group's profit is not sensitive to significant variation in foreign currency.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

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### 36. Financial risk management (continued)

#### 36.1 Financial risk factors (continued)

(a) *Market risk* (continued)

(ii) *Commodity price risk*

The Group trades in marine fuel products. As a result, the Group's physical inventory is exposed to commodity price risks arising from the volatility in commodity prices. The Group enters into derivative contracts in the form of commodity swaps and futures to hedge its exposure to such commodity price risks. If the commodity prices increase/(decrease) by 1% (2007: 1%) with all other variables including tax rate being held constant, the profit after tax will be higher/lower by US\$368 (2007:US\$1,016) as a result of the changes in the fair values of the inventories and commodity swaps and futures as at balance sheet date.

The above sensitivity analysis is hypothetical and should not be predictive of the Group's future performance as the physical inventory volume and derivative positions change daily and are not static.

(iii) *Other price risk*

The Group is not exposed to significant equity securities price risk because the investments held by the Group which are classified on the consolidated balance sheet as 'Other financial assets at fair value through profit or loss' is only US\$668 (2007: US\$1,604).

(iv) *Cash flow and fair value interest rate risk*

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk mainly arises from its long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain its borrowings substantially in floating rate instruments. The Groups' exposure to cash flow interest rate risks arises mainly from these variable-rate borrowings. The Group may enter into floating-to-fixed interest rate swaps to manage these cash flow interest rate risks. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

The Group's and Company's borrowings at variable rates on which effective hedges have not been entered into, are denominated mainly in United State Dollar. If the United State Dollar interest rate increases/decreases by 0.50% (2007: 0.50%) with all other variables including tax rate being held constant, the profit after tax will be lower/higher by US\$981 (2007: US\$2,292), as a result of higher/lower interest expense on these borrowings.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

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### 36. Financial risk management (continued)

#### 36.1 Financial risk factors (continued)

(b) *Credit risk*

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and cash equivalents, derivative financial instruments, as well as credit exposure to customers, including outstanding receivables and committed transactions. For bank and financial institutions, only counterparties that meet the appropriate credit criteria and are of high credit standing are accepted. For trade receivables, the Group adopts the policy of dealing only with customers of appropriate credit history, and obtaining sufficient security where appropriate to mitigate credit risk. For other financial assets, the Group adopts the policy of dealing only with high credit quality counterparties.

Credit exposure to an individual counterparty is restricted by credit limits that are monitored by the Credit Manager and approved by the Chief Financial Officer and for credit limits above an established threshold, the Chief Executive Officer, based on ongoing credit evaluation. The counterparty's payment profile and credit exposure are regularly monitored at the entity level by the respective management and at the Group level by the Credit Manager and the Chief Financial Officer.

As the Group and Company does not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the balance sheet, except that in addition, the Company has provided corporate guarantees to banks for loans provided to its subsidiaries and its credit exposure in respect of these guarantees is US\$227,224 (2007: US\$220,080) at balance sheet date (Note 34(b)).

The Group's and Company's major classes of financial assets are cash at bank and bank deposits, derivative financial instruments, and trade and other receivables.

The credit risk for trade and other receivables based on the information provided to key management is as follows:

	Group		Company	
	2008	2007	2008	2007
<u>By business segment</u>				
Retail	170,082	354,122	–	–
Cargo	15,460	41,560	–	–
Ex-wharf	22,874	182	–	–
Others	40,483	63,035	244,072	156,413
	<u>248,899</u>	<u>458,899</u>	<u>244,072</u>	<u>156,413</u>

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

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### 36. Financial risk management (continued)

#### 36.1 Financial risk factors (continued)

(b) *Credit risk* (continued)

(i) *Financial assets that are neither past due nor impaired*

Cash at bank and bank deposits that are neither past due nor impaired are mainly deposits with banks with high credit-ratings assigned by international credit-rating agencies. Trade and other receivables that are neither past due nor impaired are substantially companies with a good collection track record with the Group.

(ii) *Financial assets that are past due and/or impaired*

There is no other class of financial assets that is past due and/or impaired except for trade and other receivables.

The age analysis of trade and other receivables past due but not impaired is as follows:

	Group	
	2008	2007
Past due 0 to 30 days	5,243	21,450
Past due 30 to 60 days	98	6,964
Past due more than 60 days	8,332	5,929
	<u>13,673</u>	<u>34,343</u>

The carrying amount of trade and other receivables individually determined to be impaired and the movement in the related allowance for impairment is as follows:

	Group	
	2008	2007
Gross amount	11,581	4,332
Less: Allowance for impairment	(3,249)	(1,323)
	<u>8,332</u>	<u>3,009</u>
Beginning of financial year	1,323	2,196
Acquisition of subsidiaries	874	–
Allowance made/(written back)	1,715	(873)
Allowance utilised	(663)	–
End of financial year	<u>3,249</u>	<u>1,323</u>

The individually impaired receivables mainly relate to customers, which are in difficult economic situations. It was assessed that a portion of these receivables is expected to be recovered.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 36. Financial risk management (continued)

#### 36.1 Financial risk factors (continued)

##### (c) Liquidity risk

The Group and Company manage the liquidity risk by maintaining sufficient cash to enable them to meet their normal operating commitments, having an adequate amount of committed credit facilities and the ability to close market positions at a short notice.

The table below analyses the maturity profile of the Group's and Company's financial liabilities, and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<u>Group</u>				
<b>At 31 December 2008</b>				
Derivative financial instruments	(11,278)	(2,656)	(3,375)	(181)
Trade and other payables	(208,566)	-	-	-
Borrowings	(135,941)	(71,393)	(87,142)	(56,926)
	<u>(355,785)</u>	<u>(74,049)</u>	<u>(90,517)</u>	<u>(57,107)</u>
<b>At 31 December 2007</b>				
Derivative financial instruments	(24,858)	(800)	(132)	-
Trade and other payables	(307,537)	-	-	-
Borrowings	(471,461)	(29,880)	(115,732)	(49,398)
	<u>(803,856)</u>	<u>(30,680)</u>	<u>(115,864)</u>	<u>(49,398)</u>
<u>Company</u>				
<b>At 31 December 2008</b>				
Derivative financial instruments	(4,793)	(2,503)	(2,915)	-
Trade and other payables	(36,732)	-	-	-
Borrowings	(81,456)	(42,056)	-	-
	<u>(122,981)</u>	<u>(44,559)</u>	<u>(2,915)</u>	<u>-</u>
<b>At 31 December 2007</b>				
Derivative financial instruments	(893)	(800)	(132)	-
Trade and other payables	(44,384)	-	-	-
Borrowings	(7,872)	(7,891)	(45,649)	-
	<u>(53,149)</u>	<u>(8,691)</u>	<u>(45,781)</u>	<u>-</u>

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 36. Financial risk management (continued)

#### 36.1 Financial risk factors (continued)

##### (c) Liquidity risk (continued)

The table below analyses the Group's and the Company's derivative financial instruments which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	<u>Less than 1</u> <u>year</u>	<u>Between 1</u> <u>and 2 years</u>	<u>Between 2</u> <u>and 5 years</u>	<u>Over 5</u> <u>years</u>
<u>Group</u>				
<b>At 31 December 2008</b>				
Gross-settled currency forwards				
– Receipts	–	–	–	–
– Payments	–	–	–	–
<b>At 31 December 2007</b>				
Gross-settled currency forwards				
– Receipts	11,599	–	–	–
– Payments	(11,371)	–	–	–
<u>Company</u>				
<b>At 31 December 2008</b>				
Gross-settled currency forwards				
– Receipts	–	–	–	–
– Payments	–	–	–	–
<b>At 31 December 2007</b>				
Gross-settled currency forwards				
– Receipts	22,970	–	–	–
– Payments	(22,970)	–	–	–

##### (d) Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, issue new shares, obtain new borrowings or sell assets to reduce borrowings.

Consistent with others in the industry, the Group monitors capital based on the gearing ratio. The gearing ratio is calculated as net debt divided by total equity. Net debt is calculated as borrowings less cash and cash equivalents.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

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### 36. Financial risk management (continued)

#### 36.1 Financial risk factors (continued)

(d) Capital risk (continued)

	Group		Company	
	2008	2007	2008	2007
Net debt	236,524	563,450	112,522	46,527
Total equity	291,278	253,259	158,871	134,469
<b>Gearing ratio</b>	<b>0.81</b>	<b>2.22</b>	<b>0.71</b>	<b>0.35</b>

The Group and the Company are in compliance with all externally imposed capital requirements for the financial years ended 31 December 2007 and 2008.

#### 36.2 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The fair value of interest rate swaps and interest rate caps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

The carrying amounts of current financial assets and liabilities carried at amortised cost approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

### 37. Comparatives

The following comparative figures in the balance sheet have been reclassified to conform to the current financial year's presentation.

	Group 2007	
	As previously stated	As reclassified
Property, plant and equipment	194,592	192,389
Intangible assets	1,817	4,020

### 38. Related party transactions

In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Group and related parties during the financial year at terms agreed between the parties:

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 38. Related party transactions (continued)

#### (a) Sales and purchases of goods and services

	Group	
	2008	2007
<b>Sales of goods and services</b>		
Sales of goods/services to associates	298,959	199,945
Sales of goods/services to joint ventures	10,675	17,210
Sales of goods/services to other related parties	49,632	57,073
<b>Purchases of goods and services</b>		
Purchase of goods/services from associates	411,646	422,975
Purchase of goods/services from joint ventures	11,582	4,579
Chartering expenses paid to other related parties	3,421	2,401
Purchase of goods/services from other related parties	37,147	2,617
<b>Sale of property, plant and equipment to other related party</b>	50	–
<b>Purchase of property, plant and equipment</b>		
Purchase of property, plant and equipment from an associate	644	1,280
Purchase of property, plant and equipment from other related party	–	51,638
<b>Payments made on behalf and reimbursed by joint ventures</b>	28	292
<b>Payments made on behalf and reimbursed by associates</b>	523	–
<b>Payments made on behalf and reimbursed/reimbursable by other related party</b>	7,017	1,772
<b>Management and accounting service income</b>		
Management and accounting service income charged to associates	12	–
Management and accounting service income charged to joint ventures	926	2,539
<b>Consultancy fees</b>		
Consultancy fees charged by other related party	216	340
<b>Payment towards investment in associate</b>		
Payment to a related party towards investment in associate	–	2,351
<b>Acquisition of subsidiaries from other related party</b>	129	9,200
<b>Maintenance service fees</b>		
Maintenance service fees charged by an associate	374	877
<b>Professional fees</b>		
Professional fees charged by associates	630	289
<b>Interest income/(expense)</b>		
Interest income from other related parties	181	–

Other related parties comprise controlling shareholders of the Company and entities controlled/significantly influenced by the controlling shareholders of the Company.

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 38. Related party transactions (continued)

(a) Sales and purchases of goods and services (continued)

Outstanding balances to/from related parties at balance sheet date are set out in Notes 8, 17 and 18.

(b) Key management compensation

	Group	
	2008	2007
Salaries and other short-term employee benefits	6,346	5,286
Post-employment benefits	68	94
Share option expense	166	275
	6,580	5,655

### 39. Significant subsidiaries

The details of significant subsidiaries are as follows:

Name of subsidiaries and country of incorporation	Principal activities	Class of shares held	Percentage of equity held		
			2008		2007
			Directly	Indirectly	%
Cemoil Europe B.V., Netherlands	Oil Trading	Ordinary	100.00	–	100.00
Cemoil Corporation, United States of America	Oil trading	Ordinary	100.00	–	100.00
Cemoil International Pte Ltd, Singapore	Oil trading	Ordinary	100.00	–	100.00
Cemoil North America Corporation, United States of America	Special purpose vehicle	Ordinary	–	100.00	100.00
Cemoil Terminals Corporation, United States of America	Terminal management	Ordinary	100.00	–	100.00
Cemoil Latin America Inc, Republic of Panama	Oil Trading	Ordinary	–	100.00	100.00
Helios Terminal Corporation Pte Ltd, Singapore	Terminal Management	Ordinary	–	100.00	100.00
Baltic Fuel Inc., British Virgin Island	Oil Trading	Ordinary	85.00	–	85.00
Cemoil Middle East DMCC, United Arab Emirates	Oil Trading	Ordinary	–	100.00	100.00
California Software Company Ltd and its subsidiaries, India and United States of America	Software Development	Ordinary	–	67.70	49.36

# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

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### 40. Events subsequent to balance sheet date

On 21 January 2009, the Company established a trust to purchase and hold the Company's shares acquired from the open market for the delivery to employees under the Company's share incentive plan. The trust will be consolidated in the consolidated financial statements under SIC Interpretation 12, Consolidation – Special Purpose Entities. Pursuant to its establishment, the trust has acquired 4,419,000 shares in the Company. Such shares are designated as treasury shares.

### 41. Additional disclosures required under Hong Kong Companies Ordinance

In addition to the balances and details disclosed elsewhere in the financial statements, the relevant disclosures as required under Hong Kong Companies Ordinance are as follows:

	Group	
	2008	2007
(a) Auditors' remuneration for audit and other services (included in "Other expenses")	1,237	1,422

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#### (b) Directors' emoluments

Directors' emoluments disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance are as follows:

	Group	
	2008	2007
Fees	602	483
Other emoluments		
– Salaries and other emoluments	1,995	1,669
– Contributions to pension scheme	23	32
– Share options granted to directors	34	13
	2,654	2,197

#### (c) Loans/guarantees provided to related parties

Pursuant to the disclosure requirement of Section 161B of the Hong Kong Companies Ordinance, there were no loans/guarantees provided to related parties, except for amount of US\$4,660 provided to entities controlled or significantly influenced by the controlling shareholders of the Company.

#### (d) Operating lease – where the Group is a lessee

	Group	
	2008	2007
Minimum lease payments paid under operating leases during the year		
– Premises	3,447	2,339
– Plant and machinery	110,059	100,866
	113,506	103,205

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# CHEMOIL ENERGY LIMITED AND ITS SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2008

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### 41. Additional disclosures required under Hong Kong Companies Ordinance (continued)

(e) Prepaid lease payments

	2008	2007
Land outside Hong Kong: Medium term lease	2,002	2,254
Analysed for reporting purposes as: Non-current asset	2,002	2,254

(f) Commitments

	2008	Group 2007
Capital expenditure – authorised but not contracted for	65,885	80,535

Included in capital expenditure authorised but not contracted for is the Group's share of the joint ventures' capital commitments amounting to US\$22,385 (2007: US\$22,385).

Capital expenditure contracted but not provided for at balance sheet date is set out in Note 35(a).

