Management Discussion and Analysis

OPERATING RESULTS

During the first half of 2005, the core business of the Group remained the operations of the jetty and tank farm terminal at XHIT. The Group's turnover comprised mainly of rental received from customers for the use of our tanks to store their oil and petrochemical products, fees for transshipment services provided and use of our jetty facilities, and port income for ships berthed at our jetties.

The consolidated turnover for the six months ended 30 June 2005 was HK$105.3 million (2004: HK$83.1 million), representing an increase of 26.7% over the same period in 2004. The profit from ordinary activities attributable to shareholders was HK$53.7 million (2004: HK$43.3 million), representing a growth of 24.0% over the corresponding period last year.

In December 2004, the Company completed the acquisition of the entire interest in Union Petro-Chemicals (BVI) Company Limited ("UPC"). Under accounting principles generally accepted in Hong Kong, the acquisition of UPC by the Company has been accounted for as a reverse acquisition. As such, the comparative figures of the half year of 2004 included only the results of UPC Group. In this regard, the last year results of some subsidiaries have not been included. The administrative expenses attributable to such subsidiaries for the six months ended 30 June 2005 were HK$5,534,000. Administrative expenses increased as a result of the reverse takeover meaning that the public company's expenses were attributable to the expanded Group.

The basic Earnings per Share for the six months ended 30 June 2005 was 2.47 Hong Kong cents (2004: 8.17 Hong Kong cents). The decrease was attributable to an increase in the number of ordinary shares in the period. Under the reverse acquisition method of accounting, the 530,000,000 ordinary shares issued by the Company to Vand Petro-Chemicals (BVI) Company Ltd, UPC's then shareholder, were deemed to exist on 1 January 2004 for the purpose of calculating the Earnings per Share. The weighted average number of shares for the period ended 30 June 2005 increased to 2,171,381,215 from 530,000,000 for the corresponding period in 2004 through issuance of new shares. The diluted Earnings per Share for the six months ended 30 June 2005 was 1.63 Hong Kong cents based on potential dilution to a total of 3,850,220,994 shares.

CAPITAL STRUCTURE, LIQUIDITY AND GEARING

The capital structure of the Group changed during the period under review. During the period, 1,000 million new ordinary shares were issued, as the holder of the Convertible Note exercised the right to convert HK$300 million note into ordinary shares. In this regard, the balance due under the Convertible Note reduced from HK$681 million at the beginning of the period to HK$381 million as at 30 June 2005. In addition, another 100 million new shares were issued during the period.

As at 30 June 2005, the Group had a cash balance of approximately HK$379 million. Most of the funds were held in HK$, RMB and US$.

As at 30 June 2005, the Group had a current ratio of 1.56 (31 December 2004: 1.12). The improvement in current ratio was mainly due to the repayment of short-term bank borrowings and the reduction of other payables during the period.

The Group's gearing ratio as at 30 June 2005 was 1.17 (31 December 2004: 1.58) (defined as total liabilities to total assets). The decrease of the ratio was attributable to the fact that the debt associated with the Convertible Note was reduced, first by way of the conversion of HK$300 million into share capital. Secondly, HK$74.8 million of the Convertible Note was reclassified as an equity component in compliance with the accounting standard of the new HKFRS. Furthermore, HK$97.4 million was received from the issuance of new shares.

FINANCIAL RESOURCES

The Group has fully settled the bank borrowings brought forward from last year and due for repayment during the period. In this regard, the credit facilities, which were available until March 2005, have not been extended by the Group, and the assets originally pledged for the facilities were released.

The current cash reserves and recurrent operating cash flow is sufficient for the daily requirements for current operations. However, the Group will consider to raise external financing for development of new businesses, if required. Due attention will be paid to the capital and debt markets as well as the latest developments of the Group in order to ensure the efficient use of financial resources.

FINANCE COST

Despite the repayment of bank borrowings during the period, the Convertible Note of HK$681 million issued on 24 December 2004 started to accrue interest this year. According to the new HKFRS, interest was accrued and charged to profit and loss at the market rate instead of the note rate of 1% per annum. With the adoption of the new accounting standards, the total finance cost increased by HK$7,433,000 to HK$12,069,000.

TAXATION

The Group had no assessable profit subject to Hong Kong Profits Tax for the period. On the other hand, this year is the second year that GD (Panyu), the PRC subsidiary of the Group, is subject to PRC Enterprise Income Tax at the concessional rate of 7.5% (normal tax rate is 15%). This relief will continue to be available to GD (Panyu)'s XHIT business conducted in Nansha Economic Development Zone until 2009.

EXPOSURE TO FLUCTUATION IN EXCHANGES RATE AND RELATED HEDGE

The Group's transactions and monetary assets are predominately in HK$, RMB and US$. Operating outgoings incurred by the Group's subsidiary in the PRC are mainly denominated in RMB, which usually receives revenue in RMB as well. The management is of the opinion that the Group's exposure to foreign exchange rate risks is not significant, and hedging by means of derivative instruments is considered unnecessary.

CHARGE ON GROUP ASSETS

As at 30 June 2005, bank deposits of approximately HK$600,000 were pledged against credit card facilities granted by a bank. Other than the above, none of the assets of the Group was pledged to creditors.

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

As at 30 June 2005, the Group had capital commitments in the amount of approximately HK$944,000 in respect of construction in progress. These capital commitments were mainly related to an unpaid contract sum in respect of construction contracts regarding leasehold improvement of office and additions to breakwater signed prior to the balance sheet date.

At 30 June 2005, the Group has no material contingent liabilities.

EMPLOYEES AND REMUNERATION POLICY

The Group had a workforce of approximately 240 people. Salaries of employees are maintained at competitive level with reference to the relevant market, and are performance driven.