

Business Review and Prospects

REVENUE BREAKDOWN

The following is the breakdown of major revenue items and its related percentage of the Group for

	Six months ended 30 June 2006		Six months ended 30 June 2005	
	(HK\$'000)	%	(HK\$'000)	%
Terminal, storage and transshipment services	76,590	90.5	94,995	90.23
Port income	7,996	9.5	10,290	9.77

The operation statistics of **Xiao Hu Island Terminal** ("XHIT") were:

	Six months ended	Six months ended	Change %
	30 June 2006	30 June 2005	
Port throughput (kilo-ton)	2,477	2,701	-8.3
Cargoes received (kilo-ton)			
- Fuel oil	299	458	-34.7
- Gasoline & diesel	765	576	+32.8
- Petrochemicals	168	195	-13.8
- Foreign oil and petrochemicals	228	606	-62.4
- Domestic oil and petrochemicals	1,031	612	+68.5

RESULTS OF OIL AND PETROCHEMICAL PRODUCTS STORAGE AND TERMINAL BUSINESS IN XHIT

The oil and petrochemical products storage and terminal business was conducted in XHIT, a comprehensive storage and terminal complex in Nansha Economic & Technological Development Zone, Guangdong Province, the PRC by the Company's subsidiary, Guangdong (Panyu) Petrochemical Storage & Transportation Ltd. ("GD (Panyu)").

Business Review and Prospects

Despite China has been a substantial net oil importer and became the second largest oil consumption country worldwide since 2004, and the economy of the Pearl River Delta continued to be strong and demand for oil and petrochemical products remained growing, the fact that the hanging high international oil price coupled with the relatively low retail refined oil prices under tight government controls, deterred the demand of importation of refined oils into China thus impacted the utilization of XHIT port capacity by foreign cargoes. The domestic oil retail prices might be even lower than the import purchase prices for some oil products at certain points of time during the period. Oil importers and traders in China thus strayed away from such less profitable yet risky businesses. Furthermore, the national strategic diversification in oil import sources into China played another significant impact to the XHIT utilization as well. During the period, among the top five countries importing fuel oil into China, Russia increased its share by 15%, Venezuela increased by 282%, while Singapore reduced by 38%. In the past, XHIT port received cargoes from Singapore most among importing countries. The switch of import sources affected XHIT 2006 first half foreign cargo utilization accordingly. The Company opined that the international oil price would stay at high level and the diversification trend would remain for the rest of the year. However, with the term leases signed with customers, notably the significant one with China Petroleum & Chemical Corporation Guangdong Branch ("Sinopec Guangdong") signed in late 2004, XHIT was able to maintain a steady income stream regardless the fluctuations in the market sentiments. The rental from this lease and most of those with other customers was not affected by the volume of cargoes stored in the tanks.

For the six months ended 30 June 2006, turnover from the provision of transshipment and storage facilities segment decreased by HK\$18 million to HK\$77 million, representing an decrease of 19.4%. The drop in turnover was mainly attributable to the expiry in 2005 of a lease under which fees were received from a customer, who leased certain XHIT port capacity for its transshipment business. During the lease term, the customer was entitled to use XHIT port facilities according to its own arrangements, while GD (Panyu) was responsible to provide operating services for a fixed amount of fee. Upon expiry in 2005, such lease was not extended thereafter. In addition, since fewer foreign vessels visited XHIT port, transshipment income and incidental handling fees decreased as well in this regard. Furthermore, the construction works of a terminal built adjacent to XHIT port also affected its operations. A compensation was therefore received from the developer for the estimated loss of revenue relating to the interruption it might have caused to XHIT in this regard. (See Compensation Income section below)

For the six months ended 30 June 2006, turnover from port income, which is provided for every metric ton of imported oil or petrochemical products discharged at XHIT, decreased approximately by 22.3% from HK\$10.3 million to HK\$8.0 million. As the international oil price remained high during the period, the demand of refined oils imported from overseas decreased. In this connection, the total frequency of foreign vessels visited and the volume of oil and petrochemical products discharged at XHIT decreased thus induced the drop in turnover for this segment in this regard.

Business Review and Prospects

COMPENSATION INCOME

The item mainly comprised of a payment of HK\$87 million from Sinopec Guangdong to compensate GD (Panyu) for the estimated loss of revenue relating to the interruption and inconvenience it might have caused to XHIT port operations during the construction period of a terminal developed by them adjacent to XHIT (the "Adjacent Terminal"). The development of the Adjacent Terminal has been commenced during the second half of 2005 and it was advised that it would be completed within 2 to 3 years. Upon completion of the Adjacent Terminal and it becomes operational, it is anticipated that vessels berthing the Adjacent Terminal might share some portion of the waterway that is being used by vessels parking XHIT port.

OUTLOOK

The Group continued to focus its core business in the midstream of the energy sector, providing specialized integrated terminal, storage and logistics facilities and services for oil and liquid petrochemical products in the PRC as well as identifying other oil-industry areas for growth. According to the WTO agreement, the China retail market of products oils will be opened to foreign investors and operators by the end of 2006. It is envisaged that renowned international oil players will enter into this blooming and exciting market. In this connection, the demand for product oil storage and terminal facilities will surge in coming years. Furthermore, the opening of the retail market would probably catalyze the reform of retail oil prices structure with less government regulatory measures. It is expected that the retail oil prices stay below import purchase prices situations might be turned around. To capture this golden opportunity, the Group has commenced expanding its operating capacity through the development of the Dongzhou project in Dongguan as outlined below. The Group has planned as well as other projects both inside and outside China.

- **XHIT TERMINAL BUSINESS**

Following several phases of expansion since it became operational in December 1995 including the additions of four petrochemical tanks with a total capacity of 4,700 cubic metres and jetty upgrading last year, XHIT has reached its full strength in both docking and storage capacity. There are limitations for further expansion in respect of land and space available in the area located.

Although there is limited room for further expansion in storage capacity, XHIT has been carrying out the upgrading work on its #2 docking space, which resulted that the #2 docking space will be able to berth vessels of capacity up to 20,000 deadweight tonnes (previously up to 10,000 dwt only). The upgrade will definitely enhance XHIT's throughput capacity. Nevertheless, XHIT is among the very few terminals in the Pearl River Delta region that can provide specialized and integrated terminal and storage services with facilities of its size. The Group is confident that XHIT will continue to command a key position in the provision of specialised integrated terminalling, storage and logistics services for oil and petrochemical products in the region.

Business Review and Prospects

Since the commencement of the operating lease signed with Sinopec Guangdong, the XHIT port operations have changed. During 2005 and the first half of 2006, Sinopec Guangdong has been using XHIT terminal as a distribution hub of its refined oils to cover retail outlets and sales destinations, such as gas stations, power stations and factories in the Pearl River Delta, including cities like Guangzhou, Shenzhen, Dongguan, etc. The frequency and volume of cargoes coming in by vessels and going out of the terminal by both vessels and trucks increased simultaneously. The average time of cargoes sitting inside the storage tanks was shortened. It clearly illustrated XHIT as a sizable port to handle large volume and frequent flows of oil products.

In respect of improving the petrochemical product mix, XHIT, through hard effort, has successfully located customers to store higher value products in our petrochemical tanks. Therefore, higher value-added services were required. As a result, rental income and incidental fees were improved in this regard. It is expected that business development will forge toward the same direction in the future.

- ***DONGZHOU INTERNATIONAL TERMINAL PROJECT ("DZIT")***

Since the Group being granted by the National Development and Reform Committee the final approval for developing the DZIT terminal for oil, gas and liquid petrochemical products in Dongguan late last year, the preparation and development works to build the terminal have been pushed forward. The land and coastal line have been acquired from the Dongguan Humen Port Government and all the preparation works have been completed. The required Government permits in respect of the construction and design of the jetty pier and storage tank farm have been obtained, especially regarding environmental preservation and safety measures. Construction works have been commenced in all directions with full speed and it is anticipated that the terminal will become operational by the third quarter of next year.

The terminal is located in the newly development zone of Humen Port Area, Dongguan city designated as an integrated industrial and logistic zone for petrochemical. As economic globalization has become a tendency, ports are playing a more important role in international trade. Developing sizable modernized ports has been recognized as a vital strategy and a logical choice for governments in local economic development. Dongguan, with its highly export oriented industrial structure, not only becomes a world manufacturing base, but has established as a distribution centre and a logistic hub for raw materials, energy resources and finished products. The total annual volume of goods transported both from water and land has reached more than 60 million tons. It brings the regional economy into the chain of international economy. The logistic development zone is targeted to cover not only the Guangdong province and the adjacent regions, but will radiate to economies like Hong Kong and Macau. The development of DZIT terminal is in line with the concept originated by the government to set up a key logistic focal point of the petrochemical supply chain in southern China to stimulate a demand pull of all services and products along the chain.

Business Review and Prospects

The DZIT, upon completion, will be a comprehensive terminal and storage complex in Dongguan Humen Port Shatian Harbour Area in Guangdong Province of the PRC, specialized in oil and liquid petrochemical products, which will comprise of a wharf with 12 docking spaces of capacity ranging from 500 dwt to 80,000 dwt. Apart from the wharf jetties, DZIT will install 147 tanks making the tank farm with a total storage capacity of 960,000 cubic metres. The terminal will be equipped with state-of-art machinery for loading-unloading, transshipment, and storage facilities plus technologies to maintain high standard of environmental protection and safety measures. It is believed that with the aggregate storage capacity and jetty throughput, the Group will play a commanding position in the region and the Group's competitive edge in the provision of specialized integrated terminal services for oil and petrochemical products business will be enhanced.

In the meantime, the works to solicit domestic and foreign customers and secure leasing orders for the new terminal have been underway in all directions during the period. The response is positive and encouraging. Enquiries have been received from potential customers who have indicated their interests in utilizing our terminal facilities. The Management will share the successful experience in XHIT, to secure stable leasing orders for the storage tanks with the customer base established over the years as well as new customers from overseas, especially those who have interests to enter into the China refined oil retail markets. The management is confident in this respect because the development of the Dongguan Terminal was planned to capture the opportunity of the growing demand of storage facilities as the result of the opening up of the product oil retail market to international players under the WTO agreement and the expansion plan of adjacent refineries within the region. The Group's capital investment in the project is estimated to be in excess of RMB800 million.

INTERIM DIVIDEND

The directors do not recommend any interim dividend for the six months ended 30 June 2006 (2005: HK\$ nil).