

Management Discussion and Analysis

OPERATING RESULTS

During the first half of 2006, 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 2006 was HK\$85 million (2005: HK\$105 million), representing an decrease of 19.7% over the same period in 2005. The profit from ordinary activities attributable to shareholders was HK\$98 million (2005: HK\$54 million), representing an increase of 82.2% over the corresponding period last year. The increase was mainly attributable to the compensation from other company for the estimated loss of revenue relating to the interruptions and inconvenience it might cause to XHIT, who built and developed a terminal adjacent to XHIT.

The basic earnings per share for the six months ended 30 June 2006 were 3.74 Hong Kong cents (2005: 2.47 Hong Kong cents). The diluted earnings per share were 2.69 Hong Kong cents (2005: 1.63 Hong Kong cents). The increase was attributable to the increase in net profit in the period.

CAPITAL STRUCTURE, LIQUIDITY AND GEARING

There was no material change in capital structure of the Group during the period under review.

As at 30 June 2006, the Group had a cash balance of approximately HK\$336 million (31 December 2005: HK\$354 million). Most of the funds were held in HK\$, RMB and US\$.

As at 30 June 2006, the Group had a current ratio of 2.20 (31 December 2005: 1.78). The improvement in current ratio was in line with the increase in net profit in the period.

The Group's gearing ratio of as at 30 June 2006 was 0.97 (31 December 2005: 1.11) (defined as total liabilities to total assets). The improvement in gearing ratio was mainly because of the increase of net profit for this period.

The Promissory note with an outstanding balance of HK\$105 million, which was originally due for repayment on 24 June 2006, has been extended for another six months to the end of 2006. Apart from the maturity date, all other terms and conditions of the note remained unchanged.

FINANCIAL RESOURCES

The current cash reserves and recurrent operating cash flow is sufficient for the daily requirements for current operations. However, the Group has been considering 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.

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FINANCE COST

The finance cost for the six months ended 30 June 2006 decreased by HK\$5.3 million from HK\$12.0 million to HK\$6.7 million. The drop was attributable to the fact that the bank loan balances brought forward from 2004 were fully repaid in second quarter of 2005 and HK\$300 million Convertible Note was converted into common shares by end of first quarter 2005.

TAXATION

The Group had no assessable profit subject to Hong Kong Profits Tax for the period. On the other hand, this year is the third year that GD (Panyu), 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 until 2009.

EXPOSURE TO FLUCTUATION IN EXCHANGES RATE AND RELATED HEDGE

The Group's cash and cash equivalents are held 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 2006, none of the assets of the Group was pledged.

EMPLOYEES AND REMUNERATION POLICY

The Group had a workforce of approximately 250 people. Salaries of employees are maintained at competitive level with reference to the relevant market and are performance driven.