MANAGEMENT
DISCUSSION AND ANALYSIS

GROUP RESULTS

For the year ended 31 December, 2006, the Group's turnover was HK$166.9 million (2005: HK$201.8 million) and the profit attributable to equity shareholders was HK$134.2 million (2005: HK$92.6 million), representing a decrease of 17.3% and an increase of 45.0% respectively as compared to last year. The basic and diluted earnings per share ('EPS') for the year were 5.17 Hong Kong cents and 3.82 Hong Kong cents (2005: 3.86 Hong Kong cents and 2.80 Hong Kong cents respectively). The increases of both basic and diluted EPS were attributable to the significant increase in profit attributable to equity shareholders of the year.

	2006 (HK$'000)	2005 (HK$'000)	Changes
Turnover	**166,936**	201,802	-17.3%
Earnings before interest and tax (EBIT)	**175,278**	129,800	+35.0%
Profit attributable to equity shareholders of the Company	**134,218**	92,569	+45.0%
Earnings before interest, tax, depreciations and amortisation (EBITDA)	**204,779**	155,965	+31.3%
Net profit margin	**80.4%**	45.9%	
Earnings per share (HK cents)	**5.17**	3.86	+33.9%
Diluted earnings per share (HK cents)	**3.82**	2.80	+36.4%

BUSINESS REVIEW

The operational results of the Group's core business of the oil and petrochemical terminal located in Xiao Hu Island of Nasha, Panyu, Guangdong Province in the PRC were as follows:

Operational Statistics	**2006**	2005	Changes
Number of vessels visited			
– foreign	**270**	309	-12.6%
– domestic	**2,752**	2,769	-0.6%
Number of trucks served to pick up cargoes	**25,023**	40,386	-38.0%
Number of drums filled	**48,053**	44,519	+7.9%
Transhippment volume (metric ton)			
– oils	**15,524**	266,332	-94.2%
– petrochemicals	**214,999**	184,532	+16.5%
Port jetty throughput (metric ton)	**4,328,000**	4,960,070	-12.7%
Tank farm throughput (metric ton)	**4,774,000**	5,696,000	-16.2%

Xiao Hu Island Terminal ("XHIT") continues to contribute the major source of revenue to the Group. During the year, it recorded that 270 foreign tankers berthed for unloading cargoes (2005: 309) and total throughput of 4,328,000 metric tons (2005: 4.960,000 metric tons) in XHIT. The number of foreign tankers berthed for unloading in 2006 was still hampered by the hanging-high international oil price and shrinken importation of fuel oil into Guangdong province.

Results of XHIT

The breakdown of major revenue items of the Group were as follows:

	2006 (HK$'000)	**%**	2005 (HK$'000)	%
Terminal, storage and transshipment services	**152,113**	**91.1**	182,982	90.7
Port income	**14,823**	**8.9**	18,820	9.3

For the year ended 31 December, 2006, turnover from the provision of terminal storage and transshipment facilities segment decreased from HK$183.0 million to HK$152.1 million, representing an drop of 16.9% whereas the segment profit for the same period decreased from HK$138.8 million to HK$103.5 million, representing a decrease of 25.4%. Turnover and segmental profit decreased. The major reason was that the construction works of the terminal with a docking capacity of 50,000 tons, which was built by Sinopec Guangdong in the neighbouring area of XHIT, have affected and hindered the operation of XHIT. Accordingly, compensations were made by Sinopec Guangdong for any loss of gains arising from the interrupted operation of XHIT as a result of those works.

For the year ended 31 December, 2006, turnover from port income dropped approximately 21.2% from HK$18.8 million to HK$14.8 million and the segment profit decreased from approximately HK$15.5 million to HK$12.8 million, representing an decrease of 17.7%. Port income mainly comprises the port charge for every metric ton cargoes discharged at XHIT. The decrease in turnover and profit for this segment was in line with the decrease in port throughput and the drop in number of foreign tankers berthed in XHIT during the year.

Other income

The item mainly comprised of a payment of HK$88 million from Sinopec Guangdong to compensate Guangdong (Panyu) Petrochemical Storage & Transportation Ltd. ("GD (Panyu)") for the 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.

OUTLOOK

The Group continued to focus its core business in the midstream of the energy sector, providing specialized integrated terminal, storage and logistics services for oil and liquid petrochemical products in the PRC as well as identifying other oil-industry areas for growth. Since the China retail market of product oils has been opened to foreign investors and operators since late 2006, sizeable renowned international oil players have prepared to enter into this promising and exciting market. In this connection, the demand for product oil storage and terminal facilities is expected to surge in coming years. Furthermore, the opening of the retail market would catalyze the reform of retail oil pricing structure with less control measures. To capture this golden opportunity, the Group has commenced expanding its operating capacity through the development of the Dongzhou project in Dongguan. 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, XHIT has reached it full strength in both docking capacity 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 completed the upgrading on one of its docking space. The upgrade will enhance XHIT's throughput capacity and capabilities to cater larger vessels. Nevertheless, XHIT is among the very few terminals in the Pearl River Delta region that can provide specialized and integrated terminal with facilities of its size. The Group is confident that XHIT will maintain a leading position in the provision integrated terminal and logistics services for oil and petrochemical products in the region. Since the commencement of the operating lease of oil tanks with aggregated storage capacity of 241,000 cubic metres in 2005, Sinopec Guangdong has been using XHIT terminal as a centre for distributing its refined oils from refineries 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 abilities of XHIT in providing such services and facilities distinguish it as a sizable port to distribute large volume frequent flows of oil products from other storage service providers. It is expected that business development will forge toward the same direction in the future.

In order to boost the competitiveness and operating capacity of XHIT, the Group is currently negotiating with adjacent terminals for fostering further cooperation. Basic understanding has been reached, and an agreement relating to the joint management of such terminal with a throughput capacity of 50,000 tons is expected to be signed with Sinopec Guangdong within this year, thereby enhancing the operating capacity of XHIT to a new height. Competitive strengths will also be reinforced. Riding on the vast pool of resources of Sinopec Guangdong, together with the support of efficient usage of the newly constructed terminal facilities and resources, network connection of inter-systems, highly efficient management of XHIT, profound market operation experience and high quality storage services and technology, the throughput capacity and capabilities of XHIT will be upgraded to cater for larger vessels. These will invite higher rate of utilization of our port capacity from our customers, hence providing additional operating income for both parties. Synergies will be created on a "win-win" solution.

Following the formal commissioning of the extensive refined oil channel network of Sinopec Guangdong, the handling pressures of XHIT will be remarkably relieved, thereby enhancing the transshipment capabilities of the terminal of XHIT. This will be the new growth points for the future business and profit of XHIT.

- **Dongzhou International Terminal project ("DZIT")**

The Group has started the construction of a new terminal for oil, gas and liquid petrochemical products, which is located in the newly development zone of Dongguan city designated as an integrated industrial and logistic zone for oils and petrochemicals. As economic globalization has become a tendency, ports are playing a more important role in international trade. Dongguan, as a highly export oriented industrial structure, not only becomes a world manufacturing base, but also 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 of Hong Kong and Macau. DZIT, upon completion, will be a comprehensive terminal and storage complex in Dongguan Humen Port 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 build a tank farm with a total storage capacity of 960,000 cubic metres. The Group's capital investment in the project is estimated to be in excess of RMB800 million.

During the year, the development and construction works have been pushed forward. The contracts to acquire land and coastal line have been signed with 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, safety measures. Construction works have been commenced in all directions with full speed and it is anticipated that the terminal will become operational in early next year. The terminal will be equipped with state-of-the-art machinery for loading-unloading, transshipment, and storage facilities plus technologies to maintain high standard of environmental protection and safety measures. It will become a corner stone foundation of the Group's core business development.

Meanwhile, the works to solicit customers and secure leasing orders for the new terminal have been undergoing 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. A number of customers have entered into lease memorandums with us. The Management is confident of executing long-term leases with those customers during the year. We are now screening quality customers by giving preference to stable supply of goods and long tenure of leases. 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. The management is confident in this respect to capture the opportunity of the growing demand of storage and distribution facilities.

- **New Development Plans**

The Group has plans to connect the two operation systems between DZIT and XHIT to strengthen its overall competitiveness and consolidate its position as an oil and petrochemical products terminal service provider as well as a logistics centre for distribution of such products. It is believed that with the aggregate jetty throughput storage capacity and inter-system connection, 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.

- **Deep Water Crude Oil Terminal**

  Under the support of government policies of the PRC, the petrochemical production industry has flourished with robust development in the country. Domestic or foreign enterprises are either constructing new oil refineries or expanding production capacity of their current oil refineries. Furthermore, the international demand for crude oil has been constantly surging and the international refinery capacities have been increasing. Thus, the domestic and international demand for storage ancillary facilities and service in respect of crude oil terminals continues to surge. Moreover, there is an international trend of increasing scale of refined oil transportation (VLCC). At present, supply of large-scale modernized crude oil terminals and storage ancillary facilities in the Asia Pacific region and China are inadequate. In order to sustain the leadership of the Group in the industry, and the development of the Group's core business, increase our market share and strengthen ourselves through expansion, the Group has set up a sizable and systematic plan to explore and construct a deep water crude oil terminal which is to be arranged in Southern China zone. We will expand our bonded storage and transportation business in order to extend our coverage into the Asia Pacific region through loading and unloading of a wide range of oil products including gasoline and diesels, and by connecting with the pipeline network of large refineries within the region. We hope to implement the plan this year to strive for substantial return to shareholders by capitalizing on this golden opportunity and leveraging on robust growth of the industry.

FINANCIAL REVIEW

Capital structure, liquidity and gearing

The Company repurchased from the market 142,854,000 shares of the Company thus the capital structure of the Group changed during the year. Accordingly, the share capital account was reduced by HK$14.3 million. And the share premium account also decreased by HK$49.1 million.

As at 31 December 2006, the Group had a cash balance of HK$213 million (2005: HK$354 million). Most of the funds were held in HK$, RMB and US$.

As at 31 December 2006, the Group had a current ratio of 1.90 (31 December 2005: 1.78). The improvement in current ratio was mainly due to the repayment of promissory note of HK$105 million during the year.

The Group's gearing ratio of as at 31 December 2006 was 1.01 (31 December 2005: 1.11) (defined as total liabilities to total assets).

Financial resources

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 costs

The finance cost for the year ended 31 December 2006 decreased by HK$5.5 million from HK$19.1 million to HK$13.6 million. The drop was attributable to the fact that both the interest bearing bank loans were repaid and HK$300 million worth Convertible note was converted in the first half of 2005.

Taxation

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

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which will take effect on 1 January 2008. Pursuant to the approval by the Tax authorities in 2002, the applicable income tax rate of one of the subsidiaries in PRC is 15%. However, the detailed implementation rules regarding the specific tax policies for port operation business have yet to be made public under the new tax law. Consequently, the Group is not able to make an estimate of the expected financial effect of the new tax law on its deferred tax liabilities. The expected financial effect of the new tax law, if any, will be reflected in the Group's 2007 financial statements. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

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 31 December 2006, none of the assets of the Group was pledged.

Capital Commitments and contingent liabilities

Details of capital commitments are set out in notes 28 to the financial statements.

At 31 December 2006, the Group has no material contingent liabilities.