INTERIM REPORT 2006

Hans Energy Company Limited
漢 思 能 源 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 554

Corporate Information

BOARD OF DIRECTORS

Mr. David AN *(Chairman)*
Ms. FENG Ya Lei
Mr. ZHOU Nan Zheng
Mr. William W LIU
Mr. FUNG Chi Kwan, Nicholas
Ms. LIU Zhi Jun
Mr. LI Wai Keung*
Mr. LIU Jian*
Mr. CHAN Chun Wai, Tony*

* *Independent non-executive director*

AUDIT COMMITTEE

Mr. LI Wai Keung *(Committee Chairman)*
Mr. LIU Jian
Mr. CHAN Chun Wai, Tony

REMUNERATION COMMITTEE

Mr. LIU Jian *(Committee Chairman)*
Mr. David AN
Mr. LI Wai Keung
Mr. CHAN Chun Wai, Tony

NOMINATION COMMITTEE

Mr. CHAN Chun Wai, Tony *(Committee Chairman)*
Mr. LI Wai Keung
Mr. LIU Jian
Mr. LIU Wei

COMPANY SECRETARY

Mr. FUNG Chi Kwan, Nicholas

REGISTERED OFFICE

P.O. Box 309
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

PRINCIPAL OFFICE

Room 2708–12, 27th Floor
Office Tower, Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

Standard Chartered Bank
China Merchants Bank Dongguan Branch
Citic Industrial Bank Guangzhou Branch

AUDITORS

KPMG
Certified Public Accountants

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
Fort Street
P. O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Secretaries Limited
26/F Tesbury Centre
28 Queen's Road East
Hong Kong

WEBSITE

www.hansenergy.com

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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 30 June 2006	Six months ended 30 June 2005	**Change**
			%
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).

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.

Management Discussion and Analysis

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.

Independent Review Report to the Board of Directors of Hans Energy Company Limited

KPMG

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 10 to 21.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting* issued by the Hong Kong Institute of Certified Public Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700, *Engagements to review interim financial reports* issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquires of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

KPMG
Certified Public Accountants
Hong Kong, 29 August 2006

Consolidated Income Statement

FOR THE SIX MONTHS ENDED 30 JUNE 2006 – UNAUDITED (EXPRESSED IN HONG KONG DOLLARS)

		Six months ended 30 June	
		2006	2005
	Note	***$'000***	*$'000*
Turnover	*2*	**84,586**	105,285
Cost of sales		**(22,780)**	(23,341)
Gross profit		**61,806**	81,944
Compensation income	*3*	**86,971**	–
Other net income	*4*	**4,443**	4,251
Administrative expenses		**(26,227)**	(10,384)
Profit from operations		**126,993**	75,811
Finance costs	*5(a)*	**(6,736)**	(12,069)
Profit before taxation	*5*	**120,257**	63,742
Income tax	*6*	**(11,710)**	(4,345)
Profit for the period		**108,547**	59,397
Attributable to:			
Equity shareholders of the Company		**97,915**	53,729
Minority interests		**10,632**	5,668
Profit for the period		**108,547**	59,397
Dividend	*7*	**–**	26,200
Earnings per share	*8*		
Basic		**3.74 cents**	2.47 cents
Diluted		**2.69 cents**	1.63 cents

The notes on pages 15 to 21 form part of this interim financial report.

Consolidated Balance Sheet

AT 30 JUNE 2006 – UNAUDITED (EXPRESSED IN HONG KONG DOLLARS)

	Note	At 30 June 2006 $'000	At 31 December 2005 $'000 (audited)
Non-current assets			
Fixed assets			
– Property, plant and equipment	9	**290,660**	300,307
– Construction in progress		**34,600**	32,760
– Interests in leasehold land held for own use under operating leases		**21,677**	22,164
Intangible assets		**5,807**	5,904
		352,744	361,135
Current assets			
Interest in leasehold land held for own use under operating leases		**1,425**	1,425
Inventories – consumable parts		**2,864**	2,152
Trade and other receivables	10	**127,798**	15,092
Pledged bank deposits		**–**	600
Cash and cash equivalents		**336,068**	354,234
		468,155	373,503
Current liabilities			
Other payables		**17,050**	16,814
Deferred revenue		**83,103**	85,918
Amounts due to related companies		**621**	615
Current taxation		**6,787**	1,216
Promissory notes	11	**105,000**	105,000
		212,561	209,563
Net current assets		**255,594**	163,940
Total assets less current liabilities		**608,338**	525,075

Consolidated Balance Sheet *(Continued)*

AT 30 JUNE 2006 – UNAUDITED (EXPRESSED IN HONG KONG DOLLARS)

	Note	At 30 June 2006 $'000	At 31 December 2005 $'000 (audited)
Non-current liabilities			
Deferred revenue		**225,406**	261,666
Convertible notes	*12*	**344,425**	339,578
Deferred tax liabilities		**10,196**	7,249
		580,027	608,493
Net assets/(liabilities)		**28,311**	(83,418)
Capital and reserves			
Share capital		**262,000**	262,000
Reserves		**(263,948)**	(364,789)
Total equity attributable to equity shareholders of the Company		**(1,948)**	(102,789)
Minority interests		**30,259**	19,371
Total equity		**28,311**	(83,418)

Approved and authorised for issue by the board of directors on 29 August 2006.

David An
Chairman

Fung Chi Kwan, Nicholas
Executive Director

The notes on pages 15 to 21 form part of this interim financial report.

Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2006 – UNAUDITED (EXPRESSED IN HONG KONG DOLLARS)

	Share capital	Share premium	Special reserve	Translation reserve	Capital reserve	PRC statutory reserve	Accumulated losses	Total	Minority interests	Total equity
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 1 January 2006	262,000	492,002	(251,428)	2,355	41,856	22,074	(671,648)	(102,789)	19,371	(83,418)
Exchange differences arising from translation of operations outside Hong Kong	–	–	–	2,926	–	–	–	2,926	256	3,182
Profit for the period	–	–	–	–	–	–	97,915	97,915	10,632	108,547
At 30 June 2006	262,000	492,002	(251,428)	5,281	41,856	22,074	(573,733)	(1,948)	30,259	28,311
At 1 January 2005	152,000	202,986	(251,428)	2,150	74,813	22,074	(738,017)	(535,422)	8,513	(526,909)
Exchange differences arising from translation of operations outside Hong Kong	–	–	–	(5,026)	–	–	–	(5,026)	–	(5,026)
Issue of shares on exercise of convertible notes	100,000	201,631	–	–	(32,957)	–	–	268,674	–	268,674
Issue of shares	10,000	87,385	–	–	–	–	–	97,385	–	97,385
Profit for the period	–	–	–	–	–	–	53,729	53,729	5,668	59,397
Dividend	–	–	–	–	–	–	(26,200)	(26,200)	–	(26,200)
At 30 June 2005	262,000	492,002	(251,428)	(2,876)	41,856	22,074	(710,488)	(146,860)	14,181	(132,679)

The notes on pages 15 to 21 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

FOR THE SIX MONTHS ENDED 30 JUNE 2006 – UNAUDITED (EXPRESSED IN HONG KONG DOLLARS)

	Six months ended 30 June	
	2006	2005
	$'000	*$'000*
Cash (used in)/generated from operations	**(5,484)**	45,141
Tax paid	**(3,204)**	(5,551)
Net cash (used in)/generated from operations	**(8,688)**	39,590
Net cash used in investing activities	**(10,132)**	(6,815)
Net cash used in financing activities	**(1,889)**	(151,048)
Net decrease in cash and cash equivalents	**(20,709)**	(118,273)
Cash and cash equivalents at 1 January	**354,234**	497,369
Effect of foreign exchange rate changes	**2,543**	–
Cash and cash equivalents at 30 June	**336,068**	379,096

The notes on pages 15 to 21 form part of this interim financial report.

Notes on Unaudited Interim Financial Report

(EXPRESSED IN HONG KONG DOLLARS)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issuance on 29 August 2006.

The accounting policies have been consistently applied by Hans Energy Company Limited ("the Company") and its subsidiaries ("the Group") and are consistent with those adopted in the 2005 annual financial statements, with an accounting policy adopted in relation to compensation income, which is applicable for the period ended 30 June 2006. Compensation income is recognised when the right to receive payment is established.

On 4 April 2006, a new subsidiary, 東莞市東洲國際石化倉儲有限公司（"DZ"）was established and its principal activities are storage and transshipment. The company has not commenced operations during the period from 4 April to 30 June 2006. The assets and liabilities of DZ as at 30 June 2006 and the results for the period from 4 April to 30 June 2006 were included in the Group's consolidated financial statements. There have been no other changes in the scope of consolidation.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2005 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set out financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 9.

The financial information relating to the financial year ended 31 December 2005 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2005 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 30 March 2006.

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2006. The Board of Directors has determined the accounting policies expected to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2006, on the basis of HKFRSs currently in issue.

The HKFRSs will be effective or available for voluntary early adoption in the annual financial statements for the year ending 31 December 2006 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequently to the date of issuance of this interim financial report. Therefore the policies that will be applied in the group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim report.

Notes on Unaudited Interim Financial Report

(EXPRESSED IN HONG KONG DOLLARS)

2 SEGMENT REPORTING

For management purposes, the Group's operations are organised into two operating divisions, namely, provision of transshipment and storage facilities and port income. These divisions are the basis on which the Group reports its primary segment information.

Reporting information on the Group's business segments is as follows:

	Turnover Six months ended 30 June		Segment results Six months ended 30 June	
	2006	2005	**2006**	2005
	$'000	*$'000*	***$'000***	*$'000*
Provision of transshipment and storage facilities	**76,590**	94,995	**55,120**	73,425
Port income	**7,996**	10,290	**6,686**	8,519
	84,586	105,285	**61,806**	81,944
Compensation income			**86,971**	–
Interest income			**3,837**	3,774
Unallocated corporate income			**606**	477
Unallocated corporate expenses			**(26,227)**	(10,384)
Finance costs			**(6,736)**	(12,069)
Profit before taxation			**120,257**	63,742
Income tax			**(11,710)**	(4,345)
Profit for the period			**108,547**	59,397

3 COMPENSATION INCOME

During the six months ended 30 June 2006, the Group received compensation from a third party of $86,971,000 (net of PRC business tax; 30 June 2005: $nil), in respect of loss of income caused by the construction work carried out adjacent to Xiao Hu Island Terminal by the third party. There are neither unfilled conditions nor other contingencies attached to the receipt or usage of this compensation income.

Notes on Unaudited Interim Financial Report

(EXPRESSED IN HONG KONG DOLLARS)

4 OTHER NET INCOME

	Six months ended 30 June	
	2006	2005
	$'000	*$'000*
Interest income	**3,837**	3,774
Rental receivable from investment property	**288**	106
Others	**318**	371
	4,443	4,251

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2006	2005
	$'000	*$'000*
(a) Finance costs:		
Interest on bank borrowings wholly repayable within five years	**–**	2,861
Interest on convertible notes	**6,736**	9,208
	6,736	12,069
(b) Staff costs:		
Contributions to defined contribution retirement plan	**459**	262
Salaries, wages and other benefits	**5,255**	8,163
Directors' salaries and other benefits	**12,133**	1,778
	17,847	10,203
(c) Other items:		
Depreciation and amortisation	**13,895**	12,300
Loss on disposal of property, plant and equipment	**16**	14
Operating lease charges: minimum lease payment – buildings	**1,868**	1,059

Notes on Unaudited Interim Financial Report

(EXPRESSED IN HONG KONG DOLLARS)

6 INCOME TAX

	Six months ended 30 June	
	2006	2005
	$'000	*$'000*
The charge comprises:		
Current tax – PRC Enterprise Income Tax for the period	**8,779**	5,545
Deferred taxation	**2,931**	(1,200)
	11,710	4,345

No Hong Kong Profits Tax was provided as the Group had no assessable profit subject to Hong Kong Profits Tax for the period.

The subsidiary in the People's Republic of China (the "PRC"), GD (Panyu) is entitled to exemption from PRC Enterprise Income Tax for five years starting from its first profit-making year, followed by a 50% relief for the five years thereafter, in accordance with the approval from the PRC authority issued in 2002 regarding its port development business. The full PRC Enterprise Income Tax rate applicable to GD (Panyu) is 15% and the reduced rate is 7.5%. The first year of GD (Panyu) subject to PRC Enterprise Income Tax at the reduced rate of 7.5% commenced on 1 January 2004.

7 DIVIDEND

Dividend attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2006	2005
	$'000	*$'000*
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of nil (six months ended 30 June 2005: $1.0 cent per share)	**–**	26,200

The directors do not recommend a payment of interim dividend in respect of the period ended 30 June 2006 (Six months ended 30 June 2005: nil).

Notes on Unaudited Interim Financial Report

(EXPRESSED IN HONG KONG DOLLARS)

8 EARNINGS PER SHARE

The calculations of the basic and diluted earnings per share based on the share capital of the Company are as follows:

	Six months ended 30 June	
	2006	2005
	$'000	*$'000*
Profit attributable to ordinary equity shareholders (basic)	**97,915**	53,729
Effect of interest on liability component of Convertible Notes	**6,736**	9,208
Profit attributable to ordinary equity shareholders (diluted)	**104,651**	62,937
	Number of shares	**Number of shares**
Weighted average number of ordinary shares for the purposes of basic earnings per share	**2,620,000,000**	2,171,381,215
Effect of conversion of Convertible Notes	**1,270,000,000**	1,678,839,779
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**3,890,000,000**	3,850,220,994

9 MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

ACQUISITION AND DISPOSALS

During the six months ended 30 June 2006, the Group acquired items of dock and storage facilities with a cost of approximately $432,000 (six months ended 30 June 2005: $17,600,000). Items of dock and storage facilities with net book value of approximately $45,000 were disposed of during the six months ended 30 June 2006 (six months ended 30 June 2005: $36,000), resulting in a loss on disposal of approximately $16,000 (six months ended 30 June 2005: $14,000).

Notes on Unaudited Interim Financial Report

(EXPRESSED IN HONG KONG DOLLARS)

10 TRADE AND OTHER RECEIVABLES

Subject to negotiation , credit is generally only available for major customers with well-established trading records. The Group allows an average credit period of 30 to 90 days to its trade customers.

Included in trade and other receivables are trade receivables of approximately $8,518,000 (31 December 2005: $8,860,000) and compensation receivable of approximately $90,877,000 (31 December 2005: $nil)

The ageing analysis of trade receivables is as follows:

	At 30 June 2006	At 31 December 2005
	$'000	*$'000*
Due within 30 days	**8,518**	8,860

11 PROMISSORY NOTES

On 24 December 2004, the Company issued promissory notes with a principal amount of $200,000,000 to Vand Petro-Chemicals (BVI) Company Limited ("Vand Petro-Chemicals") as part of the consideration for the acquisition of Union Petro-Chemicals (BVI) Company Limited ("UPC"). The promissory notes are interest free and were originally repayable on or before 24 June 2006. Pursuant to the supplementary agreement between Vand Petro-Chemicals and the Company dated 23 June 2006, the maturity date of the promissory notes was extended to 31 December 2006.

12 CONVERTIBLE NOTES

On 24 December 2004, the Company issued convertible notes with a principal amount of $681,000,000 to Vand Petro-Chemicals as part of the consideration for the acquisition of UPC.

The convertible notes bear interest at 1% per annum and are redeemable at par on 24 December 2009. The holder of the convertible notes has the rights to convert all or any portion of the convertible notes into ordinary shares of the Company at an initial conversion price of $0.30 per share, subject to adjustment. The conversion rights can be exercised at any time from the date of issue until the repayment of the convertible notes, provided that the public float of the Company will not be less than 25% immediately after such conversion.

On 15 March 2005, Vand Petro-Chemicals exercised its rights to convert part of the convertible notes with a principal amount of $300 million for the issue of 1,000 million ordinary shares of $0.10 each at the conversion price of $0.30 each. No convertible notes were converted during the period ended 30 June 2006.

Notes on Unaudited Interim Financial Report

(EXPRESSED IN HONG KONG DOLLARS)

13 COMMITMENTS

(A) CAPITAL COMMITMENTS OUTSTANDING AT 30 JUNE 2006 NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT WERE AS FOLLOWS:

	30 June 2006 $'000	31 December 2005 $'000
Contracted for	**158,000**	375
Authorised but not contracted for	**405,000**	583,000
	563,000	583,375

(B) AT 30 JUNE 2006, THE TOTAL FUTURE MINIMUM LEASE PAYMENTS UNDER NON-CANCELLABLE OPERATING LEASES ARE PAYABLE AS FOLLOWS:

	30 June 2006 $'000	31 December 2005 $'000
Within 1 year	**2,646**	3,399
After 1 year but within 5 years	**1,545**	3,909
	4,191	7,308

14 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel receive compensations in form of salaries, other allowances, discretionary bonuses and retirement scheme contribution. Key management personnel received total compensation of $12,491,000 for the six months ended 30 June 2006 (six months ended 30 June 2005: $3,376,000). Total remuneration is included in administrative expenses.

Other Information

REVIEW OF THE INTERIM REPORT

The Group's interim report for the six months ended 30 June 2006 has not been audited but has been reviewed by the Audit Committee and auditors of the Company, Messrs. KPMG.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2006, the interests and short positions of directors and the chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

ORDINARY SHARES OF HK$0.10 EACH OF THE COMPANY

		Number of shares		Approximate percentage to the issued share capital of the Company	
Name of director	**Nature of interest**	**Long positions**	**Short positions**	**Long positions**	**Short positions**
Mr. David An	Corporate	1,643,659,980 *(note 1)*	nil	62.74%	nil
	Corporate	1,270,000,000 *(note 2)*	nil	48.47%	nil

Notes:

1. The shares are held directly as to 209,773,980 shares by Extreme Wise Investments Limited ("Extreme Wise") and 1,433,886,000 shares by Vand Petro-Chemicals, both companies are wholly-owned by Mr. David An. By virtue of the SFO, Mr. David An is deemed to have corporate interests in the 1,643,659,980 shares.

2. 1,270,000,000 shares (subject to adjustment) will be issued to Vand Petro-Chemicals upon its exercise of the conversion rights under the convertible note held by it. By virtue of the SFO, Mr. David An is deemed to have corporate interests in the 1,270,000,000 shares.

Other Information

Save as disclosed above, as at 30 June 2006, none of the directors and the chief executive of the Company and their associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2006, shareholders (other than directors or the chief executive of the Company) who had interests and short positions in the shares and underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

ORDINARY SHARES OF HK$0.10 EACH OF THE COMPANY

	Number of shares		Approximate percentage to the issued share capital of the Company	
Name of director	**Long positions**	**Short positions**	**Long positions**	**Short positions**
Extreme Wise	209,773,980	nil	8.01%	nil
Vand Petro-Chemicals	1,433,886,000	nil	54.73%	nil
	1,270,000,000 *(note 1)*	nil	48.47%	nil

Note 1: 1,270,000,000 shares (subject to adjustment) will be issued to Vand Petro-Chemicals upon its exercise of the conversion rights under the convertible note held by it. By virtue of the SFO, Vand Petro-Chemicals is deemed to have interests in the 1,270,000,000 shares.

Save as disclosed above, as at 30 June 2006, the Company has not been notified by any persons (other than directors or the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Other Information

SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed on 16 December 2002, the Company adopted a share option scheme, which will remain in force for a period of 10 years from adoption of such scheme and will expire on 15 December 2012. Detailed terms of the scheme were disclosed in the Company's 2005 annual report. As at the date of this report, no option has been granted by the Company under the scheme.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2006.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters including the review of the unaudited interim results for the six months ended 30 June 2006.

CORPORATE GOVERNANCE

(A) COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, save as disclosed below, the Company has complied with the code provisions set out in the Code of Corporate Governance Practices contained in Appendix 14 of the Listing Rules for the six months ended 30 June 2006.

As disclosed in the Company's 2005 annual report, the position of the Chief Executive Officer has been held by the Chairman of the Board since 19 October 2005. However, the Board considers this temporary arrangement will not impair the balance of power and authority between the Board and the management of the Company. The Company is in the course of soliciting an appropriate person to fill the Chief Executive Officer's position.

(B) COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors, all directors have complied with the required standard set out in the Model Code for the six months ended 30 June 2006.

On behalf of the Board
David An
Chairman

Hong Kong, 29 August 2006