1. CORPORATE INFORMATION

Titan (Holdings) Limited (the "Company") was incorporated in Bermuda on 24 April 1998 as an exempted company with limited liability under the Companies Act 1981 of Bermuda.

During the year, the Company and its subsidiaries (the "Group") were involved in the following principal activities:

(i) trading of oil products;

(ii) provision of oil transportation services;

(iii) oil storage; and

(iv) manufacture and sale of apparel (discontinued during the year – note 6)

In the opinion of the directors, the ultimate holding company of the Company is Titan Oil Pte. Ltd. ("Titan Oil"), which is incorporated in Singapore.

2. IMPACT OF REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE

The following new and revised Hong Kong Statement of Standard Accounting Practice ("SSAP") and Interpretation are effective for the first time for the current year's financial statements:

- SSAP 12 (Revised): "Income taxes"
- Interpretation 20: "Income taxes – Recovery of revalued non-depreciable assets"

These SSAP and Interpretation prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAP and Interpretation are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

NOTES TO FINANCIAL STATEMENTS

2. IMPACT OF REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE *(Continued)*

The adoption of this revised SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 11 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. The adoption of this Interpretation has had no significant impact for these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain fixed assets, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets *(Continued)*

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than the investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets, other than the investment properties, are dealt with as movements in the fixed asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

NOTES TO FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fixed assets and depreciation *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over the following estimated useful lives:

Leasehold land and buildings	The shorter of the lease terms and 50 years
Leasehold improvements	The shorter of the lease terms and 5 to 10 years
Vessels	3 to 10 years
Plant and machinery	5 to 10 years
Furniture, office equipment and motor vehicles	5 to 10 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Intangible assets

Licenses

Licenses are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 20 years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value after allowances for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads based on a normal level of operating activities. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Bunker oil

Bunker oil is stated at cost less any provisions considered necessary by the directors. Cost is determined on the weighted average cost method basis.

Contracts in progress/excess of progress billings over contract costs

Voyage chartering is accounted for in the balance sheet as all direct costs incurred plus recognised profits, less recognised losses and progress billings. Voyage chartering revenue comprises the agreed invoice amount whereas the direct costs incurred comprise bunker oil consumed and other overheads.

Where direct costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as contracts in progress.

Where progress billings exceed direct costs incurred to date plus recognised profits less recognised losses, the surplus is treated as excess of progress billings over contract costs.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same period or if it relates to items that are recognised in a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

NOTES
TO FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

(b) revenue from the provision of vessel chartering services:

(i) from voyage chartering, on a percentage of completion basis, which is determined on the time proportion method of each individual vessel voyage, as further explained in the accounting policy for "Contracts in progress/excess of progress billings over contract costs" above;

(ii) from time chartering, in the period in which the vessels are let out and on the straight-line basis over the lease terms;

(c) rental income, on a time proportion basis over the lease terms; and

(d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Employee benefits

Pension Scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Each of the subsidiaries operating in the People's Republic of China (the "PRC") participates in the retirement benefits scheme (the "RB Scheme") operated by the local municipal government in Fujian Province, the PRC. These subsidiaries are required to contribute a certain percentage of their payroll to the RB Scheme to fund the benefits. The only obligation of the Group with respect to the RB Scheme is to pay the ongoing required contributions under the RB Scheme. Contributions under the RB Scheme are charged to the profit and loss account as they become payable in accordance with the rules of the RB Scheme.

The employees of subsidiaries in Singapore are members of the Central Provident Fund ("CPF") operated by the government of Singapore. The subsidiaries and the employees are required to contribute a certain percentage of the employees' payroll to the CPF. The subsidiaries have no further obligations for the actual pension payments or post-retirement benefits beyond their contributions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the consolidated profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates are translated to Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

Continuing operations:

(i) trading of oil products;

(ii) oil transportation; and

(iii) oil storage.

Discontinued operation:

(i) manufacture and sale of apparel.

In determining the Group's geographical segments, revenue is attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments.

	Continuing operations						Discontinued operation					
	Trading of oil products		Oil transportation		Oil storage		Manufacture and sale of apparel		Eliminations		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:												
Revenue from external customers	**627,919**	157,951	**312,894**	47,746	**55,536**	–	**110,787**	135,804	**–**	–	**1,107,136**	341,501
Intersegment revenue	**–**	–	**25,834**	–	**5,023**	–	**–**	–	**(30,857)**	–	**–**	–
	627,919	157,951	**338,728**	47,746	**60,559**	–	**110,787**	135,804	**(30,857)**	–	**1,107,136**	341,501
Segment results	**3,462**	1,140	**86,335**	33,727	**17,551**	–	**(1,508)**	1,005	**–**	–	**105,840**	35,872
Interest income and unallocated gains											**4,709**	742
Unallocated expenses											**(6,523)**	(3,521)
Profit from operating activities											**104,026**	33,093
Finance costs											**(2,895)**	(2,646)
Profit before tax											**101,131**	30,447
Tax											**(613)**	(106)
Profit before minority interests											**100,518**	30,341
Minority interests											**(6)**	(310)
Net profit from ordinary activities attributable to shareholders											**100,512**	30,031

NOTES TO FINANCIAL STATEMENTS

31 December 2003

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

	Continuing operations						Discontinued operation			
	Trading of oil products		Oil transportation		Oil storage		Manufacture and sale of apparel		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**166,804**	15,472	**264,201**	175,369	**177,387**	–	**–**	176,344	**608,392**	367,185
Interests in associates	**–**	–	**–**	–	**102,211**	–	**–**	–	**102,211**	–
Unallocated assets									**44,525**	7,667
Total assets									**755,128**	374,852
Segment liabilities	**155,807**	12,064	**38,903**	11,219	**8,200**	–	**–**	5,930	**202,910**	29,213
Unallocated liabilities									**2,902**	35,333
Total liabilities									**205,812**	64,546
Other segment information:										
Depreciation and amortisation	**324**	194	**4,466**	1,243	**3,821**	–	**3,791**	3,882	**12,402**	5,319
Net deficit on revaluation of leasehold land and buildings recognised directly in equity	**–**	–	**–**	–	**–**	–	**–**	316	**–**	316
Unallocated other non-cash expenses	**–**	–	**–**	–	**–**	–	**–**	–	**–**	560
Capital expenditure	**301**	1,351	**28,500**	118,643	**88,938**	–	**884**	1,039	**118,623**	121,033

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

	Asia		North America		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Revenue from external customers	**1,065,037**	293,279	**42,099**	48,222	**1,107,136**	341,501
Other segment information:						
Segment assets	**643,381**	254,475	**–**	2,977	**643,381**	257,452
Unallocated assets					**111,747**	117,400
					755,128	374,852
Capital expenditure	**90,570**	2,390	**–**	–	**90,570**	2,390
Unallocated capital expenditure					**28,053**	118,643
					118,623	121,033

5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; gross freight income from the provision of oil transportation services and gross income from oil storage operations. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

An analysis of turnover is as follows:

	2003	2002
	HK$'000	*HK$'000*
Sale of goods	**738,706**	293,755
Provision of services	**368,430**	47,746
	1,107,136	341,501

NOTES TO FINANCIAL STATEMENTS

31 December 2003

6. DISCONTINUED OPERATION

During the year, the Group decided to focus its operations on the oil related business, including trading of oil products, oil transportation and oil storage. Accordingly, on 11 November 2003, the Company entered into an agreement to dispose of its entire 100% equity interest in Ever Lasting Resources Limited ("Ever Lasting"), a wholly-owned subsidiary of the Company engaged in the manufacture and sale of apparel, to Titan Oil, the Company's ultimate holding company which is wholly-owned by Mr. Tsoi Tin Chun ("Mr. Tsoi"), the chairman of the Company, and his associates. The disposal consideration was approximately HK$139,911,000. Upon completion of the disposal of Ever Lasting (the "Disposal"), the Group discontinued its business of the manufacture and sale of apparel. Further details of the Disposal are set out in note 36 to the financial statements.

As a result of the Disposal, the prior year comparative amounts for the following items have been reclassified to include the financial results and cash flows of Ever Lasting for the year ended 31 December 2003 so as to conform with the current year's presentation.

(i) "Turnover for discontinued operation", "Profit before tax for discontinued operation" and "Tax for discontinued operation", as shown on the consolidated profit and loss account; and

(ii) "Net cash inflow/(outflow) from operating activities for discontinued operation", "Net cash outflow from investing activities for discontinued operation" and "Net cash inflow/(outflow) from financing activities for discontinued operation", as shown on the consolidated cash flow statement.

6. DISCONTINUED OPERATION *(Continued)*

The turnover, other revenue, expenses and results of the manufacture and sale of apparel business for the two years ended 31 December 2003 were as follows:

	2003	2002
	HK$'000	*HK$'000*
TURNOVER	**110,787**	135,804
Cost of sales	**(98,730)**	(118,057)
Gross profit	**12,057**	17,747
Other revenue	**557**	816
Selling and distribution expenses	**(4,954)**	(5,384)
Administrative expenses	**(8,916)**	(8,997)
Other operating expenses	**–**	(560)
Gain on disposal of discontinued operation	**963**	–
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	**(293)**	3,622
Finance costs	**(2,192)**	(2,572)
PROFIT/(LOSS) BEFORE TAX	**(2,485)**	1,050
Tax	**(144)**	(106)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	**(2,629)**	944
Minority interests	**(6)**	(310)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**(2,635)**	634

The carrying amounts of the total assets and liabilities relating to the discontinued operation are as follows:

	19 December 2003 (date of disposal)	31 December 2002
	HK$'000	*HK$'000*
Total assets	**162,646**	182,119
Total liabilities	**(112,923)**	(128,804)
Minority interests	**(316)**	(310)
Net assets	**49,407**	53,005

NOTES TO FINANCIAL STATEMENTS

31 December 2003

7. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2003	2002
	HK$'000	*HK$'000*
Cost of inventories sold	**723,122**	274,605
Cost of services rendered	**250,184**	13,427
Depreciation *(note 15)*	**10,797**	5,319
Amortisation *(note 17)* *	**1,605**	–
Minimum lease payments under operating leases in respect of:		
vessels	**87,163**	–
leasehold land and buildings	**1,405**	1,683
Staff costs (excluding directors' remuneration – note 8)		
Wages and salaries	**25,954**	10,357
Retirement benefits scheme contributions	**456**	112
Auditors' remuneration	**1,450**	1,080
Deficit on revaluation of an investment property in Hong Kong	**–**	560
Surplus on revaluation of leasehold land and buildings in Hong Kong	**–**	(36)
Gross rental income from investment property	**(136)**	(171)
Less: Outgoings	**14**	9
Net rental income from investment property	**(122)**	(162)
Gain on disposal of fixed assets	**(169)**	–
Gain on disposal of discontinued operation	**(963)**	–
Interest income	**(259)**	(742)

* *Amortisation of the licenses for the year are included in "Cost of sales" on the face of the consolidated profit and loss account.*

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Fees:		
Executive directors	**–**	353
Non-executive director	**–**	–
Independent non-executive directors	**–**	–
Basic salaries, housing benefits, other allowances and benefits in kind:		
Executive directors	**1,982**	422
Retirement benefits scheme contributions:		
Executive directors	**12**	15
	1,994	790

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2003	2002
Nil – HK$1,000,000	**6**	11
HK$1,000,001 – HK$1,500,000	**1**	–
	7	11

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no share options were granted to the directors of the Company in respect of their services to the Group.

During the year, no emoluments were paid by the Group to the directors of the Company (including the five highest paid individuals) as an inducement to join or upon joining the Group, or as compensation for loss of office.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2002: two) directors, details of whose remuneration are disclosed in note 8 above. Details of the remuneration of the remaining three (2002: three) non-director, highest paid employees for the year are as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**2,447**	1,163
Retirement benefits scheme contributions	**34**	31
	2,481	1,194

The remuneration of the remaining three (2002: three) non-director, highest paid employees during the years ended 31 December 2003 and 2002 fell within the range of nil and HK$1,000,000.

During the year, no share options were granted to the three non-director, highest paid employees in respect of their services to the Group.

During the year, no emoluments were paid by the Group to the three non-director, highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office.

10. FINANCE COSTS

	Group	
	2003	2002
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts wholly repayable within five years	**1,921**	2,442
Interest on trust receipt loans, secured	**974**	204
	2,895	2,646

11. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2003	2002
	HK$'000	*HK$'000*
Group:		
Hong Kong	**469**	–
Elsewhere	**144**	114
Overprovision in prior year	**–**	(8)
	613	106

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates are as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Profit before tax	**101,131**	30,447
Tax at the applicable rates to profits in the countries concerned	**19,061**	4,949
Income not subject to tax	**(66,755)**	(7,643)
Expenses not deductible for tax	**48,307**	2,800
Tax charge at the Group's effective rate	**613**	106

No provision for deferred tax had been made as the Group and the Company did not have any significant unprovided deferred tax in respect of the year (2002: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2003

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company, was approximately HK$5,136,000 (2002: HK$1,776,000).

13. DIVIDEND

The directors do not recommend the payment of any final dividend (2002: Nil) in respect of the year ended 31 December 2003.

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of approximately HK$100,512,000 (2002: HK$30,031,000), and the weighted average of 3,782,340,019 (2002: 3,261,595,890) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 of approximately HK$100,512,000 (2002: HK$30,031,000). The weighted average number of ordinary shares used in the calculation is the 3,782,340,019 (2002: 3,261,595,890) ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 2,091,066 (2002: 20,622,201) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

15. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Vessels HK$'000	Plant and machinery HK$'000	Furniture, office equipment and motor vehicles HK$'000	Total HK$'000
Cost or valuation:						
At beginning of year	14,540	6,782	118,643	22,651	5,291	167,907
Additions	–	–	117,068	13	1,542	118,623
Disposal	–	–	–	–	(677)	(677)
Acquisition of a subsidiary	–	–	–	–	19	19
Disposal of subsidiaries	(14,540)	(6,361)	–	(22,664)	(4,556)	(48,121)
At end of year	–	421	235,711	–	1,619	237,751
Accumulated depreciation:						
At beginning of year	–	4,330	1,243	11,811	4,002	21,386
Provided during the year	154	1,010	6,631	2,462	540	10,797
Written back on disposal	–	–	–	–	(666)	(666)
Disposal of subsidiaries	(154)	(5,165)	–	(14,273)	(3,483)	(23,075)
At end of year	–	175	7,874	–	393	8,442
Net book value:						
At 31 December 2003	**–**	**246**	**227,837**	**–**	**1,226**	**229,309**
At 31 December 2002	14,540	2,452	117,400	10,840	1,289	146,521

As at 31 December 2003, all the fixed assets of the Group are stated at cost.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

15. FIXED ASSETS *(Continued)*

As at 31 December 2002, an analysis of the cost and valuation of the fixed assets of the Group was as follows:

	Leasehold land and buildings	Leasehold improvements	Vessels	Plant and machinery	Furniture, office equipment and motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost	–	6,782	118,643	22,651	5,291	153,367
At valuation	14,540	–	–	–	–	14,540
At 31 December 2002	14,540	6,782	118,643	22,651	5,291	167,907

The Group's leasehold land and buildings included above were held under the following terms:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Medium term leases in Hong Kong	**–**	2,740
Medium term lease in the PRC	**–**	11,800
	–	14,540

Had the Group's leasehold land and buildings in Hong Kong been carried at historical cost less accumulated depreciation, their carrying amounts at 31 December 2002 would have been approximately HK$2,710,000.

Had the Group's leasehold land and buildings held in the PRC been carried at historical cost less accumulated depreciation, their carrying amounts at 31 December 2002 would have been approximately HK$5,515,000.

At 31 December 2003, the Group's vessels with carrying values of approximately HK$227,837,000 were pledged to secure certain banking and other credit facilities granted to the Group (note 35).

At 31 December 2002, the Group's leasehold land and buildings with carrying values of HK$2,740,000 and HK$11,800,000 held in Hong Kong and the PRC, respectively, were pledged to secure certain banking facilities granted to the Group (note 35).

16. INVESTMENT PROPERTY

	Group	
	2003	2002
	HK$'000	*HK$'000*
Valuation:		
At beginning of year	**2,910**	3,300
Transfer from leasehold land and buildings	**–**	2,910
Transfer to leasehold land and buildings	**–**	(2,740)
Deficit on revaluation	**–**	(560)
Disposal of subsidiaries	**(2,910)**	–
At end of year	**–**	2,910

The Group's investment property was held under a medium term lease in Hong Kong.

At 31 December 2002, the investment property was revalued on an open market, existing use basis by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professionally qualified valuers, at HK$2,910,000. No surplus or deficit on revaluation had arisen thereon.

At 31 December 2002, the Group's investment property was pledged to secure certain banking facilities granted to the Group (note 35).

NOTES TO FINANCIAL STATEMENTS

31 December 2003

17. INTANGIBLE ASSETS

	Licenses
	HK$'000
Cost:	
Addition and at 31 December 2003	**51,935**
Accumulated amortisation:	
Provided during the year and at 31 December 2003	1,605
Net book value:	
At 31 December 2003	**50,330**
At 31 December 2002	–

Intangible assets represent rights acquired during the year to undertake floating storage operations within the port limit of the east coast and west coast of Malaysia, pursuant to licenses issued by the Ministry of Transport of Malaysia. Further details of the acquisition of the license rights are set out in note 36 to the financial statements.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK$'000	*HK$'000*
Unlisted shares, at cost	**8**	61,124
Due from subsidiaries	**372,307**	225,289
Due to subsidiaries	**–**	(253)
	372,315	286,160
Provision for impairment	**–**	(8,586)
	372,315	277,574

The amounts due from subsidiaries are unsecured, interest-free and are not repayable before 31 December 2004.

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ establishment and operations	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Titan Oil (Asia) Limited	British Virgin Islands ("BVI")	Ordinary US$1	100	Investment holding
Titan FSU Investment Limited *	BVI	Ordinary US$1,000	100	Investment holding
Titan Oil Storage Investment Limited	BVI	Ordinary US$1	100	Investment holding
Indirectly held				
Titan Asian Tiger Limited	Hong Kong	Ordinary HK$2	100	Provision of oil transportation services
Titan Oriental Tiger Limited	Hong Kong	Ordinary HK$100	100	Provision of oil transportation services
Titan Oil Trading Limited	Hong Kong	Ordinary HK$3,000,000	100	Trading of oil products

NOTES
TO FINANCIAL STATEMENTS

31 December 2003

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ establishment and operations	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held				
Titan Oil (HK) Company Limited	Hong Kong	Ordinary HK$2	100	Provision of oil transportation services
Titan Ocean Pte Limited ("Ocean Pte") *	Singapore	Ordinary S$100,000	100	Provision of vessel management services
Titan Mars Limited *	BVI/Malaysia	Ordinary US$1,000	100	Provision of floating storage services
Titan Mercury Limited *	BVI	Ordinary US$1,000	100	Provision of oil transportation services
Titan Solar Pte Limited *	Singapore/ Malaysia	Ordinary S$2	100	Provision of floating storage services

* *Not audited by Ernst & Young Hong Kong or other Ernst & Young Global member firms.*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INTERESTS IN ASSOCIATES

	Group	
	2003	2002
	HK$'000	*HK$'000*
Share of net assets	**22,080**	–
Goodwill on acquisition	**44,569**	–
	66,649	–
Due from an associate	**35,562**	–
	102,211	–

The amount due from an associate is unsecured, interest-free and is not repayable within one year.

Particulars of the associates are as follows:

Name	**Business structure**	**Place of incorporation and operations**	**Percentage of ownership interest attributable to the Group**	**Principal activities**
Sky Sharp Investments Limited ("Sky Sharp")	Corporate	BVI	40	Investment holding
Forever Fortune Holdings Limited ("Forever Fortune") *	Corporate	Hong Kong	40	Investment holding
Fujian Titan Petrochemical Storage Development Co., Ltd ("Titan Petrochemical") *	Corporate	The PRC	38	Provision for oil berthing and storage facilities

* *Not audited by Ernst & Young Hong Kong or other Ernst & Young Global member firms.*

Details of the acquisition of the associates are included in note 36 (c) to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

20. INVENTORIES

	Group	
	2003	2002
	HK$'000	*HK$'000*
Raw materials	–	2,163
Work in progress	–	5,660
Finished goods	–	32,594
	–	40,417

None of the inventories were carried at net realisable value as at 31 December 2002.

21. ACCOUNTS AND BILLS RECEIVABLES

The Group normally allows credit terms to well-established customers ranging from 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

An aged analysis of accounts and bills receivables, net of provisions, as at the balance sheet date, based on the date of recognition of the sale, is as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
1 – 3 months	**184,484**	65,295
4 – 6 months	**197**	10,068
7 – 12 months	**95**	2,910
	184,776	78,273

22. CONTRACTS IN PROGRESS/EXCESS OF PROGRESS BILLINGS OVER CONTRACT COSTS

	Group	
	2003	2002
	HK$'000	*HK$'000*
Contracts in progress		
Direct costs incurred plus recognised profits less recognised losses to date	**17,160**	–
Excess of progress billings over contract costs		
Direct costs incurred plus recognised profits less recognised losses to date	**9,194**	–
Less: Progress billings	**16,165**	–
	6,971	–

23. DUE FROM ULTIMATE HOLDING COMPANY

The amount due from the ultimate holding company represents a promissory note (the "Note") in the amount of HK$39,859,000 issued by Titan Oil in favour of the Company for partial settlement of the consideration for the Disposal, as detailed in note 6 to the financial statements. The Note is secured by a personal guarantee executed by a director of the Company, bears interest at 3% per annum and is repayable on or before 10 May 2004 (or such later date as the independent shareholders may then approve). Further details are also set out in note 36 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**101,332**	43,339	**1,184**	1,654
Deposits with financial institutions	**–**	18,497	**–**	–
Cash and cash equivalents	**101,332**	61,836	**1,184**	1,654

At the balance sheet date, no cash and cash equivalents of the Group were denominated in Renminbi ("RMB").

At 31 December 2002, the cash and cash equivalents of the Group denominated in RMB amounted to HK$29,379,000. RMB is not freely convertible into foreign currencies. Subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

25. INTEREST-BEARING BANK LOANS

	Group	
	2003	2002
	HK$'000	*HK$'000*
Trust receipt loans, secured	**98,744**	4,239
Bank loans, secured and repayable:		
Within one year	**–**	28,633
In the second year	**–**	200
In the third to fifth years, inclusive	**–**	414
	–	29,247
	98,744	33,486
Portion classified as current liabilities	**(98,744)**	(32,872)
Long term portion	**–**	614

26. ACCOUNTS AND BILLS PAYABLES

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers.

An aged analysis of the accounts and bills payables as at the balance sheet date, based on the date of receipt of goods purchased, is as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
1 – 3 months	**73,663**	21,336
4 – 6 months	**4,416**	1,461
7 – 12 months	**–**	195
	78,079	22,992

27. OTHER PAYABLES AND ACCRUALS

	Group	
	2003	2002
	HK$'000	*HK$'000*
Other payables	**19,232**	4,324
Accruals	**2,317**	3,744
	21,549	8,068

28. SHARE CAPITAL

Shares

	2003	2002
	HK$'000	*HK$'000*
Authorised:		
10,000,000,000 ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
3,933,542,509 (2002: 3,536,500,000) ordinary shares of HK$0.01 each	**39,335**	35,365

NOTES
TO FINANCIAL STATEMENTS

28. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

A summary of the movements in the authorised and issued share capital of the Company is as follows:

	Number of authorised shares *'000*	Number of shares in issue *'000*	Nominal value of shares issued *HK$'000*
At 1 January 2002	10,000,000	3,001,500	30,015
Issue of shares	–	515,000	5,150
Exercise of share options	–	20,000	200
At 31 December 2002 and 1 January 2003	10,000,000	3,536,500	35,365
Issue of shares *(Note)*	–	397,043	3,970
At 31 December 2003	**10,000,000**	**3,933,543**	**39,335**

Note: During the year, the Company issued 397,042,509 ordinary shares of HK$0.01 each at a price of HK$0.35 per share to Titan Oil to acquire two floating storage units and two rights to undertake floating storage operations. The excess of the share issue proceeds over the nominal value of the shares issued amounting to approximately HK$134,995,000 was credited to the share premium account. Further details of the above transaction are set out in note 36 to the financial statements.

Shares option schemes

Details of the Company's share option schemes and the share options issued under the scheme are included in note 29 to the financial statements.

29. SHARE OPTION SCHEME

A summary of the Old Scheme and the New Scheme is set out below:

	Old Scheme	**New Scheme**
Purpose	To provide incentives and rewards to eligible participants who contribute to the success of the operations of the Group.	To provide incentives and rewards to eligible participants who contribute to the success of the operations of the Group.
Participants	Full time employees and executive directors of the Company and its subsidiaries.	(i) Full time employees and directors of the Company and its subsidiaries; and (ii) any suppliers, consultants, agents and advisors of the Group.
Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at the date of the annual report	Not applicable	227,230,000 ordinary shares, representing approximately 5.18% of the issued share capital at the date of the annual report.
Maximum entitlement of each participant	Maximum number of shares issuable under share options to each eligible participant is limited to 25% of the aggregate of all shares of the Company subject to the Old Scheme.	Maximum number of shares issuable under share options to each eligible participant within any 12-month period, including exercised and outstanding options, is limited to 1% of the shares of the Company in issue at any time.
Period within which the ordinary shares must be taken up under an option	No option will be exercisable later than 10 years after the commencement date on which the option was granted and accepted.	No option will be exercisable later than 10 years after the New Scheme has been adopted by the shareholders of the Company.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

29. SHARE OPTION SCHEME *(Continued)*

	Old Scheme	New Scheme
Minimum period for which an option must be be held before it can be exercised	None	None
Amount payable on acceptance	HK$1.00	HK$1.00
Period within which payments/calls/loans must be made/repaid	Not applicable	Not applicable
Basis of determining the exercise price	Determined by the directors at their discretion, but shall not be less than the higher of: (i) 80% of the average closing price of the ordinary shares of the Company as stated in the daily quotation sheets of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of grant of the share options; or (ii) the nominal value of the ordinary shares of the Company.	Determined by the board of directors at their discretion based on the higher of: (i) the closing price of ordinary shares on the Stock Exchange at the date of the offer; (ii) the average closing price of the ordinary shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date of the offer; or (iii) the nominal value of the ordinary shares of the Company.
The remaining life of scheme	The scheme was terminated on 31 May 2002.	The scheme remains in force until 31 May 2012.

29. SHARE OPTION SCHEME *(Continued)*

The following share options under the Old Scheme were outstanding during the year:

	Number of share options							
Name or category of participant	At 1 January 2003	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2003	Date of grant of share options*	Exercise period of share options	Exercise price of share options**
								HK$
Director								
Mr. Tsoi Kwing Ming	14,000,000	–	–	(14,000,000)	–	2 February 2000	2 March 2000 to 2 February 2003	0.133
Other employees								
In aggregate	23,060,000	–	–	(23,060,000)	–	2 February 2000	2 March 2000 to 2 February 2003	0.133
	37,060,000	–	–	(37,060,000)	–			

* *The vesting period of the share options is from the date of grant until the commencement of the exercise period.*

** *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of the Company.*

No share option was granted under the New Scheme during the year. During the year ended 31 December 2002, 20,000,000 share options under the Old Scheme were exercised, which resulted in the issue of 20,000,000 ordinary shares of the Company and new share capital of HK$200,000 and share premium of HK$2,460,000 (before issue expenses), as detailed in note 28 to the financial statements.

Subsequent to the balance sheet date, in January 2004, a total of 74,920,000 share options were granted to certain employees, agent and consultant of the Company. These share options have an exercise price of HK$0.988 per share and an exercise period ranging from 31 January 2005 to 31 January 2008.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

30. RESERVES

(a) Group

	Share premium account HK$'000	Contributed surplus HK$'000	Fixed asset revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2002	56,171	18,261	6,635	–	28,872	109,939
Issue of new shares	133,900	–	–	–	–	133,900
Share options exercised	2,460	–	–	–	–	2,460
Share issue expenses	(1,540)	–	–	–	–	(1,540)
Net deficit on revaluation	–	–	(316)	–	–	(316)
Exchange realignment	–	–	–	157	–	157
Net profit for the year	–	–	–	–	30,031	30,031
At 31 December 2002 and 1 January 2003	190,991	18,261	6,319	157	58,903	274,631
Issue of new shares – *note 28*	134,995	–	–	–	–	134,995
Disposal of subsidiaries	–	–	(6,319)	(157)	6,319	(157)
Net profit for the year	–	–	–	–	100,512	100,512
At 31 December 2003	**325,986**	**18,261**	**–**	**–**	**165,734**	**509,981**

The contributed surplus of the Group arose as a result of the Group reorganisation carried out on 18 May 1998 and represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

30. RESERVES *(Continued)*

(b) Company

	Share premium	Contributed surplus	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2002	56,171	60,916	(7,148)	109,939
Issue of new shares	133,900	–	–	133,900
Share options exercised	2,460	–	–	2,460
Share issue expenses	(1,540)	–	–	(1,540)
Net loss for the year	–	–	(1,776)	(1,776)
At 31 December 2002 and 1 January 2003	190,991	60,916	(8,924)	242,983
Issue of new shares – *note 28*	134,995	–	–	134,995
Net loss for the year	–	–	(5,136)	(5,136)
At 31 December 2003	**325,986**	**60,916**	**(14,060)**	**372,842**

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the same Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its members out of the contributed surplus under certain circumstances.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

(i) During the year, the Group acquired two floating storage units and two rights to undertake floating storage operations, which are included in "Fixed assets" and "Intangible assets", respectively, on the face of the balance sheet, at a total consideration of US$17.8 million (equivalent to approximately HK$138,965,000). The above consideration was satisfied by the issue of the Company's ordinary shares. Further details of the above transaction are set out in notes 28 and 36 to the financial statements.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(a) Major non-cash transactions *(Continued)*

(ii) During the year, the Group acquired a 40% equity interest in Sky Sharp at a consideration of approximately HK$100,052,000. The above consideration was satisfied by the disposal of the Group's entire 100% equity interest in Ever Lasting and the issue of the Note as detailed in note 23 to the financial statements. The Note was classified as "Due from ultimate holding company" on the face of the balance sheet. Further details of the above transaction are set out in note 36 to the financial statements.

(b) Acquisition of a subsidiary

	2003	2002
	HK$'000	*HK$'000*
Net assets acquired:		
Fixed assets	**19**	–
Accounts receivables	**361**	–
Prepayments, deposits and other receivables	**380**	–
Cash and cash equivalents	**4,095**	–
Accounts payables	**(481)**	–
Other payables and accruals	**(3,924)**	–
Total net assets acquired	**450**	–
Satisfied by:		
Cash – *note 36*	**450**	–

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2003	2002
	HK$'000	*HK$'000*
Cash consideration	**(450)**	–
Cash and cash equivalent acquired	**4,095**	–
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	**3,645**	–

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Disposal of subsidiaries

	2003 *HK$'000*	2002 *HK$'000*
Net assets disposed of:		
Fixed assets	25,046	–
Investment property	2,910	–
Inventories	30,623	–
Accounts receivables	42,024	–
Prepayments, deposits and other receivables	13,891	–
Cash and cash equivalents	48,152	–
Interest-bearing bank loans	(19,789)	–
Accounts payables	(840)	–
Other payables and accruals	(2,596)	–
Due to the Company	(89,698)	–
Minority interests	(316)	–
Total net assets disposed of	49,407	–
Disposal of amount due to the Company	89,698	–
Exchange fluctuation reserve released on disposal	(157)	–
Gain on disposal of subsidiaries	963	–
	139,911	–
Satisfied by:		
Consideration for acquisition of 40% equity interest in Sky Sharp – *note 36*	100,052	–
Issue of the Note – *note 23*	39,859	–
	139,911	–

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2003 *HK$'000*	2002 *HK$'000*
Cash and cash equivalents disposed of	48,152	–

NOTES TO FINANCIAL STATEMENTS

31 December 2003

32. OPERATING LEASE ARRANGEMENTS

(a) As lessor

During the year ended 31 December 2003, the Group leased vessels and investment property (note 16) under operating lease arrangements. Leases for the vessels are negotiated for terms ranging from three to six months, and the lease for the investment property is negotiated for a term of three years.

At 31 December 2003, the Group had total future lease receivables under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Within one year	**–**	13,464

(b) As lessee

The Group leases vessels and certain leasehold land and buildings under operating lease arrangements. Leases for the vessels are negotiated for terms of one year, and the lease for leasehold land and buildings is negotiated for a term of three years.

At 31 December 2003, the Group had total future lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Vessels		
Within one year	**20,578**	68,504
Leasehold land and buildings		
Within one year	**160**	1,583
In the second to fifth years, inclusive	**–**	410
	160	1,993
	20,738	70,497

33. COMMITMENTS

As at 31 December 2003, the Group and the Company had the following commitments:

(i) The Group had capital contribution commitment of US$5,220,000 (equivalent to approximately HK$40,716,000) in respect of the formation of a joint venture company in Nansha, Guangzhou, the PRC. Further details of the joint venture are set out in the Company's press announcement dated 24 March 2004.

(ii) According to the acquisition agreement entered with Titan Oil for the acquisition of a 38% attributable interest in Titan Petrochemical, as further detailed in note 36 (c) to the financial statements below, the additional amount of HK$95,228,000 (the "Additional Acquisition Consideration") will be payable by the Company upon obtaining the PRC regulatory approvals by which Titan Petrochemical will be authorised to construct and thereafter to operate, a 100,000 tonne terminal and 500,000 cubic metres oil and petrochemical storage facilities (the "Further Project Approval"). The Additional Acquisition Consideration is to be satisfied as to HK$55,369,000 by the issue of 184,563,333 ordinary shares of the Company to Titan Oil and as to HK$39,859,000 by the surrender and cancellation of the Note issued by Titan Oil in favour of the Company.

As at 31 December 2003, one of the Group's associates had its own capital commitments, amounting to approximately RMB26 million (equivalent to approximately HK$24 million) in respect of the construction of oil berthing and storage facilities. The Group holds a 38% attributable interest in this associate.

As at 31 December 2002, neither the Group nor the Company had any significant commitments.

34. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bills discounted with recourse	**–**	4,589	**–**	–
Guarantees given to banks in connection with banking facilities granted to subsidiaries	**–**	–	**153,834**	42,100
	–	4,589	**153,834**	42,100

Other than the contingent liabilities as disclosed above, the Group and the Company had no material contingent liabilities as at 31 December 2003.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

35. BANKING AND OTHER CREDIT FACILITIES

At 31 December 2003, the Group's banking and other credit facilities were secured by the following:

(i) the Group's vessels with carrying values of HK$227,837,000 (note 15);

(ii) a personal guarantee executed by a director of the Company; and

(iii) a corporate guarantee executed by the Company.

At 31 December 2002, the Group's banking facilities were secured by the following:

(i) the Group's leasehold land and buildings in Hong Kong and the PRC with carrying values of HK$2,740,000 and HK$11,800,000, respectively (note 15);

(ii) the Group's investment property with a carrying value of HK$2,910,000 (note 16);

(iii) a personal guarantee executed by a director of the Company, and certain properties situated in the PRC jointly held by certain directors of the Group and certain independent third parties; and

(iv) a corporate guarantee executed by the Company, certain subsidiaries of the Company and an independent third party.

36. RELATED PARTY AND CONNECTED TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

(a) Acquisition of floating storage units and the rights to undertake floating storage operations (the "FSU Acquisition")

On 4 March 2003, the Company entered into a conditional agreement with Titan Mars Pte. Ltd. ("Vendor A"), Titan Oil Tank Pte. Ltd. ("Vendor B") and Titan Oil, whereby Vendor A, Vendor B and Titan Oil agreed to sell and the Group agreed to purchase:

(i) two floating storage units which are each strategically located within the port limit of the east coast and west coast of Malaysia; and

(ii) two rights to undertake floating storage operations each within the port limit of the east coast and west coast of Malaysia, pursuant to licenses issued by the Ministry of Transport of Malaysia (the "FSU Rights").

36. RELATED PARTY AND CONNECTED TRANSACTIONS *(Continued)*

(a) Acquisition of floating storage units and the rights to undertake floating storage operations (the "FSU Acquisition") *(Continued)*

The consideration payable by the Group was approximately US$17.8 million (equivalent to approximately HK$138,965,000) (the "FSU Consideration"), which was satisfied by way of the issue of 397,042,509 ordinary shares of HK$0.01 each in the share capital of the Company to Great Logistics Holdings Limited, the immediate holding company of the Company which is wholly owned by Titan Oil, at a price of HK$0.35 per share. The FSU Consideration represented a discount of approximately 7% to the valuation of the assets acquired of US$19.2 million (equivalent to approximately HK$149,424,600) by Grant Sherman Appraisal Limited ("Grant Sherman"), an independent firm of professionally qualified valuers. These two floating storage units and these two rights to undertake floating storage operations were valued based on the open market basis and the discounted cash flow basis, respectively. After taking into account the legal opinion, the directors consider that the Group's offshore oil storage operations should not be subject to Malaysian income tax. In this connection, Titan Oil, the vendor of the FSU Rights, has given an indemnity in relation to any such exposure arising from the operations of the two floating storage units.

Both Vendor A and Vendor B are wholly and beneficially owned by Ms. Tsoi Yuk Yi ("Mrs. Tsoi"), the spouse of Mr. Tsoi, the chairman and executive director of the Company. Titan Oil is the Company's ultimate holding company which is held as to 95% by Mr. Tsoi and as to 5% by Mrs. Tsoi.

As Mr. Tsoi and his associate held the entire equity interests in the above vendors, the FSU Acquisition also constituted a connected transaction and was approved by the independent shareholders of the Company on 25 April 2003. Further details of the FSU Acquisition are set out in a circular to shareholders of the Company dated 9 April 2003.

(b) Acquisition of an interest in Ocean Pte

On 27 June 2003, the Group entered into an acquisition agreement with Titan Oil to purchase the entire equity interest in Ocean Pte, a company incorporated in Singapore with limited liability engaging in the provision of vessel management services, for a cash consideration of S$100,000 (equivalent to approximately HK$450,000). Details of the transaction are set out in note 31 (b) to the financial statements.

NOTES
TO FINANCIAL STATEMENTS

31 December 2003

36. RELATED PARTY AND CONNECTED TRANSACTIONS *(Continued)*

(c) Acquisition of 38% attributable interest in Titan Petrochemical and disposal of the apparel business

On 11 November 2003, the Company entered into an acquisition and disposal agreement (the "S&P Agreement") with Titan Oil, under which:

(i) the Company agreed to purchase from Titan Oil a 38% attributable interest in Titan Petrochemical, a Sino-foreign equity joint venture established in the PRC with limited liability, for a consideration of HK$195,280,000 (the "Acquisition Consideration"). Titan Petrochemical was owned as to 95% by Forever Fortune and as to 5% by an independent third party. The acquisition was accomplished by the acquisition from Titan Oil of 40% of the issued share capital of Sky Sharp which holds the entire issued share capital of Forever Fortune, and the acquisition of the shareholder's loan owed by Forever Fortune to Titan Oil, being HK$35,562,000 as at 31 October 2003 (the "Forever Fortune Debt"); and

(ii) the Company agreed to sell to Titan Oil the Group's apparel business for HK$139,911,000 (the "Disposal Consideration") through the disposal of its entire issued share capital of Ever Lasting and the amounts owed by Ever Lasting to the Company, being approximately HK$89,698,000 as at 30 September 2003 (the "Ever Lasting Debt"). Ever Lasting is an investment holding company within the Group for the purpose of holding the apparel business. The Disposal Consideration was determined by reference to the unaudited consolidated net asset value of Ever Lasting and its subsidiaries, amounting to approximately HK$50,213,000 as at 30 September 2003, and the face value of the Ever Lasting Debt of approximately HK$89,698,000 as at the same date.

As Titan Oil was the contracted party of the S&P Agreement, the transaction also constituted a connected transaction under the Listing Rules and was subject to independent shareholders' approval. Further details of the above acquisition are set out in a circular to shareholders of the Company dated 1 December 2003. On 17 December 2003, the independent shareholders' approval was obtained at the special general meeting of the Company. On 19 December 2003, the S&P Agreement was completed.

Titan Petrochemical has obtained approval from the Ministry of Communications and the Development and Planning Commission of Quanzhou Municipal Government, the PRC for the construction and operation of a 5,000 tonne terminal and 100,000 cubic metres oil and petrochemical storage facilities. Titan Petrochemical has been seeking for the Further Project Approval as further detailed in note 33(ii) to the financial statements. The project to construct, develop and operate the onshore oil and petrochemical storage facilities and adjoining terminals and trans-shipment facilities and three pieces of land located at Quanzhou City, Fujian Province, the PRC, which was used for such project, were valued by Grant Sherman on open market value basis.

36. RELATED PARTY AND CONNECTED TRANSACTIONS *(Continued)*

(c) Acquisition of 38% attributable interest in Titan Petrochemical and disposal of the apparel business *(Continued)*

Pursuant to the S&P Agreement, Titan Oil has agreed that the Acquisition Consideration should be settled as to HK$139,911,000 by way of set-off against the Disposal Consideration and as to HK$55,369,000 by way of the issue of 184,563,333 ordinary shares of HK$0.01 each in the share capital of the Company ("Consideration Shares") to Titan Oil at a price of HK$0.3 per share.

If the Further Project Approval is not obtained on or before 10 May 2004 (or such later date as the independent shareholders may then approve), the Consideration Shares will not be issued and the Acquisition Consideration will be deemed to be reduced to HK$100,052,000 (the "Initial Acquisition Consideration"). The Initial Acquisition Consideration is determined by reference to (i) the unaudited consolidated net assets value of Forever Fortune and the face value of the Forever Fortune Debt as at 31 October 2003; and (ii) the independent preliminary business and property valuations performed by Grant Sherman on the fair market value basis assuming the Further Project Approval will not be obtained.

As at the date of these financial statements, the Further Project Approval has not yet been obtained. Pursuant to the S&P Agreement, the Disposal Consideration should be settled by way of set-off against the Initial Acquisition Consideration and as to HK$39,859,000 by way of the issue of the Note, as detailed in note 23 to the financial statements, by Titan Oil in favour of the Company. The Note was guaranteed by Mr. Tsoi, the executive director of the Company.

(d) Other payables settled by the director of the Company

As at 31 December 2002, other payables of the Group of approximately HK$11,142,000 were settled by Mr. Tsoi, the chairman of the Company, and companies beneficially owned by him on behalf of the Group. The Group repaid HK$10,367,000 to the aforementioned parties on a reimbursement basis. The remaining balances due to the aforementioned parties of HK$775,000 as at 31 December 2002 were unsecured, interest-free and were fully repaid during the year ended 31 December 2003.

NOTES
TO FINANCIAL STATEMENTS

31 December 2003

37. POST BALANCE SHEET EVENTS

In addition to those events disclosed elsewhere in these financial statements, the Group had the following significant post balance sheet events:

(a) Placing of existing shares and subscription for new shares

On 13 January 2004, Great Logistics, the immediate holding company of the Company, entered into a placing and subscription agreement (the "Placing and Subscription Agreement") with the Company and Deutsche Bank AG, Hong Kong (the "Placing Agent"), an independent third party. Pursuant to the Placing and Subscription Agreement, Great Logistics has placed, through the Placing Agent, 450,000,000 shares of HK$0.01 each in the share capital of the Company to independent investors at a price of HK$0.92 per share. On completion of the placing, Great Logistic has subscribed for 450,000,000 new shares of HK$0.01 each in the share capital of the Company at a price HK$0.92 per share.

The net proceeds from the issue of new shares by the Company of approximately HK$392 million is earmarked as to approximately HK$270 million for the acquisition of vessels for bunkering or transportation purposes, as to approximately HK$81 million for the development of onshore oil storage facilities and as to the balance of approximately HK$41 million as working capital.

(b) Possible formation of a joint venture at Yangshan Port, the PRC

On 13 January 2004, the Company has signed a letter of intent with 浙江省嵊泗縣海鑫石油有限公司 ("Zhejiang Shengsi Haixin"), an independent third party, regarding the setting up of a joint venture company, provisionally to be named 浙江嵊泗泰山石化倉儲有限公司 (the "Yangshan JV Company") for the establishment and operation of storage and trans-shipment facilities for bunkering services and trading of product oil and fuel oil at Yangshan Port, the PRC for a term of 30 years.

The registered capital of the Yangshan JV Company is proposed to be US$10,000,000. The equity interest in the Yangshan JV Company is proposed to be held as to 65% by the Company and as to 35% by Zhejiang Shengsi Haixin. The Company is to make a capital contribution of 65% of the registered capital of the Yangshan JV Company, being US$6,500,000 (approximately HK$50,700,000) in cash on the proposed establishment of the Yangshan JV Company.

37. POST BALANCE SHEET EVENTS *(Continued)*

(c) Acquisition of 100% entire equity interest of Neptune Associated Shipping Pte Limited

On 17 February 2004, the Group entered into a conditional agreement with Neptune Orient Lines Limited ("NOL"), an independent third party incorporated in Singapore whose shares are listed on the Stock Exchange of Singapore, to acquire the entire equity interest in the issued share capital of Neptune Associated Shipping Pte Limited ("NAS"), a company incorporated in Singapore with limited liability and wholly-owned by NOL, for a consideration of US$55.1 million (equivalent to approximately HK$429,780,000) (the "NAS Consideration"). The NAS Consideration will be adjusted by reference to the net asset value of NAS and its subsidiaries (collectively referred to as the "NAS Group") as at the completion date. The NAS Consideration was determined with reference to (a) the net asset value of the NAS Group as at 31 December 2003 and the agreed post balance sheet date adjustment; (b) the amount of intercompany indebtedness of approximately US$14.7 million; and (c) certain positive net asset effects which will result from the proposed sales of two medium range product tankers and consequent termination of the bareboat chartering arrangements. On 16 March 2004, the above acquisition was completed.

Further details of the above acquisition are set out in the Company's press announcement dated 17 February 2004 and its circular dated 24 March 2004.

(d) Disposal of two shipping vessel tankers

On 2 March 2004, the Company entered into a conditional agreement with an independent third party to sell two shipping vessel tankers, namely Asian Tiger and Titan Mercury, for a total cash consideration of approximately US$20.38 million (equivalent to approximately HK$158,960,000) (the "Vessel Disposal"). These two shipping vessel tankers were classified as "Fixed assets" on the face of the balance sheet, with unaudited net book values of approximately HK$85,160,000 at 29 February 2004. The selling prices for Asian Tiger and Titan Mercury were determined by reference to the prevailing market price for scrap steel. The directors of the Company estimated that the net proceeds from the Vessel Disposal amounted to HK$152,580,000. Further details of the Vessel Disposal are set out in the Company's press announcement dated 3 March 2004 and its circular dated 23 March 2004.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

38. COMPARATIVE AMOUNTS

In addition to the discontinued operation as disclosed in note 6 to the financial statements, as further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2004.