TITAN
PETROCHEMICALS GROUP LIMITED

INTERIM REPORT 2004

HIGHLIGHTS

	2004 HK$ million	2003 HK$ million	Change
Turnover	**1,338**	380	+253%
Profit attributable to shareholders	**155**	41	+275%
Earnings per share (cents)	**3.514**	1.136	+209%

- **Expansion of oil trading supported rapid revenue growth**
- **Oil transportation continued to provide strong profit contribution**
- **Satisfactory progress made on the major oil storage terminal projects in China**
- **Commenced ship refueling business in Singapore and Hong Kong**

CHAIRMAN'S STATEMENT

Titan continued to produce excellent results as we expanded our core businesses of oil trading, transportation and storage. We expect further robust growth in revenues and earnings during the second half of the year, as more assets come on stream and we benefit further from the rising demand for oil and oil products in China and other parts of Asia.

Results

The Group's turnover for the period was HK$1,338 million, representing a very substantial 253% increase as compared with the same period of last year. The net profit from ordinary activities — including the gain from the disposal of two vessels as part of our fleet upgrading programme — attributable to shareholders increased to HK$155 million from HK$41 million for the first six months of 2003.

Operations

During the first half of 2004, the Group further realized its objectives of establishing a comprehensive oil business platform covering the areas of oil trading, oil transportation, oil storage, and ship refueling (bunkering). Following the disposal of the legacy garment business during 2003, the Group now derives all of its revenues from these activities.

Trading

During the six months, the Group's oil trading business saw a substantial rise in volume. The contribution to the Group's turnover and the segment results rose to HK$1,022 million and HK$4 million respectively as compared to HK$138 million and HK$1 million for the same period of 2003. As a result, oil trading accounted for 76% of Group revenues.

Transportation

The oil transportation business remained an important profit contributor to the Group. This business recorded a turnover of HK$294 million for the six months, representing a remarkable 70% increase as compared to the HK$172 million recorded for the first six months of 2003. The profit contribution from oil transportation increased by 111% from HK$45 million to HK$95 million.

The growth was supported by the successful acquisition in March 2004 of Neptune Associated Shipping Pte. Ltd. ("NAS"), the oil transportation operation of Neptune Orient Lines Limited that is one of the leading providers of petroleum transportation in the Asia Pacific region. NAS contributed HK$83 million and HK$10 million to the Group's turnover and profit respectively during the period.

In addition, Titan continued its strategy of improving productivity and competitiveness by upgrading and expanding its operational fleets. During the period, the Group disposed of two older vessels, resulting in a net gain of HK$63 million. The Group also acquired two Very Large Crude Carriers ("VLCC"). In total, the Group now has 24 oil tankers with total capacity of 1,062,000 dead weight tons.

Storage

The floating oil storage business recorded a turnover of HK$22 million for the period as compared to HK$7 million for the same period of 2003. Its contribution to segment results was HK$7 million as compared to HK$2 million for the first six months of 2003.

In addition to our long-established operations in Singapore, we have begun to expand more aggressively in Mainland China, with which we conduct substantial business. In Mainland China, the Group has invested in Fujian Titan Petrochemical Storage Development Co. Ltd. to construct storage facilities in Fujian. The construction progressed well. During the first half of 2004, we also entered into a second joint venture agreement with two independent third parties in respect of an oil storage project in Nansha, Guangdong province, in which the Group holds a 45% stake of the joint venture. The Group also signed a Letter of Intent regarding the establishment of a joint venture company to build and operate a major oil products terminal and storage facility at Yangshan, Zheijiang province, to serve the greater Shanghai market.

Bunkering

In June, we entered the large ship-refueling market in Singapore. We accomplished this through entering into a series of business contracts in Singapore with Fuels and Marine Marketing ("FAMM"), a business unit of Caltex, and by making use of three bunker barges that joined our fleet of vessels through the earlier acquisition of NAS. Later in the same month we also commenced a bunkering business in Hong Kong.

Outlook

We expect trading conditions for our businesses to remain favourable in the second half of 2004, as China's economic development, coupled with its desire to increase its oil reserves, supports demand for oil trading, transportation, storage and bunkering in Singapore and Hong Kong.

Following a period of high growth and expansion, during the second half of 2004 the Group will concentrate on consolidating the operations of its core businesses, seeking ways to integrate them more effectively and enhance returns to the Company and its shareholders.

Trading

In the second half of the year, we expect significant expansion of our oil trading business through a combination of organic growth and possible acquisition, which will not only generate profit for the Group, but create synergies among our core businesses and closer relationships with clients. Despite further expected expansion, we will continue to monitor market risks and operate on a prudent basis. We will also continue our preparations for the opening of the oil products market in China in 2006, to enable us to take maximum advantage of the opportunities that will arise.

Transportation

The Group will continue to expand its tanker fleet to ensure sufficient capacity to meet demand. To serve the routes between the Middle East and Asia, including China, we are exploring the purchase or lease of additional VLCCs. The short-to-medium range operation, which serves intra-Asian routes, will be restructured to improve operating efficiency and secure stable sources of cargo.

Storage

The Group's three onshore oil storage terminal projects in Mainland China are proceeding on schedule and during the second half of the year we will work to ensure progress remains on schedule. In addition, we will begin discussions with major potential clients that have long-term storage needs, to ensure a stable source of revenue once the facilities come on stream. In the longer term, their strategic locations in China should enable the Group to extend its distribution network to most parts of the country.

Bunkering

We intend to build on the solid basis provided by the contracts signed recently with FAMM and our bunker barges, to develop this business rapidly and increase our market share in Singapore and Hong Kong.

Dividend

The Board does not recommend the payment of any interim dividend in respect of the period (2003: Nil).

For the excellent performance achieved in the first six months of 2004, I would like to thank the Board of Directors and all the Group's employees around Asia for their hard work, support and dedication.

By order of the Board
Tsoi Tin Chun
Chairman

Hong Kong, 5 August 2004

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	Six months ended 30 June 2004 (Unaudited) HK$'000	2003 (Unaudited) HK$'000
Turnover	2		
Continuing operations		**1,338,445**	316,817
Discontinued operation	3	**—**	62,855
		1,338,445	379,672
Cost of sales		**(1,208,844)**	(321,519)
Gross profit		**129,601**	58,153
Other revenue		**65,035**	747
Selling and distribution expenses		**—**	(3,584)
Administrative expenses		**(29,055)**	(12,099)
Other operating expenses		**—**	(409)
PROFIT FROM OPERATING ACTIVITIES	5	**165,581**	42,808
Finance costs	6	**(9,877)**	(1,284)
PROFIT/(LOSS) BEFORE TAX			
Continuing operations		**155,704**	43,001
Discontinued operation		**—**	(1,477)
		155,704	41,524
Tax	7		
Continuing operations		**(1,004)**	—
Discontinued operation		**—**	(380)
		(1,004)	(380)
PROFIT BEFORE MINORITY INTERESTS		**154,700**	41,144
Minority interests		**—**	106
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**154,700**	41,250
DIVIDEND	8	**Nil**	Nil
EARNINGS PER SHARE	9		
Basic		**3.514 cents**	1.136 cents
Diluted		**3.512 cents**	1.135 cents

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital HK$'000	Share premium account HK$'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 2004 (Audited)	**39,335**	**325,986**	**18,261**	**—**	**—**	**165,734**	**549,316**
Issue of new shares	**6,346**	**441,040**	**—**	**—**	**—**	**—**	**447,386**
Acquisition of subsidiaries	**—**	**—**	**—**	**—**	**(45)**	**—**	**(45)**
Net profit for the period	**—**	**—**	**—**	**—**	**—**	**154,700**	**154,700**
At 30 June 2004 (Unaudited)	**45,681**	**767,026**	**18,261**	**—**	**(45)**	**320,434**	**1,151,357**

	Issued capital HK$'000	Share premium account HK$'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 2003 (Audited)	35,365	190,991	18,261	6,319	157	58,903	309,996
Issue of new shares	3,970	134,994	—	—	—	—	138,964
Net profit for the period	—	—	—	—	—	41,250	41,250
At 30 June 2003 (Unaudited)	39,335	325,985	18,261	6,319	157	100,153	490,210

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**30 June 2004 (Unaudited) HK$'000**	31 December 2003 (Audited) HK$'000
NON-CURRENT ASSETS			
Fixed assets		**970,366**	229,309
Intangible assets		**41,186**	50,330
Interests in associates		**197,416**	102,211
		1,208,968	381,850
CURRENT ASSETS			
Inventories		**26,299**	8,657
Accounts and bills receivables	10	**471,969**	184,776
Prepayments, deposits and other receivables		**119,820**	21,494
Contracts in progress		**13,508**	17,160
Due from ultimate holding company		**—**	39,859
Cash and cash equivalents		**423,378**	101,332
		1,054,974	373,278
CURRENT LIABILITIES			
Interest-bearing bank loans		**(264,612)**	(98,744)
Obligations under finance leases		**(26,678)**	—
Accounts and bills payables	11	**(207,985)**	(78,079)
Other payables and accruals		**(66,318)**	(21,549)
Excess of progress billings over contract costs		**(3,020)**	(6,971)
Tax payable		**(5,182)**	(469)
		(573,795)	(205,812)
NET CURRENT ASSETS		**481,179**	167,466
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,690,147**	549,316
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		**(356,850)**	—
Obligations under finance leases		**(167,071)**	—
Deferred tax liabilities		**(14,869)**	—
		(538,790)	—
		1,151,357	549,316
CAPITAL AND RESERVES			
Issued capital	12	**45,681**	39,335
Reserves		**1,105,676**	509,981
		1,151,357	549,316

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash inflow/(outflow) from operating activities	**139,626**	(51,126)
Net cash outflow from investing activities	**(317,425)**	(2,524)
Net cash inflow from financing activities	**499,845**	57,195
INCREASE IN CASH AND CASH EQUIVALENTS	**322,046**	3,545
Cash and cash equivalents at beginning of period	**101,332**	61,836
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**423,378**	65,381
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	**303,692**	65,381
Time deposits with original maturity of less than three months when acquired	**119,686**	—
	423,378	65,381

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements for the period of the Group have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The accounting policies adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the Group's audited financial statements for the year ended 31 December 2003.

2. TURNOVER

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

3. DISCONTINUED OPERATION

During the year ended 31 December 2003, the Group discontinued the manufacturing and sale of apparel. A wholly-owned subsidiary engaged in the garment business had been disposed to Titan Oil Pte. Ltd. ("Titan Oil"), the Company's ultimate holding company for a consideration of HK$139,911,000, resulting in a gain of HK$963,000 to the Group.

4. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products 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 other business segments. The Group is principally engaged in the trading of oil products, oil transportation and oil storage. The following table presents revenue and results for the Group's business segments.

	Continuing operations						**Discontinued operation**					
	Trading of oil products Six months ended 30 June		**Oil transportation Six months ended 30 June**		**Oil storage Six months ended 30 June**		**Manufacture and sale of apparel Six months ended 30 June**		**Eliminations Six months ended 30 June**		**Consolidated Six months ended 30 June**	
	2004 (Unaudited) HK$'000	2003 (Unaudited) HK$'000	**2004 (Unaudited) HK$'000**	2003 (Unaudited) HK$'000	**2004 (Unaudited) HK$'000**	2003 (Unaudited) HK$'000	**2004 (Unaudited) HK$'000**	2003 (Unaudited) HK$'000	**2004 (Unaudited) HK$'000**	2003 (Unaudited) HK$'000	**2004 (Unaudited) HK$'000**	2003 (Unaudited) HK$'000
Segment revenue:												
Sales to external customers	**1,022,451**	137,774	**293,717**	172,304	**22,277**	6,739	**—**	62,855	**—**	—	**1,338,445**	379,672
Intersegment revenue	**336**	—	**6,104**	—	**3,276**	—	**—**	—	**(9,716)**	—	**—**	—
	1,022,787	137,774	**299,821**	172,304	**25,553**	6,739	**—**	62,855	**(9,716)**	—	**1,338,445**	379,672
Segment results	**3,852**	1,001	**94,897**	44,934	**6,936**	2,267	**—**	(464)	**—**	—	**105,685**	47,738
Unallocated revenue											**65,640**	168
Unallocated expenses											**(5,744)**	(5,098)
Profit from operating activities											**165,581**	42,808
Finance costs											**(9,877)**	(1,284)
Profit before tax											**155,704**	41,524
Tax											**(1,004)**	(380)
Profit before minority interests											**154,700**	41,144
Minority interests											**—**	106
Net profit from ordinary activities attributable to shareholders											**154,700**	41,250

5. PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cost of inventories sold	**1,016,214**	187,406
Depreciation and amortisation	**29,157**	6,018
Interest income	**(564)**	(168)
Gain on disposal of vessels	**(63,430)**	—

6. FINANCE COSTS

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest on bank loans and overdrafts wholly repayable:		
within five years	**3,886**	1,108
over five years	**131**	—
Interest on trust receipt loans	**1,466**	176
Interest on finance leases	**2,176**	—
Other borrowing costs	**2,218**	—
	9,877	1,284

7. TAX

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current period provision:		
Hong Kong	**356**	—
Elsewhere	**820**	380
Deferred tax	**(172)**	—
Taxation charge	**1,004**	380

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the countries where the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The Group had no significant unprovided deferred tax for the period (2003: Nil).

8. DIVIDEND

The Board does not recommend the payment of any interim dividend for the period (2003: Nil).

9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK$154,700,000 (2003: HK$41,250,000) and the weighted average of 4,402,332,472 (2003: 3,630,825,016) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the period is based on the net profit from ordinary activities attributable to shareholders for the period of HK$154,700,000 (2003: HK$41,250,000). The weighted average number of ordinary shares used in the calculation is the 4,402,332,472 (2003: 3,630,825,016) ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 2,646,813 (2003: 2,120,020) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

10. ACCOUNTS AND BILLS RECEIVABLES

The Group normally allows credit terms to well-established customers ranging from 30 to 120 days. An aging analysis of the 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:

	30 June 2004	31 December 2003
	(Unaudited)	(Audited)
	HK$'000	HK$'000
1–3 months	**445,769**	184,484
4–6 months	**24,290**	197
7–12 months	**1,793**	95
over 12 months	**117**	—
	471,969	184,776

11. ACCOUNTS AND BILLS PAYABLES

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers. An aging analysis of the accounts and bills payables as at the balance sheet date, based on the receipt of goods purchased, is as follows:

	30 June 2004	31 December 2003
	(Unaudited)	(Audited)
	HK$'000	HK$'000
1–3 months	**201,702**	73,663
4–6 months	**5,132**	4,416
7–12 months	**755**	—
over 12 months	**396**	—
	207,985	78,079

12. ISSUED CAPITAL

	30 June 2004	31 December 2003
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
4,568,105,842 (31 December 2003: 3,933,542,509) ordinary shares of HK$0.01 each	**45,681**	39,335

The following is a summary of the movements in the issued share capital of the Company:

	Number of shares in issue '000	Issued share capital HK$'000
At 1 January 2004 (Audited)	**3,933,543**	39,335
Issue of new shares	**634,563**	6,346
At 30 June 2004 (Unaudited)	**4,568,106**	45,681

13. RELATED PARTY TRANSACTIONS

On 11 November 2003, the Group entered into an acquisition and disposal agreement ("S&P Agreement") with Titan Oil for the acquisition of 38% attributable interest in Fujian Titan Petrochemical Storage Development Co., Ltd ("Fujian Titan Petrochemical"), a Sino-foreign equity joint venture established in Mainland China with limited liability. Pursuant to the S&P Agreement, Titan Oil agreed that the acquisition consideration should be settled as to HK$139,911,000 by way of set-off against the disposal consideration of the garment business and as to HK$55,369,000 by way of the issue 184,563,333 ordinary shares of HK$0.01 each in the share capital of the Company ("Consideration Shares") to Titan Oil or its wholly-owned subsidiary. In May 2004, the regulatory approvals by which Fujian Titan Petrochemical was authorised to construct and operate a 100,000 tonne terminal and 500,000 cubic metre oil and petrochemical storage facilities were obtained and the Consideration shares was issued at a price of HK$0.3 per share.

14. COMMITMENTS

At 30 June 2004 and 31 December 2003, the Group had capital contribution commitment of US$5,220,000 (equivalent to HK$40,716,000) in respect of the formation of a joint venture company in Mainland China.

15. CONTINGENT LIABILITIES

At 30 June 2004, the banking facilities granted to certain subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of HK$623,477,000 (31 December 2003: HK$153,834,000).

16. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases vessels and certain leasehold land and buildings under operating lease arrangements. Leases for vessels are negotiated for terms arranging from one to six years, and leases for leasehold land and buildings are negotiated for terms ranging from one to three years.

At 30 June 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2004 (Unaudited) HK$'000	31 December 2003 (Audited) HK$'000
Within one year	**13,850**	20,738
In the second to fifth years, inclusive	**28,442**	—
	42,292	20,738

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the period's presentation.

CAPITAL STRUCTURE AND LIQUIDITY

The Group finances its operations largely through internally generated cash flows, term loans and trade finance facilities provided by banks in Hong Kong and Singapore. As at 30 June 2004, the Group had cash and cash equivalents of HK$423,378,000 (31 December 2003: HK$101,332,000), comprising an equivalent of HK$416 million denominated in US dollars, an equivalent of HK$4 million denominated in Singapore dollars and HK$3 million in Hong Kong dollars.

On 13 January 2004, the Company placed 450,000,000 new shares at HK$0.92 per share and the net proceeds of HK$392 million was earmarked as to HK$270 million for acquisitions of vessels for bunkering or transportation purposes, as to HK$81 million for the development of onshore oil storage facilities and as to the balance of HK$41 million as working capital of the Group. As at 30 June 2004, out of HK$270 million proceeds for vessel acquisitions, HK$190 million comprising HK$129 million and HK$61 million were utilised for the acquisition of NAS group and a VLCC, respectively.

As at 30 June 2004, the Group had interest-bearing bank borrowings of HK$621.5 million (31 December 2003: HK$98.7 million), of which all were floating-interest bearing and denominated in US dollars. HK$264.6 million of the Group's bank borrowings as at 30 June 2004 had maturities within one year and of these HK$84.4 million were trust receipt loans.

As at 30 June 2004, the Group's banking facilities were secured by cash deposits amounting to HK$68.7 million, vessels with carrying value of HK$687.6 million and issued shares of certain subsidiaries.

Furthermore, pursuant to loan agreements dated 16 March 2004 between the Company's subsidiaries and DBS Bank Limited, 500,000,000 ordinary shares of the Company held by Great Logistics Holdings Limited ("Great Logistics") were charged as part of security for term loan and revolving credit facility of US$38,500,000.

As at 30 June 2004, the Group had current assets of HK$1,055.0 million (31 December 2003: HK$373.3 million). The Group's current ratio was 1.84 as at 30 June 2004 (31 December 2003: 1.81). As at 30 June 2004, the Group had total assets of HK$2,263.9 million (31 December 2003: HK$755.1 million), total bank borrowings of HK$621.5 million (31 December 2003: HK$98.7 million), and finance lease payables of HK$193.7 million (31 December 2003: Nil). The gearing of the Group, calculated as total bank borrowings and finance lease payables to total assets, was 0.36 as at 30 June 2004 (31 December 2003: 0.13). The change in the gearing ratio was mainly attributable to the bank financing for the acquisition of NAS group and VLCCs during the period.

The Group's business contracts are mostly settled in US dollars. The reporting currency of the Group is Hong Kong dollar. Since the exchange rate of US dollar against Hong Kong dollar was relatively stable during the period, the directors consider that the Group has no significant exposure to foreign exchange fluctuations. During the period, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 30 June 2004.

EMPLOYEES

As at 30 June 2004, the Group had approximately 120 employees in Singapore, Hong Kong and Mainland China, and approximately 430 crews on board of the Group's fleet and floating storage unit. Remuneration packages including basic salary, bonus and benefit in kind are structured by reference to market terms and individual merit and are reviewed on an annual basis based on performance appraisal. Share options were also granted to certain employees and directors of the Group during the period.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at 30 June 2004, the interests and short positions of the Directors and chief executives of the Company or their respective associates have the following interests in the shares, underlying shares of the Company or any associated corporations (within the meaning of the Securities and Future Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules and which were required to be entered into the register required to be kept under Section 352 of the SFO were as follows:

(i) Long positions in shares

Name	Capacity	Number of shares held	Approximate percentage of shareholding
Mr. Tsoi Tin Chun	Interest of a controlled corporation	2,458,465,842 (Note 1)	53.82%

Note 1: The 2,458,465,842 shares are held by Great Logistics. Mr. Tsoi Tin Chun is deemed to be interested in such shares held by Great Logistics as a result of his shareholding in Titan Oil, the ultimate holding company of Great Logistics. The issued share capital of Great Logistics is beneficially and wholly owned by Titan Oil, which in turn is owned as to 95% by Mr. Tsoi Tin Chun and as to 5% by Ms. Tsoi Yuk Yi, the spouse of Mr. Tsoi Tin Chun.

(ii) Long positions in underlying shares

Name	Capacity	Number of underlying shares held	Approximate percentage of shareholding
Mr. Sun Zhong	Beneficial owner	10,000,000 (Note 2)	0.22%

Note 2: A share option carrying rights to subscribe for 10,000,000 shares of the Company was granted to Mr. Sun Zhong on 25 June 2004 pursuant to the share option scheme adopted by the Company on 31 May 2002. Please also refer to the "SHARE OPTION SCHEME" below for details.

Save as disclosed above, none of the Directors, chief executives had any interests or short positions in any shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of the SFO) as recorded in the register to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO and the Model Code.

SHARE OPTION SCHEME

The Company's old share option scheme was adopted on 18 May 1998 (the "Old Scheme") and which was terminated and replaced by a new share option scheme (the "New Scheme") on 31 May 2002. The movements of the share options granted by the Company during the six months ended 30 June 2004 under the New Scheme are as follows:

Name or category of participants	Date of grant*	As at 1 January 2004	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	As at 30 June 2004	Exercise period	Exercise price per share**
									(HK$)
Director									
Sun Zhong	30 January 2004	—	5,000,000	—	5,000,000	—	—	31 January 2006 to 31 January 2008	0.988
	25 June 2004	—	10,000,000	—	—	—	10,000,000	25 June 2006 to 25 June 2008	0.450
Employee, in aggregate	30 January 2004	—	29,920,000	—	24,920,000	5,000,000	—	31 January 2006 to 31 January 2008	0.988
	25 June 2004	—	156,620,000	—	—	—	156,620,000	25 June 2006 to 25 June 2008	0.450
Others, in aggregate	30 January 2004	—	40,000,000	—	40,000,000	—	—	31 January 2005 to 31 January 2008	0.988
	25 June 2004	—	32,800,000	—	—	—	32,800,000	25 June 2006 to 25 June 2008	0.450
Total		—	274,340,000	—	69,920,000	5,000,000	199,420,000		

* Options are vested to grantees immediately on the date of grant. The closing price of the shares of the Company was HK$0.960 and HK$0.430 on 29 January 2004 and 24 June 2004 respectively.

** 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.

The Directors consider that it is not appropriate to value the share options on the ground that certain crucial factors for such valuation are variables which can not be reasonably determined at this stage. Any valuation of the share options based on speculative assumptions in respect of such variables would not be meaningful and the results thereof may be misleading to the shareholders.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraphs headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS" and "SHARE OPTION SCHEME" mentioned above, at no time during the period there were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 30 June 2004, so far as is known to the Directors and the chief executives of the Company, the following persons (other than a director or chief executive of the Company) who have interests or short positions in the shares and underlying shares which were required to be recorded in the register to be kept by the Company pursuant to Section 336 of the SFO, or to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO and the Listing Rules were as follows:

Name	Capacity	Number of shares held	Approximate percentage of shareholding
Great Logistics	Beneficial owner	2,458,465,842 (Note 1 above)	53.82%
Titan Oil	Interest of a controlled corporation	2,458,465,842 (Note 3)	53.82%
Ms. Tsoi Yuk Yi	Interest of spouse	2,458,465,842 (Note 4)	53.82%
Ms. Tse Lai Hing	Beneficial owner	280,000,000	6.13%
Mr. Tse Yin Tuen	Interest of spouse	280,000,000 (Note 5)	6.13%

Note 3: Titan Oil is beneficially interested in the entire issued share capital of Great Logistics. Therefore it is deemed to be interested in the 2,458,465,842 shares held by Great Logistics.

Note 4: Ms. Tsoi Yuk Yi is beneficially interested in 5% of the issued share capital of Titan Oil, which in turn holds the entire issued share capital of Great Logistics. Mr. Tsoi Tin Chun is beneficially interested in 95% of the issued share capital of Titan Oil. As Ms. Tsoi Yuk Yi is the spouse of Mr. Tsoi Tin Chun, she is deemed to be interested in the 2,458,465,842 shares held by Great Logistics.

Note 5: Mr. Tse Yin Tuen is the spouse of Ms. Tse Lai Hing. Therefore, Mr. Tse Yin Tuen is deemed to be interested in the 280,000,000 shares held by Ms. Tse Lai Hing.

Save as disclosed above, the Directors and the chief executives of the Company are not aware that there is any persons, other than the Directors and chief executive of the Company, had an interest or a short position in the shares and underlying shares of the Company which were required to be recorded in the register to be kept by the Company pursuant to Section 336 of the SFO, or to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO and the Listing Rules.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by this interim report in compliance with the Code of Best Practice ("Code") as set out in Appendix 14 to the Listing Rules. The independent non-executive directors of the Company were not appointed for specific terms, but are subject to retirement by rotation and re-election in accordance with the Company's bye-laws.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirement of the Code, for the purpose of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The audit committee comprises two of the independent non-executive directors for the Company. The audit committee has reviewed the interim report and is of the opinion that the interim report complies with the applicable accounting standards, Listing Rules and relevant legal requirements, and that adequate disclosures have been made.