Notes to Financial Statements

31 December 2004

1. Corporate Information

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

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

(i) trading/supply of oil products;

(ii) provision of logistic services (including oil storage and oil transportation); and

(iii) provision of bunker refuelling services.

In the prior year, the Group was also engaged in the manufacture and sale of apparel but such activity was discontinued during the prior year (note 6).

Great Logistics Holdings Limited ("Great Logistics") is the immediate holding company of the Company. In the opinion of the Company's directors, the ultimate holding company of the Company is Titan Oil Pte. Ltd. ("Titan Oil"), which is incorporated in Singapore.

2. Impact of Recently Issued Hong Kong Financial Reporting Standards ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. Summary of Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. 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.

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.

3. Summary of Significant Accounting Policies (continued)

Joint venture companies (continued)

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 Group has unilateral control, directly or indirectly, over the joint venture company;

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

(c) an associate, if the Group 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 Group 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.

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 and 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.

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.

Fixed assets and depreciation

Fixed assets are stated at cost 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.

Depreciation is calculated on the straight-line basis to write off the cost of each asset, less any estimated residual value, over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	The shorter of the lease terms and 6 years
Vessels	The remaining age of the vessels and 25 years
Furniture, 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.

Intangible assets

Licences

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

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

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 lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Borrowing costs

Borrowing costs, which are not directly attributable to the acquisition or construction of qualifying assets, are charged to the profit and loss account in the period in which they are incurred.

Bunker oil and ship stores and spare parts

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

Ship stores and spare parts are charged as operating expenses when purchased.

3. Summary of Significant Accounting Policies (continued)

Inventories

Inventories represent product oils and are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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 invoiced amount whereas the direct costs incurred comprise bunker oil consumed and other overheads.

Provision is made for foreseeable losses as soon as they are anticipated by management.

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.

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, 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 and associates, 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.

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 and associates, 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.

3. Summary of Significant Accounting Policies (continued)

Income tax (continued)

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;

(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 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

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Pension schemes

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.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme (the "CB Scheme") operated by the local municipal government in Mainland China. These subsidiaries are required to contribute a certain percentage of their payroll to the CB Scheme to fund the benefits. The only obligation of the Group with respect to the CB Scheme is to pay the ongoing required contributions under the CB Scheme. Contributions under the CB Scheme are charged to the profit and loss account as they become payable in accordance with the rules of the CB 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 the 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.

Dividends

Final dividends proposed by the directors are classified as a separation allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

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 into 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.

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/supply of oil products;

(ii) provision of logistic services (including oil storage and oil transportation); and

(iii) provision of bunker refuelling services.

Discontinued operation:

(i) manufacture and sale of apparel. Such operation was discontinued on 19 December 2003 and the details of which are set out in note 6 to the financial statements.

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.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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/supply of oil products		Provision of logistic services				Provision of bunker refuelling		Manufacture and sale of apparel		Eliminations		Consolidated	
			Oil transportation		Oil storage									
	2004 HK$'000	2003 HK$'000	**2004 HK$'000**	2003 HK$'000	**2004 HK$'000**	2003 HK$'000	**2004 HK$'000**	2003 HK$'000	**2004 HK$'000**	2003 HK$'000	**2004 HK$'000**	2003 HK$'000	**2004 HK$'000**	2003 HK$'000
Segment revenue:														
Revenue from external customers	**1,281,458**	627,919	**907,862**	312,894	**37,148**	55,536	**1,267,097**	—	**—**	110,787	**—**	—	**3,493,565**	1,107,136
Intersegment revenue	**—**	—	**23,375**	25,834	**1,638**	5,023	**38,880**	—	**—**	—	**(63,893)**	(30,857)	**—**	—
	1,281,458	627,919	**931,237**	338,728	**38,786**	60,559	**1,305,977**	—	**—**	110,787	**(63,893)**	(30,857)	**3,493,565**	1,107,136
Segment results	**6,540**	3,462	**431,688**	86,335	**16,143**	17,551	**7,518**	—	**—**	(1,508)	**—**	—	**461,889**	105,840
Interest income and unallocated gains													**5,305**	4,709
Unallocated expenses													**(24,678)**	(6,523)
Profit from operating activities													**442,516**	104,026
Finance costs													**(39,608)**	(2,895)
Profit before tax													**402,908**	101,131
Tax													**(2,450)**	(613)
Profit before minority interests													**400,458**	100,518
Minority interests													**—**	(6)
Net profit from ordinary activities attributable to shareholders													**400,458**	100,512

4. Segment Information (continued)

(a) Business segments (continued)

	Continuing operations								Discontinued operation			
	Trading/supply of oil products		Provision of logistic services: Oil transportation		Provision of logistic services: Oil storage		Provision of bunker refuelling		Manufacture and sale of apparel		Consolidated	
	2004 HK$'000	2003 HK$'000	2004 HK$'000	2003 HK$'000	2004 HK$'000	2003 HK$'000	2004 HK$'000	2003 HK$'000	2004 HK$'000	2003 HK$'000	2004 HK$'000	2003 HK$'000
Segment assets	**254,452**	166,804	**1,879,510**	264,201	**153,358**	177,387	**193,448**	—	**—**	—	**2,480,768**	608,392
Interests in associates	**—**	—	**—**	—	**249,380**	102,211	**—**	—	**—**	—	**249,380**	102,211
Unallocated assets											**279,977**	44,525
Total assets											**3,010,125**	755,128
Segment liabilities	**2,004**	155,807	**115,353**	38,903	**4,555**	8,200	**130,063**	—	**—**	—	**251,975**	202,910
Unallocated liabilities											**1,128,804**	2,902
Total liabilities											**1,380,779**	205,812
Other segment information:												
Depreciation and amortisation	**—**	324	**87,805**	4,466	**8,870**	3,821	**—**	—	**—**	3,791	**96,675**	12,402
Unallocated depreciation and amortisation											**3,222**	—
											99,897	12,402
Capital expenditure	**—**	301	**956,783**	28,500	**17,228**	88,938	**—**	—	**—**	884	**974,011**	118,623
Unallocated capital expenditure											**11,287**	—
											985,298	118,623

(b) Geographical segments

	China		Other Asia Pacific Countries		America		Consolidated	
	2004 HK$'000	2003 HK$'000	2004 HK$'000	2003 HK$'000	2004 HK$'000	2003 HK$'000	2004 HK$'000	2003 HK$'000
Segment revenue:								
Revenue from external customers	**752,422**	516,593	**2,741,143**	548,444	**—**	42,099	**3,493,565**	1,107,136
Other segment information:								
Segment assets	**537,467**	271,165	**1,230,750**	317,480	**—**	—	**1,768,217**	588,645
Unallocated assets							**1,241,908**	166,483
							3,010,125	755,128
Capital expenditure	**8,510**	1,186	**22,206**	63,131	**—**	—	**30,716**	64,317
Unallocated capital expenditure							**954,582**	54,306
							985,298	118,623

5. Turnover

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; income from the provision of bunker refuelling services, gross freight income from the provision of oil transportation services and gross income from oil storage operations. In the prior year, the Group's turnover included the net invoiced value of goods sold arising from the manufacture and sale of apparel. Such operation was discontinued during the prior year and the details of which are set out in note 6 to the financial statements. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

An analysis of turnover is as follows:

	2004 HK$'000	2003 HK$'000
Trading of oil products	**1,281,458**	627,919
Provision of bunker refuelling services	**1,267,097**	—
Provision of oil transportation services	**907,862**	312,894
Provision of oil storage services	**37,148**	55,536
Trading of apparel	**—**	110,787
	3,493,565	1,107,136

6. Discontinued Operation

In the prior 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") on 19 December 2003, the Group discontinued its business of the manufacture and sale of apparel. Further details of the Disposal are set out in note 32(c) to the financial statements.

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

	2003 HK$'000
Turnover	110,787
Cost of sales	(98,730)
Gross profit	12,057
Other revenue	557
Selling and distribution expenses	(4,954)
Administrative expenses	(8,916)
Gain on disposal of a discontinued operation	963
Loss from Operating Activities	(293)
Finance costs	(2,192)
Loss Before Tax	(2,485)
Tax	(144)
Loss before Minority Interests	(2,629)
Minority interests	(6)
Net Loss from Ordinary Activities Attributable to Shareholders	(2,635)

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

	19 December 2003 (date of disposal) HK$'000
Total assets	162,646
Total liabilities	(112,923)
Minority interests	(316)
Net assets	49,407

7. Profit from Operating Activities

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

		Group	
	Notes	**2004 HK$'000**	2003 HK$'000
Cost of inventories sold		**2,522,856**	723,122
Cost of services rendered		**483,623**	250,184
Depreciation*	*15*	**96,560**	10,797
Amortisation of intangible assets*	*16*	**2,597**	1,605
Amortisation of goodwill	*17*	**740**	—
Minimum lease payments under operating leases in respect of:			
Vessels		**75,295**	87,163
Leasehold land and buildings		**7,163**	1,405
Staff costs (excluding directors' remuneration — note 8)			
Wages and salaries		**99,589**	25,954
Retirement benefits scheme contributions		**2,509**	456
		102,098	26,410
Auditors' remuneration		**1,600**	1,450
Loss on disposal of fixed assets, other than vessels		**352**	—
Gross rental income from investment property		**—**	(136)
Less: Outgoings		**—**	14
Net rental income from investment property		**—**	(122)
Gain on disposal of fixed assets		**—**	(169)
Gain on disposal of a discontinued operation	*6*	**—**	(963)
Interest income		**(979)**	(259)

* Depreciation of vessels and amortisation of intangible assets 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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2004 HK$'000	2003 HK$'000
Fees:		
Executive directors	**—**	—
Non-executive director	**90**	—
Independent non-executive directors	**380**	—
Basic salaries, housing benefits, other allowances and benefits in kind:		
Executive directors	**4,083**	1,982
Retirement benefits scheme contributions:		
Executive directors	**71**	12
	4,624	1,994

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

	Number of directors	
	2004	2003
Nil — HK$1,000,000	**10**	6
HK$1,000,001 — HK$1,500,000	**1**	1
HK$1,500,001 — HK$2,000,000	**1**	—
	12	7

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

During the year, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 30 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

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.

9. Five Highest Paid Employees

The five highest paid employees during the year included two (2003: two) directors, details of whose remuneration are disclosed in note 8 above. Details of the remuneration of the remaining three (2003: three) non-director, highest paid employees for the year are as follows:

	Group	
	2004 HK$'000	2003 HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**3,667**	2,447
Retirement benefits scheme contributions	**85**	34
	3,752	2,481

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2004	2003
Nil — HK$1,000,000	**—**	3
HK$1,000,001 — HK$1,500,000	**3**	—
	3	3

During the year, 2,500,000 share options were granted to the three non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 30 to the financial statements. No value in respect to the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above non-director, highest paid employees' remuneration disclosures.

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	
	2004 HK$'000	2003 HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	**12,514**	1,921
Interest on bank loans wholly repayable beyond five years	**4,193**	—
Interest on trust receipt loans, secured	**2,220**	974
Interest on finance lease payables	**14,953**	—
Other borrowing costs	**5,728**	—
	39,608	2,895

11. Tax

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 year. 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. The majority of its remaining subsidiaries are domiciled in Singapore where the prevailing tax rate is 20% (2003: 22%).

	2004 HK$'000	2003 HK$'000
Group:		
Current — Hong Kong		
Charge for the year	**1,243**	469
Overprovision in prior years	**(163)**	—
Current — Elsewhere		
Charge for the year	**4,381**	144
Overprovision in prior years	**(2,120)**	—
Deferred *(note 28)*	**(891)**	—
Total tax charge for the year	**2,450**	613

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

	Group	
	2004 HK$'000	2003 HK$'000
Profit before tax	**402,908**	101,131
Tax at the applicable rates to profits in the countries concerned	**71,422**	19,061
Adjustments in respect of current tax of previous periods	**(2,283)**	—
Income not subject to tax	**(146,434)**	(66,755)
Expenses not deductible for tax	**79,745**	48,307
Tax charge at the Group's effective rate	**2,450**	613

12. Net Profit from Ordinary Activities Attributable to Shareholders

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company, was approximately HK$69,436,000 (2003: HK$5,136,000) (note 31(b)).

13. Dividend

	2004 HK$'000	2003 HK$'000
Proposed final — HK1 cent (2003: Nil) per ordinary share	**48,462**	—

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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$400,458,000 (2003: HK$100,512,000), and the weighted average of 4,489,164,742 (2003: 3,782,340,019) 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 2004 of approximately HK$400,458,000 (2003: HK$100,512,000). The weighted average number of ordinary shares used in the calculation is 4,489,164,742 (2003: 3,782,340,019) ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 36,759,265 (2003: 2,091,066) 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 improvements HK$'000	Vessels HK$'000	Furniture, equipment and motor vehicles HK$'000	Total HK$'000
Cost:				
At beginning of year	421	235,711	1,619	237,751
Additions	7,455	973,517	4,326	985,298
Disposals	(427)	(87,691)	(3,258)	(91,376)
Acquisition of subsidiaries *(note 32(b))*	—	357,577	13,890	371,467
At end of year	7,449	1,479,114	16,577	1,503,140
Accumulated depreciation:				
At beginning of year	175	7,874	393	8,442
Provided during the year	1,115	91,183	4,262	96,560
Written back on disposals	(201)	(2,667)	(678)	(3,546)
At end of year	1,089	96,390	3,977	101,456
Net book value:				
At 31 December 2004	6,360	1,382,724	12,600	1,401,684
At 31 December 2003	246	227,837	1,226	229,309

At 31 December 2004, the Group's vessels with carrying values of approximately HK$1,140,537,000 (2003: HK$227,837,000) were pledged to secure certain banking facilities granted to the Group (note 36).

The net book value of the Group's fixed asset held under finance lease included in the total amount of vessels at 31 December 2004 amounted to HK$218,688,000 (2003: Nil).

16. Intangible Assets

Group

	Licences HK$'000
Cost:	
At beginning of year and at 31 December 2004	51,935
Accumulated amortisation:	
At beginning of year	1,605
Provided during the year *(note 7)*	2,597
At 31 December 2004	4,202
Net book value:	
At 31 December 2004	47,733
At 31 December 2003	50,330

Intangible assets represent rights acquired during the prior year to undertake floating storage operations within the port limit of the east coast and west coast of Malaysia, pursuant to licences issued by the Ministry of Transport of Malaysia.

17. Goodwill

Group

	HK$'000
Cost:	
At beginning of year	—
Acquisition of subsidiaries *(note 32(b))*	19,699
Acquisition of oil trading business *(note 37(a))* #	217,640
At 31 December 2004	237,339
Accumulated amortisation:	
At beginning of year	—
Provided during the year *(note 7)*	740
At 31 December 2004	740
Net book value:	
At 31 December 2004	236,599
At 31 December 2003	—

Amount represents goodwill arising from the acquisition of oil trading business from Titan Oil during the year (the "Oil Trading Acquisition") and further details of which are set out in note 37(a) to the financial statements. The Oil Trading Acquisition constituted a related party and connected transaction to the Group. The Oil Trading Acquisition was completed on 28 December 2004 and the business commenced on 1 January 2005. Accordingly, no amortisation on goodwill was charged to the consolidated profit and loss account for the year.

18. Interests in Subsidiaries

	Company 2004 HK$'000	Company 2003 HK$'000
Unlisted shares, at cost	**8**	8
Due from subsidiaries	**1,163,648**	372,307
Due to subsidiaries	**(4,361)**	—
	1,159,295	372,315

The amounts due are unsecured, interest-free and are not repayable before 31 December 2005.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Percentage of equity attributable to the Company	Principal activities
Directly Held				
Titan Oil (Asia) Ltd.	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
Harbour Sky Investments 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 (renamed as Petro Titan (H.K.) Limited on 12 January 2005)	Hong Kong	Ordinary HK$3,000,000	100	Trading of oil products
Titan Oil (HK) Co. Limited	Hong Kong	Ordinary HK$2	100	Provision of oil transportation services
Titan Bunkering (HK) Limited	Hong Kong	Ordinary HK$1	100	Provision of bunker refuelling services
Titan Bunkering Pte. Ltd.	Singapore	Ordinary S$500,000	100	Provision of bunker refuelling services
Sino Ocean Development Limited	BVI/Hong Kong	Ordinary US$1	100	Provision of oil transportation services

18. Interests in Subsidiaries (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly Held (Continued)				
Sino Venus Pte. Ltd.*	Singapore	Ordinary S$1,000,000	100	Provision of oil transportation services
Titan Chios Pte. Ltd.*	Singapore	Ordinary S$2	100	Provision of oil transportation services
Titan Leo Pte. Ltd.*	Singapore	Ordinary S$1,000,000	100	Provision of oil transportation services
Titan Ocean Pte. Ltd.*	Singapore	Ordinary S$100,000	100	Provision of agency services
Titan Mars Limited*	BVI/Malaysia	Ordinary US$1,000	100	Provision of floating storage services
Titan Storage Limited*	BVI/Malaysia	Ordinary US$1,000	100	Provision of floating storage services
Titan Mercury Limited*	BVI/Singapore	Ordinary US$1,000	100	Provision of oil transportation services
Titan Solar Pte. Ltd.*	Singapore/ Malaysia	Ordinary S$2	100	Provision of floating storage services
Titan Orient Lines Pte. Ltd.	Singapore	Ordinary S$2	100	Investment holding
Neptune Associated Shipping Pte. Ltd. ("NAS")	Singapore	Ordinary S$60,000,000	100	Owning and chartering of vessels
Far East Bunkering Services Pte. Ltd.	Singapore	Ordinary S$1,000,000	100	Owning and chartering of bunker barges
NAS Management Pte. Ltd.	Singapore	Ordinary S$500,000	100	Provision of ship management services
Titan Group (Shanghai) Management Limited*#†	Mainland China	US$300,000	100	Provision of consultancy services

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

\# Titan Group (Shanghai) Management Limited is registered as a wholly-foreign owned enterprise under the PRC law.

† For identification only.

18. Interests in Subsidiaries (continued)

During the year, the Group acquired the entire issued share capital in NAS and its subsidiaries (the "NAS Group") from Neptune Orient Lines Limited ("NOL"), an independent third party incorporated in Singapore whose shares are listed on the Stock Exchange of Singapore, at a pre-determined consideration of US$55.1 million (equivalent to approximately HK$429,780,000) (the "NAS Consideration") and after taken into account the amounts owing by the NAS Group to NOL and its affiliates of US$14.7 million (equivalent to approximately HK$114,660,000). The acquisition of the NAS Group constituted a major transaction under the Listing Rules. The acquisition was completed on 16 March 2004.

As finally agreed between parties to the agreement, the NAS Consideration was finally adjusted to US$57,420,000 (equivalent to approximately HK$447,876,000) by reference to the relevant clauses as set out in the sale and purchase agreement entered into between the Group and NOL. The goodwill arising on acquisition of the NAS Group amounted to US$2,526,000 (equivalent to approximately HK$19,699,000) after taken into account the relevant professional fees of US$1,934,000 (equivalent to approximately HK$15,082,000) paid for the acquisition of the NAS Group. Further details of the above acquisition, the settlement of the NAS Consideration and the adjustments to the purchase consideration are set out in the Company's circular dated 24 March 2004 and are included in note 32(b) to the financial statements.

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	
	2004 HK$'000	2003 HK$'000
Share of net assets	**46,510**	22,080
Goodwill on acquisition	**154,304**	44,569
	200,814	66,649
Due from an associate	**48,566**	35,562
	249,380	102,211

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

19. Interests in Associates (continued)

Particulars of the associates are as follows:

Name	Business structure	Place of Incorporation/ registration 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. ("Fujian Titan")*	Corporate	Mainland China	38	Provision for oil berthing and storage facilities
Quanzhou Titan Petrochemical Terminal Development Co., Ltd. ("Quanzhou Titan")*	Corporate	Mainland China	40	Provision for oil berthing and storage facilities
Guangzhou Nansha Titan Petrochemical Development Company Limited*	Corporate	Mainland China	45	Provision for oil berthing and storage facilities

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

As further detailed in notes 23 and 37(b), the Company entered into an acquisition agreement with Titan Oil on 11 November 2003 to acquire the 40% of the issued share capital of Sky Sharp, which holds the entire issued share capital of Forever Fortune. Fujian Titan was owned as to 95% by Forever Fortune and as to 5% by an independent third party. The acquisition of Sky Sharp was completed on 19 December 2003.

At 31 December 2003, the Initial Consideration (as defined in note 37(b)) of HK$100,052,000 was settled and the remaining balance was settled during the year ended 31 December 2004 by (i) the issuance of 184,563,333 ordinary shares of the Company at fair value of HK$0.3786 per share; and (ii) the set-off against the Note (as defined in note 23) of HK$39,859,000 due from Titan Oil. During the year, the goodwill arising on Fujian Titan was increased by HK$109,735,000 after the Further Project Approval (as defined in note 29 (b)) was obtained on 4 May 2004. Since the project is still under construction at the date of approval of these financial statements, no amortisation on goodwill was charged to the consolidated profit and loss account for the year.

20. Vessel Rental Deposits

At 31 December 2004, the Group paid deposits of US$11,752,000 in respect of a bareboat charter of a very large crude carrier ("VLCC") for three years commencing from 1 July 2004 to 30 June 2007.

21. Accounts Receivable

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 receivable, net of provisions, as at the balance sheet date, based on the date of recognition of the sale, is as follows:

	Group	
	2004 HK$'000	2003 HK$'000
1 — 3 months	**318,491**	184,484
4 — 6 months	**1,070**	197
7 — 12 months	**3,076**	95
	322,637	184,776

22. Contracts in Progress/Excess of Progress Billings Over Contract Costs

	Group	
	2004 HK$'000	2003 HK$'000
Contracts in Progress		
Direct costs incurred plus recognised profits less recognised losses to date	**77,625**	17,160
Excess of Progress Billings over Contract Costs		
Direct costs incurred plus recognised profits less recognised losses to date	**90,416**	9,194
Less: Progress billings	**106,195**	16,165
	15,779	6,971

23. Due from the Ultimate Holding Company

At 31 December 2003, the amount due from the ultimate holding company represented 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 was secured by a personal guarantee executed by a director of the Company, bore interest at 3% per annum and was offset against part of the consideration for the acquisition of a 38% equity interest in Fujian Titan on 6 May 2004, further details of which are also set out in note 37(b) to the financial statements.

24. Cash and Cash Equivalents and Pledged Deposits

	Group		Company	
	2004 HK$'000	2003 HK$'000	**2004 HK$'000**	2003 HK$'000
Cash and bank balances	**400,423**	101,332	**4,476**	1,184
Deposits	**43,912**	—	**—**	—
	444,335	101,332	**4,476**	1,184
Less: Pledged deposits for trading facilities *(note 36(ii))*	**(43,912)**	—	**—**	—
Cash and cash equivalents	**400,423**	101,332	**4,476**	1,184

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$874,000 (2003: Nil). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Control 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	
	2004 HK$'000	2003 HK$'000
Trust receipt loans, secured	**—**	98,744
Bank loans, secured and repayable:		
Within one year	**240,642**	—
In the second year	**166,455**	—
In the third to fifth years, inclusive	**374,228**	—
Beyond five years	**46,865**	—
	828,190	—
Bank loans, unsecured and repayable:		
In the third to fifth years, inclusive	**26,520**	—
Beyond five years	**51,480**	—
	78,000	—
Total bank loans	**906,190**	98,744
Portion classified as current liabilities	**(240,642)**	(98,744)
Non-current portion	**665,548**	—

26. Accounts and Bills Payable

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

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

	Group	
	2004 HK$'000	2003 HK$'000
1 — 3 months	**138,861**	73,663
4 — 6 months	**6,655**	4,416
7 — 12 months	**3,033**	—
Over 12 months	**1,462**	—
	150,011	78,079

27. Finance Lease Payables

The Group leases a vessel for its oil transportation business. This lease is classified as a finance lease and have a remaining lease term of six years.

At 31 December 2004, the total future minimum lease payments under the finance lease and their present values were as follows:

Group

	Minimum lease payments 2004 HK$'000	Minimum lease payments 2003 HK$'000	**Present value of minimum lease payments 2004 HK$'000**	Present value of minimum lease payments 2003 HK$'000
Amounts payable:				
Within one year	**42,728**	—	**18,188**	—
In the second year	**42,705**	—	**21,629**	—
In the third to fifth years, inclusive	**128,232**	—	**93,052**	—
After five years	**50,378**	—	**49,793**	—
Total minimum finance lease payments	**264,043**	—	**182,662**	—
Future finance charges	**(81,381)**	—		
Total net finance lease payables	**182,662**	—		
Portion classified as current liabilities	**(18,188)**	—		
Non-current portion	**164,474**	—		

28. Deferred Tax

The movements in deferred tax liabilities during the year are as follows:

Group

	Accelerated capital allowance HK$'000
At 1 January 2003, 31 December 2003 and 1 January 2004	—
Arising on acquisition of subsidiaries *(note 32(b))*	15,054
Deferred tax credited to the consolidated profit and loss account during the year *(note 11)*	(891)
At 31 December 2004	**14,163**

At 31 December 2004, there was no significant unrecognised deferred tax liability (2003 : Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associates as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

29. Share Capital

Shares

	2004 HK$'000	2003 HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
4,846,240,202 (2003 : 3,933,542,509) ordinary shares of HK$0.01 each	**48,462**	39,335

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

	Number of share in issue '000	Nominal value of shares issued HK$'000
At 1 January 2003	3,536,500	35,365
Issue of shares	397,043	3,970
At 31 December 2003 and 1 January 2004	3,933,543	39,335
Issue of shares *(Notes)*	912,697	9,127
At 31 December 2004	**4,846,240**	**48,462**

29. Share Capital (continued)

Shares (continued)

Notes:

(a) On 13 January 2004, Great Logistics placed through a placing agent, Deutsche Bank AG, Hong Kong, a total number of 450,000,000 ordinary shares in the Company at a price of HK$0.92 per share to independent third party investors (the "Placing"). The Placing was completed on 16 January 2004.

Pursuant to the placing agreement dated 13 January 2004 entered into between the Company and Great Logistics, Great Logistics also subscribed for 450,000,000 new ordinary shares of the Company at a subscription price of HK$0.92 per share upon completion of the Placing (the "Subscription"). The Subscription was also completed on the same date. The excess of the share consideration over the nominal value of the issued shares of approximately HK$409,500,000 was credited to the share premium account. The issue expenses for the Placing amounted to HK$21,984,000.

The net proceeds from the Subscription of approximately HK$392 million were used (i) to finance the acquisition of vessels for bunkering or oil transportation; (ii) to finance the development of onshore oil storage facilities, and (iii) to provide additional working capital to the Group.

(b) As further detailed in notes 32(a) and 37(b) to the financial statements, the remaining consideration of HK$55,369,000 for the acquisition of a 38% attributable interest in Fujian Titan was settled by the issue of 184,563,333 new ordinary shares (the "Fujian Consideration Shares") to Great Logistics upon the relevant regulatory approval was obtained by Fujian Titan in connection with the construction and operation of a 100,000 tonne terminal and 500,000 cubic metres oil and petrochemical storage facilities (the "Further Project Approval"). On 4 May 2004, the Further Project Approval was granted to Fujian Titan and the Fujian Consideration Shares were issued and allotted to Great Logistics at fair value of HK$0.3786 per share on 6 May 2004. The excess of the Fujian Consideration Shares over the nominal value of the issue shares of approximately HK$68,030,000 was credited to the share premium account.

(c) As further detailed in note 37(a) to the financial statements, the Company completed the acquisition of oil trading business from Titan Oil on 28 December 2004. The consideration for the acquisition was satisfied by the issue and allotment of 278,134,360 new ordinary shares at fair value of HK$0.7825 per share to Great Logistics. The excess of the Oil Trading Consideration shares over the nominal value of the issued shares of approximately HK$214,859,000 was credited to the share premium account.

(d) During the year ended 31 December 2003, 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.

Shares option scheme

Details of the Company's share option scheme and the share options issued under the Scheme (as defined in note 30) are included in note 30 to the financial statements.

30. Share Option Scheme

A summary of the share option scheme of the Company (the "Scheme") is set out below:

Purpose	To provide incentives and rewards to eligible participants who contribute to the success of the operations of the Group.
Participants	(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 shares of the Company that it represents as at the date of the annual report	258,590,584 ordinary shares, representing 5.34% of the issued shares of the Company at the date of the annual report.
Maximum entitlement of each participant	The 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 Scheme has been adopted by the shareholders of the Company.
Minimum period for which an option must be held before it can be exercised	None
Amount payable on acceptance	HK$1.00
Period within which payments/calls/loans must be made/repaid	Not applicable
Basis of determining the exercise price	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 ordinary shares of the Company.
Remaining life of the Scheme	The Scheme remains in force until 31 May 2012.

30. Share Option Scheme (continued)

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

	Number of share options								
Name or category of participant	At 1 January 2004	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	At 31 December 2004	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$
Directors									
Mr. Lee Yeow Long Dave	—	5,000,000	—	—	—	**5,000,000**	25 June 2004	25 June 2006 to 25 June 2008	0.450
Mr. Wong Siu Hung Patrick	—	5,000,000	—	—	—	**5,000,000**	25 June 2004	25 June 2006 to 25 June 2008	0.450
	—	10,000,000	—	—	—	**10,000,000**			
Other Employees									
In aggregate	—	34,920,000	—	(5,000,000)	(29,920,000)	**—**	30 January 2004	31 January 2005 to 31 January 2008	0.988
	—	156,620,000	—	(700,000)	—	**155,920,000**	25 June 2004	25 June 2006 to 25 June 2008	0.450
	—	191,540,000	—	(5,700,000)	(29,920,000)	**155,920,000**			
Others									
In aggregate	—	40,000,000	—	—	(40,000,000)	**—**	30 January 2004	31 January 2005 to 31 January 2008	0.988
	—	32,800,000	—	—	—	**32,800,000**	25 June 2004	25 June 2006 to 25 June 2008	0.450
	—	72,800,000	—	—	(40,000,000)	**32,800,000**			
	—	274,340,000	—	(5,700,000)	(69,920,000)	**198,720,000**			

* Options are vested to grantees immediately on the date of grant. The closing price of the Company's share 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.

31. 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 2003	190,991	18,261	6,319	157	58,903	274,631
Issue of new shares	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 and 1 January 2004	325,986	18,261	—	—	165,734	509,981
Issue of new shares — *note 29*	692,389	—	—	—	—	692,389
Share issue expenses	(21,984)	—	—	—	—	(21,984)
Exchange realignment	—	—	—	40	—	40
Net profit for the year	—	—	—	—	400,458	400,458
Proposed final dividend — *note 13*	—	—	—	—	(48,462)	(48,462)
At 31 December 2004	**996,391**	**18,261**	**—**	**40**	**517,730**	**1,532,422**

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.

(b) Company

	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2003	190,991	60,916	(8,924)	242,983
Issue of new shares	134,995	—	—	134,995
Net loss for the year	—	—	(5,136)	(5,136)
At 31 December 2003 and 1 January 2004	325,986	60,916	(14,060)	372,842
Issue of new shares — *note 29*	692,389	—	—	692,389
Share issue expenses	(21,984)	—	—	(21,984)
Net profit for the year	—	—	69,436	69,436
Proposed final dividend — *note 13*	—	—	(48,462)	(48,462)
At 31 December 2004	**996,391**	**60,916**	**6,914**	**1,064,221**

31. Reserves (continued)

(b) Company (continued)

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 Bermuda Companies Act 1981, the Company may make distributions to its members out of the contributed surplus under certain circumstances.

32. Notes to the Consolidated Cash Flow Statement

(a) Major non-cash transactions

During the year and the prior year, the Group had the following major non-cash transactions:

(i) As further detailed in note 37(b) to the financial statements, the remaining consideration for the acquisition of a 38% attributable interest in Fujian Titan was paid out during the year after the Further Project Approval was obtained on 4 May 2004. Part of the remaining consideration was satisfied by the issue and allotment of 184,563,333 new ordinary shares at fair value of HK$0.3786 per share (note 29(b)) and the balance of HK$39,859,000 was offset against the Note due from Titan Oil (note 23).

(ii) As further detailed in note 37(a) to the financial statements, the Oil Trading Acquisition Consideration was satisfied by the issue and allotment of 278,134,360 new ordinary shares at fair value of HK$0.7825 per share.

(iii) During the year, the Group entered into a finance lease arrangement in respect of a vessel with a total capital value at the inception of the lease of HK$195,000,000 (2003: Nil).

(iv) In the prior 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 consolidated 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 note 37(c) to the financial statements.

(v) As explained in (i) above, the Group completed the acquisition of a 38% equity interest in Fujian Titan in the prior year at an initial consideration of approximately HK$100,052,000 (the "Initial Consideration"). The Initial Consideration was satisfied by the consideration from the disposal of the Group's entire equity interest in Ever Lasting and the issue of the Note as detailed in note 23 to the financial statements. The settlement of the Initial Consideration did not result in any cash flow to the Group in the prior year.

32. Notes to the Consolidated Cash Flow Statement (continued)

(b) Acquisition of subsidiaries

	Notes	2004 HK$'000	2003 HK$'000
Net assets acquired:			
Fixed assets	*15*	**371,467**	19
Bunker oil		**10,397**	—
Accounts receivable		**35,353**	361
Prepayments, deposits and other receivables		**12,113**	380
Cash and cash equivalents		**73,913**	4,095
Accounts payable		**(11,778)**	(481)
Other payables and accruals		**(23,944)**	(3,924)
Tax payable		**(9,169)**	—
Finance lease payable		**(39)**	—
Deferred tax	*28*	**(15,054)**	—
		443,259	450
Goodwill on acquisition	*17*	**19,699**	—
Total net assets acquired		**462,958**	450
Satisfied by:			
Cash		**444,868**	450
Other payables		**18,090**	—
		462,958	450

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2004 HK$'000	2003 HK$'000
Cash consideration	**(444,868)**	(450)
Cash and cash equivalents acquired	**73,913**	4,095
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	**(370,955)**	3,645

Since its acquisition, the NAS Group contributed HK$256,630,000 to the Group's turnover and HK$35,766,000 to the consolidated profit after tax for the year ended 31 December 2004.

The subsidiary acquired in the prior year contributed a net loss of HK$114,000 to the Group's consolidated profit after tax and before minority interests for the year ended 31 December 2003.

32. Notes to the Consolidated Cash Flow Statement (continued)

(c) Disposal of subsidiaries

	Notes	2004 HK$'000	2003 HK$'000
Net assets disposed of:			
Fixed assets		—	25,046
Investment property		—	2,910
Inventories		—	30,623
Accounts receivable		—	42,024
Prepayments, deposits and other receivables		—	13,891
Cash and cash equivalents		—	48,152
Interest-bearing bank loans		—	(19,789)
Accounts payable		—	(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 an 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	*37(b)*	—	100,052
Issue of the 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:

	2004 HK$'000	2003 HK$'000
Cash and cash equivalents disposed of	—	48,152

The subsidiaries disposed of during the prior year contributed to the Group's turnover HK$110,787,000 and a net loss of HK$2,629,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2003.

33. Operating Lease Arrangements

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

At 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004 HK$'000	2003 HK$'000
Vessels		
Within one year	**246,689**	20,578
In the second to fifth years, inclusive	**889,557**	—
Beyond five years	**107,289**	—
	1,243,535	20,578
Leasehold land and buildings		
Within one year	**7,836**	160
In the second to fifth years, inclusive	**9,173**	—
	17,009	160
	1,260,544	20,738

34. Commitments

As at 31 December 2004 and 2003, the Group and the Company had the following commitments:

(i) On 28 September 2004, the Group entered into a memorandum of agreement with an independent third party to acquire a VLCC for a consideration of US$38,500,000 (equivalent to approximately HK$300,300,000). At 31 December 2004, the Group paid a deposit of HK$30,030,000 in accordance with the memorandum of agreement, which was included in "Prepayments, deposits and other receivables" on the face of consolidated balance sheet, and the outstanding commitment to the Group amounted to HK$270,270,000. The transaction was completed and the VLCC was delivered on 5 January 2005.

(ii) On 1 December 2004, the Group entered into another memorandum of agreement with an independent third party to acquire another VLCC for a consideration of US$49,750,000 (equivalent to approximately HK$388,050,000). At 31 December 2004, the Group paid a deposit of HK$38,805,000 in accordance with this memorandum of agreement, which was included in "Prepayments, deposits and other receivables" on the face of consolidated balance sheet, and the outstanding commitment to the Group amounted to HK$349,245,000.

(iii) The Group had capital contribution commitment of US$2,088,000 (equivalent to approximately HK$16,286,000) (2003: US$5,220,000 (equivalent to approximately HK$40,716,000)) in respect of the formation of a joint venture company in Nansha, Guangzhou, Mainland China. Further details of the joint venture are set out in the Company's press announcement dated 24 March 2004.

(iv) As further detailed in note 37 (b) to the financial statements below, an additional amount of HK$95,228,000 (the "Additional Acquisition Consideration") was to be payable by the Company upon obtaining the Further Project Approval. At 31 December 2003, the Additional Acquisition Consideration was 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.

During the year ended 31 December 2004, the Additional Acquisition Consideration was satisfied by the issue of the Fujian Consideration Shares (note 29(b)) and the Note (note 23).

34. Commitments (continued)

At 31 December 2004, the Group's associates had their own capital commitments, amounting to approximately RMB41 million (equivalent to approximately HK$38 million) (2003: RMB26 million (equivalent to approximately HK$24 million)) in respect of the construction of oil berthing and storage facilities. Forever Fortune had its own capital contribution commitment of US$3,025,000 (equivalent to approximately HK$23,595,000) in respect of the formation of Quanzhou Titan and the portion of capital to be contributed by the Group amounted to US$1,210,000 (equivalent to approximately HK$9,438,000).

35. Contingent Liabilities

At 31 December 2004, guarantees of a total amount of HK$1,626,662,000 (2003: HK$524,926,000) were given by the Company to banks in connection with banking facilities granted to subsidiaries. An amount of HK$943,631,000 (2003: HK$153,834,000) had been utilised by subsidiaries of the Company.

At 31 December 2004, a guarantee of HK$182,639,000 (2003: Nil) was given by the Company in connection with a finance lease arrangement granted to a subsidiary. Further details are set out in note 27 to the financial statements.

At 31 December 2004, guarantees of a total amount of HK$46,800,000 (2003: Nil) were given by the Company to suppliers in connection with the bunkering refuelling business. An amount of HK$20,660,000 (2003: Nil) had been utilised by a subsidiary of the Company.

Other than the contingent liabilities as disclosed above, the Group and the Company had no other material contingent liabilities as at 31 December 2004 and 2003.

36. Banking Facilities

At 31 December 2004, the Group's banking facilities were secured/guaranteed by the following:

(i) the Group's vessels with carrying values of HK$1,140,537,000 (note 15);

(ii) the Group's deposits of HK$43,912,000 (note 24);

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

(iv) corporate guarantees executed by the Company.

At 31 December 2003, the Group's banking and other credit facilities were secured/guaranteed 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) corporate guarantees executed by the Company.

37. 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 and the prior year:

(a) Acquisition of oil trading business and tenancy agreement with Titan Oil

On 2 November 2004, Petro Titan Pte. Ltd. ("Petro Titan"), an indirect wholly-owned subsidiary of the Company, and Titan Oil entered into a conditional sale and purchase agreement (the "Oil Trading Acquisition Agreement"), for oil trading business (the "Oil Trading Business") at a consideration of US$25,000,000 (equivalent to approximately HK$195,000,000) (the "Oil Trading Acquisition Consideration"). The Oil Trading Acquisition Consideration was determined after arm's length negotiations between the two parties to the Oil Trading Acquisition Agreement, and after taking into consideration of the financial performance and future prospects of the Oil Trading Business. On 28 December 2004, the Oil Trading Acquisition Consideration was satisfied by the issue and allotment of 278,134,360 new ordinary shares of the Company credited as fully paid at fair value of HK$0.7825 per share (note 29(c)). Petro Titan then commenced the Oil Trading Business with effect on 1 January 2005.

37. Related Party and Connected Transactions (continued)

(a) Acquisition of oil trading business and tenancy agreement with Titan Oil (continued)

The Oil Trading Acquisition did not involve any acquisition of assets or liabilities from Titan Oil. The Oil Trading Acquisition Consideration therefore represented the goodwill arising on acquisition of the Oil Trading Business by Petro Titan which amounted to HK$217,640,000 (note 17).

As Titan Oil is the ultimate holding company of the Company, the Oil Trading Acquisition constituted a related party transaction and a connected party transaction under the Listing Rules and was subject to independent shareholders' approval. On 15 December 2004, the Oil Trading Acquisition was approved by independent shareholders of the Company at a special general meeting. The Oil Trading Acquisition was finally completed on 28 December 2004. Further details of the Oil Trading Acquisition are set out in the Company's circular despatched to shareholders on 29 November 2004.

Upon completion of the Oil Trading Acquisition, Petro Titan entered into a tenancy agreement with Titan Oil for the lease of office premises currently used for the operation of the Oil Trading Business for a term of three years commencing from 1 January 2005 till 31 December 2007 inclusive at an aggregate rental of S$212,660.40 (equivalent to approximately HK$995,038.01) per annum. The aggregated cap for the rental was S$213,000 per annum on the basis of S$17,721.70 per month, which is comparable to the prevailing market rental for similar properties.

(b) Acquisition of a 38% attributable interest in Fujian Titan (the "Fujian Titan Acquisition") 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 Fujian Titan, a Sino-foreign equity joint venture established in Mainland China with limited liability, and the shareholder's loan owed by Forever Fortune to Titan Oil of HK$35,562,000, at a consideration of HK$195,280,000 (the "Acquisition Consideration"); and

(ii) the Company agreed to sell to Titan Oil the Group's entire issued share capital of Ever Lasting and the amounts owed by Ever Lasting to the Company of HK$89,698,000 (the "Ever Lasting Debt") at a consideration of HK$139,911,000 (the "Disposal Consideration") 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 as at the same date.

As Titan Oil was a substantial shareholder of the Company, the transaction constituted a related party transaction and a connected transaction under the Listing Rules and was subject to independent shareholders' approval. Further details of the above acquisition are set out in the Company's circular despatched to shareholders on 1 December 2003. On 17 December 2003, the independent shareholders' approval was obtained at a special general meeting of the Company. On 19 December 2003, the Fujian Titan Acquisition was completed.

The Acquisition Consideration was partly offset by HK$100,052,000 of the Disposal Consideration (the "Initial Consideration"). The balance of the Acquisition Consideration was satisfied during the year ended 31 December 2004 by the issuance of 184,563,333 ordinary shares of the Company at fair value of HK$0.3786 per share (note 29(b)) and the remaining balance of HK$39,859,000 was offset against the Note due from Titan Oil (note 23) after the Further Project Approval was obtained on 4 May 2004. A further goodwill of HK$109,735,000 arising from the acquisition of Fujian Titan was recorded in the balance sheet as at 31 December 2004 (note 19).

37. Related Party and Connected Transactions (continued)

(c) 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, each of which are strategically located within the port limit of the east coast and the west coast of Malaysia; and

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

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, at a price of HK$0.35 per share. 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 an 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 the Company's circular despatched to shareholders on 9 April 2003.

(d) Acquisition of an interest in Titan Ocean Pte. Ltd. ("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, for a cash consideration of S$100,000 (equivalent to approximately HK$450,000). Details of the transaction are set out in note 32(b) to the financial statements.

38. Comparative Amounts

Certain comparative amounts in note 4 under the heading "Segment Information" have been restated and reclassified to conform with the current year's presentation. In the opinion of the Company's directors, such reclassifications provide a more appropriate presentation of the Group's business and geographical segment.

39. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 15 February 2005.