Titan

Titan Petrochemicals Group Limited

Interim Report 05

Corporate Information

Directors

Executive Directors

Tsoi Tin Chun, *Chairman*
Barry C. Cheung, *JP*, *Chief Executive*
Patrick S. Wong
Dave Y. Lee

Independent Non-executive Directors

Liu Hongru
Maria W. Tam, *GBS, JP*
Wong Kong Hon, *OBE, JP*

Non-executive Director

Cheong Soo Kiong

Audit Committee

Liu Hongru, *Committee Chairman*
Maria W. Tam
Wong Kong Hon

Remuneration Committee

Maria W. Tam, *Committee Chairman*
Wong Kong Hon
Tsoi Tin Chun

Company Secretary

Allen C. Tu

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business

6706 Two International Finance Centre
8 Finance Street
Central
Hong Kong

Principal Bankers

ABN AMRO
DBS Bank
Fortis Bank
Hang Seng Bank
HSBC
HSH Nordbank
Malayan Banking Berhad
Raiffeisen Zentralbank Oesterreich AG (RZB-Austria)
Standard Chartered Bank
Sumitomo Mitsui Banking Corporation
UFJ Bank Limited
United Overseas Bank

Auditors

Ernst & Young

Solicitors

Richards Butler
Skadden, Arps, Slate, Meagher & Flom LLP
Rajah & Tann
Conyers, Dill & Pearman

Principal Registrars

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM11
Bermuda

Hong Kong Branch Registrars

Tengis Limited
G/F., BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Website

www.petrotitan.com

Highlights

	2005 HK$ million	2004 HK$ million	Change
Turnover	**3,549**	1,338	***+165%***
Profit for the period	**255**	155	***+65%***
Earnings per share (HK cents)	**5.259**	3.514	***+50%***

- Oil transportation continued to provide strong profit contribution despite weaker market conditions in 1H 2005, whilst expanded fleet capacity well positioned to take advantage of seasonal upswing in tanker rates in the second half.
- Total transportation capacity grew 31% during the period to 3.45 million dead weight tonnes (dwt), including 12 Very Large Crude Carriers.
- Significant initial progress in integrating oil supply business acquired late last year, resulting in growth in revenues of 72% to HK$1,757 million and in profit contribution of 627% to HK$28 million.
- Good progress made on oil storage projects in China.

Chief Executive's Statement

While profits in 2005 are less likely to repeat the extraordinary growth of 2004, we expect a strong second half to offset the relative weakness of 1H 2005 and produce a substantial increase for the full year.

I am pleased to report that Titan posted substantial increases in both revenue and profit for the interim period ended 30 June 2005, despite a somewhat more pronounced than usual seasonal downturn in the oil transportation market during the first six months of the year. The strong result achieved reflects the continued expansion of the Group's business of oil transportation, storage, distribution and supply. Market conditions have improved noticeably since the beginning of the third quarter, however, and we expect our full year results to benefit from the seasonal upturn in the second half. We are well-financed and are investing in assets that rapidly generate revenue.

Results

The Group's turnover for the half year was HK$3,549 million, an increase of 165% over the same period in 2004. Profit for the period grew by 65% to HK$255 million, including a gain of HK$138 million on disposal of a vessel. Earnings per share rose 50% to HK5.259 cents. While we maintain our policy of rewarding shareholders through dividend payments and substantial growth, no interim dividend was declared as we expect to continue our practice of paying a dividend at year end.

Review of Operations

During the first half of 2005, the Group progressed further towards realising its objective of establishing an integrated oil services business platform covering the areas of oil transportation, storage, distribution (bunkering), and procurement and supply.

Transportation

The oil transportation business remains an important profit contributor to the Group. Revenues grew 153% to HK$742 million for the six months and profit contribution rose 110% to HK$335 million.

During the first half of 2005, the typical seasonal downturn was more pronounced than expected. Rates for Very Large Crude Carriers (VLCCs) averaged approximately WS109 and WS71 in the first and second quarters of 2005 respectively, against WS123 and WS111 for the same periods in 2004.

These lower rates were partially offset by the very substantial increase in Titan's fleet, and the Group's efforts towards improving productivity and competitiveness in its fleet management. During the first half of 2005, Titan signed purchase agreements for four additional VLCCs, all of which were delivered during the period. By 30 June 2005, Titan's fleet comprised 34 vessels in total, including 12 VLCCs. The available capacity had reached 3.45 million dwt, up 31% from 2.64 million dwt at the end of last year. (Our present capacity stands at 3.75 million dwt, having recently purchased a VLCC in July 2005.)

The Group also disposed of its oldest vessel, the 180,377 dwt Suezmax Oriental Tiger for US$27 million (HK$210.6 million), realising a profit of HK$138 million. This was an attractive price and the disposal is in line with our programme of upgrading our fleet, to phase out older, single-hulled vessels by 2010.

We continued to expand the customer base for our crude transportation business, signing new longer-term contracts with a number of major oil companies. We also continued to develop further the products transportation business that utilises our fleet of smaller vessels and serves a network of ports across Asia. During the first half of 2005, we chartered, on a long-term basis, the 94,346 dwt Elli and the 94,225 dwt Mare Dorico, to service the fuel-oil transportation contract that the Group signed late last year.

Storage

The Group's current storage revenues are generated from its floating storage unit (FSU) business in Malaysia, which recorded a turnover of HK$18 million for the six months as compared to HK$22 million for the same period in 2004. Its profit contribution was HK$5 million as compared to HK$7 million for the first six months of 2004.

The drop in turnover and profit contribution resulted from a reduction in available capacity. During the first three months of 2004, Titan operated two FSUs. In April 2004, we scrapped one unit and for the first half of 2005, we operated only one FSU. However, in July 2005, we have added a second FSU, bringing total storage capacity to about 320,000 dwt.

The Group's storage business will soon be transformed by the three major onshore oil storage facilities currently under development at strategic locations in China, through joint ventures with local partners.

The first half of the year saw good progress with all three projects. At our Nansha project in Guangzhou, the 370,000 m^3 Phase I development proceeded on schedule, with construction commencing on the fuel oil storage area in March and pile testing starting in June.

In July 2005, the joint venture company decided to bring forward the construction of Phases II and III of the project, in response to strong local market demand for storage. As a result, while Phase I is still expected to be operational in mid 2006, Phases II and III, which will bring total capacity to 1 million m^3, will come on stream several months earlier than envisaged, in late 2006.

At our second project at Quanzhou, Fujian, site preparation for the oil storage area is complete and pile tests for the petrochemical area have been carried out, together with pile prefabrication for the liquid petrochemical berthing area. This facility has an initial capacity of 500,000 m^3, and we now intend to bring on stream the chemical storage component earlier than previously scheduled during the first half of 2006, in view of favourable market conditions.

Preparatory work continues, with pre-construction completed on our third project at Yangshan, Shanghai. This project has an initial capacity of 400,000 m^3, with expected completion by mid 2007.

Distribution

In June 2004, we entered the large bunker or ship-refuelling markets in Singapore and Hong Kong. For the first half of 2005, the contribution of bunkering business to the Group's turnover and segment result was HK$1,032 million and HK$11 million respectively.

During the period, we sought cheaper sources of supply while increasing business volumes to counter increasing competition, appointed new management and underwent a restructuring to strengthen the business.

In Hong Kong, we continued to develop our new operation, chartering two barges to serve the market.

Supply

During the six months, the Group's oil procurement and supply business saw a substantial rise in volume. Following the acquisition in December 2004 of the supply business from the controlling shareholder, turnover and profit contribution of the supply business rose 72% to HK$1,757 million and 627% to HK$28 million respectively as compared to the same period in 2004.

During the first half of the year, we focused our efforts on integrating our existing and acquired businesses, establishing an entirely new supply platform, and aligning it more closely with the Group's other operations.

Group Financing

While cash flow remains strong from the Group's businesses, to accelerate the expansion of our oil transportation capacity and our storage projects in China, we decided during the first half of 2005 to raise additional funds for investment.

In March 2005, Titan issued US$400 million (HK$3.12 billion) of fixed rate guaranteed senior notes ("Notes"), in one of the largest below investment grade bond issues in Asia. The Notes, rated B+ by Standard & Poor's and B1 by Moody's, have a seven year term, due in 2012, and a fixed 8.5% coupon. The offer was five times oversubscribed, attracting US$2 billion of capital from global investors.

While this issue by no means exhausts our capital raising options, we believe we now have sufficient funds for our continuing operations and current expansion plans. Although the issue has raised the Group's gearing to 0.58, with the bulk of the proceeds invested in assets that quickly generate revenue, we expect gearing to reduce steadily. As at 30 June 2005, the Group had cash and cash equivalent balances of HK$1,123 million and pledged deposits of HK$16 million.

Group Resources

Titan is expanding rapidly and management is acutely aware of the need to manage growth well. During the first half of the year, we continued to invest in the people and systems needed to bring the Group to its next level of development. A number of key appointments were made, including Chief Financial Officer and Chief Human Resources Officer, while new financial and accounting systems were introduced. This process of adding to and upgrading the Group's human capital will continue to be a major focus as we grow.

Outlook

Although the market for VLCCs in first half of 2005 was softer than expected, the traditionally higher demand for oil in the second half should produce much higher rates. Current VLCC rates have recovered strongly from their low of WS50 experienced in June.

Titan's fleet is well positioned to take advantage of the seasonal upswing in the demand for VLCCs. The total available capacity is now 3.75 million dwt, against 2.64 million dwt at the start of 2005. Barring any major disruption to supply as a result of political tensions in the Middle East, we expect Titan to benefit substantially from greatly increased transport volumes at much firmer rates. We will also continue to expand and upgrade the fleet, and start replacing our older single-hulled VLCCs with newer double-hulled models.

We will likewise continue to diversify further within transportation into products, building on our two Aframax vessels to meet the obligations we have under existing contracts and seeking new supply agreements. This diversification will over time reduce the volatility of revenues from transportation.

Our floating storage business should benefit from an expected upturn in shipping movements through Singapore, which will lead to higher volumes at the two FSUs. For our onshore terminals in China, construction work on the Nansha and Fujian facilities will continue, with procurement of steel tanks, piling, completion of berths and selection of control systems. In Shanghai, we expect by year end to have obtained all necessary approval by year end and to begin construction work.

Competition will remain strong for the Group's bunkering business in both Hong Kong and Singapore, though demand is expected to rise over the second half of the year as seasonal demand typically peaks in the fourth quarter. We intend to expand gradually our bunkering fleet and replace leased vessels with those of our own.

The typical seasonal increase in bunker demand is also expected to buoy volumes at our supply business, whose profitability should benefit from its greater scale and focus.

While profits for the Group in 2005 are less likely to repeat the extraordinary growth of 2004, we expect a strong second half to offset the relative weakness of the first half of 2005, to produce a still substantial increase for the full year. At the same time, we are laying the foundations for further growth in 2006 and beyond, through a more diversified stream of revenues, as we build our platform of integrated oil services across Asia.

Barry C. Cheung, JP
Chief Executive

Hong Kong, 4 August 2005

Condensed Consolidated Profit and Loss Account

	Notes	2005 (Unaudited) HK$'000	2004 (Unaudited) HK$'000
		Six months ended 30 June	
Turnover	4	**3,548,649**	1,338,445
Cost of sales		**(3,260,056)**	(1,208,844)
Gross profit		**288,593**	129,601
Other revenue and gains		**24,311**	1,605
Gain on disposal of vessels		**137,922**	63,430
Administrative expenses		**(69,847)**	(29,055)
PROFIT FROM OPERATING ACTIVITIES	5	**380,979**	165,581
Finance costs	6	**(120,486)**	(9,877)
PROFIT BEFORE TAX		**260,493**	155,704
Tax	7	**(5,636)**	(1,004)
PROFIT FOR THE PERIOD		**254,857**	154,700
INTERIM DIVIDEND	8	**Nil**	Nil
EARNINGS PER SHARE	9		
Basic		**HK5.259 cents**	HK3.514 cents
Diluted		**HK5.165 cents**	HK3.512 cents

Condensed Consolidated Balance Sheet

	Notes	30 June 2005 (Unaudited) HK$'000	31 December 2004 (Audited) HK$'000
ASSETS			
NON-CURRENT ASSETS			
Fixed assets		**3,663,446**	1,401,684
Intangible assets		**46,434**	47,733
Goodwill		**236,599**	236,599
Interests in associates		**319,150**	249,380
Other assets	10	**162,945**	92,572
		4,428,574	2,027,968
CURRENT ASSETS			
Bunker oil		**90,085**	16,770
Inventories		**206,117**	1,520
Accounts receivable	11	**1,611,725**	322,637
Prepayments, deposits and other receivables		**349,767**	119,270
Contracts in progress		**45,525**	77,625
Pledged deposits		**16,119**	43,912
Cash and cash equivalents		**1,123,340**	400,423
		3,442,678	982,157
TOTAL ASSETS		**7,871,252**	3,010,125
EQUITY AND LIABILITIES			
EQUITY			
Issued capital	12	**48,462**	48,462
Reserves		**1,786,908**	1,532,422
Proposed dividend		**—**	48,462
		1,835,370	1,629,346
NON-CURRENT LIABILITIES			
Fixed rate guaranteed senior notes	13	**3,120,000**	—
Interest-bearing bank loans		**1,039,726**	665,548
Finance lease payables		**154,278**	164,474
Deferred tax liabilities		**14,107**	14,163
		4,328,111	844,185
CURRENT LIABILITIES			
Interest-bearing bank loans		**264,521**	240,642
Accounts and bills payable	14	**1,216,963**	150,011
Other payables and accruals		**189,382**	99,316
Finance lease payables		**19,834**	18,188
Excess of progress billings over contract costs		**226**	15,779
Tax payable		**16,845**	12,658
		1,707,771	536,594
TOTAL LIABILITIES		**6,035,882**	1,380,779
TOTAL EQUITY AND LIABILITIES		**7,871,252**	3,010,125

Condensed Consolidated Statement of Changes in Equity

	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed dividend HK$'000	Total HK$'000
At 1 January 2005 (Audited)	**48,462**	**996,391**	**18,261**	**40**	**517,730**	**48,462**	**1,629,346**
Exchange realignment	**—**	**—**	**—**	**(371)**	**—**	**—**	**(371)**
Profit for the period	**—**	**—**	**—**	**—**	**254,857**	**—**	**254,857**
Final 2004 dividend declared	**—**	**—**	**—**	**—**	**—**	**(48,462)**	**(48,462)**
At 30 June 2005 (Unaudited)	**48,462**	**996,391***	**18,261***	**(331)***	**772,587***	**—**	**1,835,370**

	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed dividend HK$'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)
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

* These reserves accounts comprise the consolidated reserves of HK$1,786,908,000 (2004: HK$1,105,676,000) in the condensed consolidated balance sheet.

Condensed Consolidated Cash Flow Statement

	Six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash inflow/(outflow) from operating activities*	**(247,866)**	139,626
Net cash outflow from investing activities	**(2,351,867)**	(317,425)
Net cash inflow from financing activities	**3,295,228**	499,845
INCREASE IN CASH AND CASH EQUIVALENTS	**695,495**	322,046
Cash and cash equivalents at beginning of period	**444,335**	101,332
Effect of foreign exchange rate changes, net	**(371)**	—
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**1,139,459**	423,378
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	**1,123,340**	303,692
Deposits with original maturity of less than three months when acquired, pledged as security for trading facilities	**16,119**	119,686
	1,139,459	423,378

* The net cash outflow resulted from a decision by management to use the Group's cash to fund temporarily the working capital needs of the supply business, instead of using the customary banking facilities, as a means to make use of the not-yet-invested cash and to save costs. Had banking facilities been used, the net cash outflow would have become a net cash inflow of HK$270 million.

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 Accounting Standard No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public 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 used 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 2004, except that the Group has changed certain of its accounting policies and adopted new accounting policies following a number of new/revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations herein collectively referred to as the new HKFRSs, became effective for the period of which they are generally effective for accounting periods beginning on or after 1 January 2005.

2. Impact of New HKFRSs

The Group has adopted HKFRS 3 "Business Combinations", HKAS 36 "Impairment of Assets", HKAS 38 "Intangible Assets", and HKAS 39 "Financial Instruments: Recognition and Measurement", which are pertinent to its operations and relevant to the unaudited condensed consolidated interim financial statements.

These new HKFRSs prescribe new accounting measurements and new disclosure requirements. The major effects of the adoption of these new HKFRSs on the Group's accounting policies and on amounts disclosed in the unaudited condensed consolidated interim financial statements are summarised as follows:

The adoption of HKFRS 3, HKAS 36 and HKAS 38, has resulted in a change in accounting policy for goodwill. Prior to the adoption, goodwill arising on acquisition of subsidiaries was amortised in the consolidated profit and loss account on a straight-line basis over a period of not exceeding 20 years and such goodwill was assessed for impairment at each balance sheet date. Following the adoption of HKFRS 3, HKAS 36 and HKAS 38, the Group ceased amortisation of goodwill from 1 January 2005 and the accumulated amortisation of goodwill arising on the acquisition of subsidiaries as at 1 January 2005 has been eliminated with the respective cost of goodwill at that date. For the year ending 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment. The Group estimates that the adoption of HKFRS 3, HKAS 36 and HKAS 38 in the accounting periods beginning on 1 January 2005 in relation to the discontinued goodwill amortisation would result in an increase in the profit for the six months ended 30 June 2005 of approximately HK$6 million.

Additionally, the Group has also reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from its assessment.

The Group also adopted HKAS 39 to account for its hedging arrangements. The adoption of HKAS 39 has resulted in the recognition of derivative financial instruments at fair value and the recognition and measurement of hedging activities. Any gain or loss relating to the ineffective portion or any change in fair value of derivatives, is recognised immediately in the profit and loss account.

3. Segment Information

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 other business segments. The Group is principally engaged in the supply of oil products, the provision of logistic services including oil transportation and oil storage, and the provision of bunker refuelling. The following table presents revenue and results for the Group's business segments.

	Supply of oil products		Provision of logistic services				Provision of bunker refuelling		Eliminations		Consolidated	
			Oil transportation		Oil storage							
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2005 (Unaudited) HK$'000	2004 (Unaudited) HK$'000	**2005 (Unaudited) HK$'000**	2004 (Unaudited) HK$'000	**2005 (Unaudited) HK$'000**	2004 (Unaudited) HK$'000	**2005 (Unaudited) HK$'000**	2004 (Unaudited) HK$'000	**2005 (Unaudited) HK$'000**	2004 (Unaudited) HK$'000	**2005 (Unaudited) HK$'000**	2004 (Unaudited) HK$'000
Segment revenue:												
Sales to external customers	**1,756,850**	1,022,451	**741,657**	293,717	**18,030**	22,277	**1,032,112**	—	**—**	—	**3,548,649**	1,338,445
Intersegment revenue	**66,769**	336	**35,569**	6,104	**1,277**	3,276	**161,815**	—	**(265,430)**	(9,716)	**—**	—
	1,823,619	1,022,787	**777,226**	299,821	**19,307**	25,553	**1,193,927**	—	**(265,430)**	(9,716)	**3,548,649**	1,338,445
Segment results	**28,004**	3,852	**334,698**	159,435	**4,974**	7,497	**11,026**	—	**—**	—	**378,702**	170,784
Interest income and unallocated gains											**21,166**	541
Unallocated expenses											**(18,889)**	(5,744)
Profit from operating activities											**380,979**	165,581
Finance costs											**(120,486)**	(9,877)
Profit before tax											**260,493**	155,704
Tax											**(5,636)**	(1,004)
Profit for the period											**254,857**	154,700

4. 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 during the period. All significant transactions among the companies comprising the group have been eliminated on consolidation.

5. Profit from Operating Activities

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

	Six months ended 30 June	
	2005 (Unaudited) HK$'000	2004 (Unaudited) HK$'000
Cost of inventories sold	**2,732,581**	1,016,214
Cost of services rendered	**527,475**	192,630
Depreciation and amortisation	**135,260**	29,157
Interest income	**(18,321)**	(564)

Notes to Condensed Consolidated Financial Statements (continued)

6. Finance Costs

	Six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest on bank loans wholly repayable:		
Within five years	**8,649**	3,886
Beyond five years	**18,980**	131
Interest on trust receipt loans	**—**	1,466
Interest on finance lease payables	**12,634**	2,176
Interest on fixed rate guaranteed senior notes	**76,613**	—
Other borrowing costs	**3,610**	2,218
	120,486	9,877

7. Tax

	Six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current — Hong Kong		
Charge for the period	**106**	356
Overprovision in the prior period	**(530)**	—
Current — Elsewhere		
Charge for the period	**6,060**	820
Deferred tax	**—**	(172)
Tax charge for the period	**5,636**	1,004

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have 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 majority of its remaining subsidiaries are domiciled in Singapore where the prevailing tax rate is 20% (2004: 20%).

8. Interim Dividend

The board of directors does not recommend the payment of any interim dividend in respect of the period (2004: Nil).

Notes to Condensed Consolidated Financial Statements (continued)

9. Earnings per Share

The calculation of basic earnings per share is based on the unaudited profit for the period of HK$254,857,000 (2004: HK$154,700,000) and 4,846,240,202 (2004: weighted average of 4,402,332,472) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the unaudited profit for the period of HK$254,857,000 (2004: HK$154,700,000). The number of ordinary shares used in the calculation is 4,846,240,202 (2004: weighted average number of 4,402,332,472) ordinary shares in issue during the period, as used in the basic earnings per share calculation; and the weighted average of 87,695,637 (2004: 2,646,813) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

10. Other Assets

	Notes	30 June 2005 (Unaudited) HK$'000	31 December 2004 (Audited) HK$'000
Swap collateral	(i)	**78,000**	—
Deferred expenditures	(ii)	**84,212**	—
Vessel rental deposits		**733**	92,572
		162,945	92,572

Notes:

(i) The balance represented a deposit paid for swap transactions. The swap transactions are principally used for interest rate hedging purposes.

(ii) The balance represented the capitalisation of the underwriting costs and other expenses in connection with the fixed rate guaranteed senior notes and bank loans. The deferred expenditures are amortised over the maturity period of the Notes and bank loans on a straight-line basis.

11. Accounts Receivable

The Group normally allows credit terms to well-established customers ranging from 30 to 90 days. An aged analysis of accounts receivable, net of provisions, as at the balance sheet date, based on the date of recognition of sales, is as follows:

	30 June 2005 (Unaudited) HK$'000	31 December 2004 (Audited) HK$'000
1–3 months	**1,597,163**	318,491
4–6 months	**9,585**	1,070
7–12 months	**2,432**	3,076
Over 12 months	**2,545**	—
	1,611,725	322,637

Notes to Condensed Consolidated Financial Statements (continued)

12. Issued Capital

	30 June 2005 (Unaudited) HK$'000	31 December 2004 (Audited) HK$'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 ordinary shares of HK$0.01 each	**48,462**	48,462

There is no movement in the issued share capital of the Company during the period.

13. Fixed Rate Guaranteed Senior Notes

Pursuant to an indenture dated 17 March 2005 entered into among the Company, together with certain subsidiaries of the Company, and Deutsche Bank Trust Company Americas as the trustee, the Company issued the Notes in the aggregate principal amount of US$400 million. The Notes are due on 18 March 2012 with bullet repayment, unless earlier redeemed pursuant to their terms. The Notes bear interest at a rate of 8.5% per annum, payable semi-annually in arrears on March 18 and September 18 of each year, commencing from 18 September 2005.

14. Accounts and Bills Payable

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

	30 June 2005 (Unaudited) HK$'000	31 December 2004 (Audited) HK$'000
1–3 months	**1,199,457**	138,861
4–6 months	**9,483**	6,655
7–12 months	**4,778**	3,033
Over 12 months	**3,245**	1,462
	1,216,963	150,011

Notes to Condensed Consolidated Financial Statements (continued)

15. Commitments

At the respective balance sheet date, the Group has the following capital commitments:

	30 June 2005 (Unaudited) HK$'000	31 December 2004 (Audited) HK$'000
Contracted, but not provided for:		
Capital contribution in respect of a joint venture company	—	16,286
Acquisitions of very large crude carrier	—	619,515
	—	635,801

At 30 June 2005, the Group's associates had their own capital commitments, amounting to approximately RMB37 million (equivalent to approximately HK$34 million) (31 December 2004: RMB41 million (equivalent to approximately HK$38 million)) in respect of the construction of oil berthing and storage facilities.

At 30 June 2005, an associated company of the Group also had its own capital contribution commitment of US$3,025,000 (equivalent to approximately HK$23,595,000) (31 December 2004: US$3,025,000 (equivalent to approximately HK$23,595,000)) in respect of the formation of an associated company for oil storage and terminal facilities and the portion of capital to be contributed by the Group amounted to approximately HK$4,438,000 (31 December 2004: approximately HK$9,438,000).

Notes to Condensed Consolidated Financial Statements (continued)

16. Operating Lease Arrangements

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

At the respective balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2005 (Unaudited) HK$'000	31 December 2004 (Audited) HK$'000
Vessels		
Within one year	**388,833**	246,689
In the second to fifth years, inclusive	**979,701**	889,557
Beyond five years	**1,638**	107,289
	1,370,172	1,243,535
Leasehold land and buildings		
Within one year	**7,369**	7,836
In the second to fifth years, inclusive	**5,524**	9,173
	12,893	17,009
	1,383,065	1,260,544

17. Contingent Liabilities

At 30 June 2005, the banking facilities granted to certain subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of HK$1,772 million (31 December 2004: HK$944 million).

At 30 June 2005, a guarantee of HK$174 million (31 December 2004: HK$183 million) was given by the Company in connection with a finance lease arrangement granted to a subsidiary.

At 30 June 2005, no guarantee was given by the Company to suppliers in connection with the bunker refuelling business which were utilised by a subsidiary of the Company (31 December 2004: HK$21 million).

Notes to Condensed Consolidated Financial Statements (continued)

18. Related Party Transactions

During the period, the Group paid an operating lease rental to the Company's ultimate holding company amounting to HK$480,000 and it was charged according to prevailing market rate (30 June 2004: Nil).

At 30 June 2005, the Company's ultimate holding company and a director of the Company have guaranteed certain banking facilities of the Group which were utilised to the extent of HK$825,598,000 (30 June 2004: HK$219,960,000).

In addition, 500,000,000 ordinary shares of the Company held by a substantial shareholder of the Company were used to secure certain banking facilities of the Group which were utilised to the extent of HK$210,986,000 (30 June 2004: HK$200,070,000) at 30 June 2005.

19. Post Balance Sheet Event

On 28 July 2005, the Group entered into a memorandum of agreement to acquire a very large crude carrier from an independent third party at a consideration of US$89 million (equivalent to approximately HK$694 million). At the date of approval of these unaudited condensed consolidated interim financial statements, the Group paid a deposit for the acquisition, representing 10% of the total consideration.

20. Comparative Figures

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

Capital Structure and Liquidity

The Group finances its operations largely through internally generated cash flows, issuance of the Notes, term loans and trade finance facilities provided by banks in Hong Kong and Singapore. At 30 June 2005, the Group had cash and cash equivalents of HK$1,123 million (31 December 2004: HK$400 million) and pledged deposits of HK$16 million (31 December 2004: HK$44 million), comprising an equivalent of HK$1,117 million denominated in US dollars, an equivalent of HK$17 million denominated in Singapore dollars, an equivalent of HK$300,000 in Renminbi and HK$5 million in Hong Kong dollars.

At 30 June 2005, the Group had interest-bearing bank loans of HK$1,304 million (31 December 2004: HK$906 million), of which all were floating-interest bearing and denominated in US dollars. HK$265 million of the Group's bank loans at 30 June 2005 had maturities within one year.

At 30 June 2005, the Group's banking facilities were secured or guaranteed by cash deposits amounting to HK$16 million, vessels with carrying values of HK$2,049 million, issued shares of a wholly-owned subsidiary of the Group, a personal guarantee executed by a director of the Company, an unlimited corporate guarantee executed by Titan Oil Pte. Ltd. ("Titan Oil") and 500 million ordinary shares of the Company held by Great Logistics Holdings Limited ("Great Logistics").

At 30 June 2005, the Notes of HK$3,120 million were secured by shares of certain subsidiaries.

At 30 June 2005, the Group had current assets of HK$3,443 million (31 December 2004: HK$982 million). The Group's current ratio improved from 1.83 at 31 December 2004 to 2.02 at 30 June 2005. At 30 June 2005, the Group had total assets of HK$7,871 million (31 December 2004: HK$3,010 million), total bank loans of HK$1,304 million (31 December 2004: HK$906 million), finance lease payables of HK$174 million (31 December 2004: HK$183 million) and the Notes of HK$3,120 million (31 December 2004: Nil). The gearing of the Group, calculated as total bank loans, finance lease payables and the Notes to total assets, was 0.58 at 30 June 2005 (31 December 2004: 0.36). The change in the gearing ratio was mainly attributable to the bank financing for acquisition of VLCCs and the issuance of the Notes 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 stable during the period, the directors consider that the Group has no significant exposure to foreign exchange fluctuations. During the period, the Group entered into interest rate swap contracts and a forward freight contract to hedge exposures on fluctuations of interest rate and freight rate. The Group did not use financial instruments for speculative purposes.

Employees

As at 30 June 2005, the Group had approximately 160 employees in Singapore, Hong Kong and Mainland China, and approximately 700 officers and crew 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.

Directors' and Chief Executives' Interests and Short Positions

As at 30 June 2005, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, the Model Code for Securities Transactions by Directors of Listed Issuers (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	2,736,600,202 (Note 1)	56.47

Note 1: The 2,736,600,202 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. (Mr. Tsoi Tin Chun is also a director of Titan Oil and Great Logistics.)

(ii) Options outstanding under the Share Option Scheme of the Company:

Name	Capacity	Total number of underlying shares (options granted) held	Approximate percentage of shareholding
Mr. Lee Yeow Long Dave	Beneficial owner	5,000,000 (Note 2)	0.10
Mr. Wong Siu Hung Patrick	Beneficial owner	5,000,000 (Note 2)	0.10

Note 2: Share options carrying rights to subscribe for 5,000,000 ordinary shares of the Company were granted to each of the directors on 25 June 2004 pursuant to the share option scheme adopted by the Company on 31 May 2002. Mr. Wong Siu Hung, Patrick, is also the chief executive officer of Titan Oil.

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 Divisions 7 and 8 of Part XV of the SFO and the Model Code.

Share Option Scheme

Movements in the share options during the six months ended 30 June 2005 under the share option scheme adopted by the Company on 31 May 2002 were as follows:

Name or category of participants	As at 1 January 2005	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	As at 30 June 2005	Date of grant*	Exercise period	Exercise price per share** (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			
Employees, in aggregate	155,920,000	—	—	—	(5,800,000)	150,120,000	25 June 2004	25 June 2006 to 25 June 2008	0.450
Others, in aggregate	32,800,000	—	—	—	—	32,800,000	25 June 2004	25 June 2006 to 25 June 2008	0.450
Total	198,720,000	—	—	—	(5,800,000)	192,920,000			

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

** 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.

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 2005, 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 Divisions 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	2,736,600,202 (Note 1 above)	56.47
Titan Oil	Interest of a controlled corporation	2,736,600,202 (Note 3)	56.47
Ms. Tsoi Yuk Yi	Interest of spouse	2,736,600,202 (Note 4)	56.47
HSBC Trustee (C.I.) Limited	Trustee	529,042,509	10.92
Nederlandse Financierings — Maatschappij Voor Ontwikkelingslanden N.V.	Holding the Company's shares as securities	356,971,112	7.37
The State of the Netherlands	Interest of a controlled corporation	356,971,112 (Note 5)	7.37
Ms. Tse Lai Hing	Beneficial owner	280,000,000	5.78
Mr. Tse Yin Tuen	Interest of spouse	280,000,000 (Note 6)	5.78

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 2,736,600,202 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 2,736,600,202 shares held by Great Logistics.

Note 5: The State of the Netherlands is interested in such interests through its shareholding in Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.

Note 6: 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 Divisions 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 on Corporate Governance Practices

None of the Directors of the Company is aware of any information that would reasonable indicate that the Company is not, or was not throughout the period under review in compliance with the Code on Corporate Governance Practices ("CG Code"), as set out in Appendix 14 to the Listing Rules.

Model Code for Securities Transactions

The Company has adopted the Model Code of the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquires of the Company's directors, the directors have complied with the required standard set out in the Model Code throughout the period.

Remuneration Committee

A Remuneration Committee has been established in accordance with the requirements of the CG Code. The Remuneration Committee comprises two Independent Non-executive Directors and one Executive Director. Miss Maria Tam Wai Chu, an Independent Non-executive Director, is the Chairman of the Committee.

Audit Committee

Terms of reference of the Audit Committee have been updated in accordance with the requirements of the CG Code. The Audit Committee has reviewed the Group's unaudited condensed consolidated interim financial statements for the period.