

# REPORT OF THE DIRECTORS

The directors herein present their report and the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2005.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the significant subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the principal activities of the Group during the year.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 46 to 105.

The directors recommend the payment of a final dividend of HK0.6 cent per ordinary share in respect of the year to shareholders whose names appear on the register of members of the Company from 23 May 2006 to 29 May 2006. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet. No interim dividend was paid during the year.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements is set out on page 106. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

There were no movements in the Company's authorised and issued share capital during the year. Details of movements in the Company's share options during the year, together with the reasons therefor, are set out in note 32 to the financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the bye-laws of the Company or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements.

## DISTRIBUTABLE RESERVES

At 31 December 2005, the Company had distributable reserves of approximately HK\$96,149,000 of which approximately HK\$29,077,000 has been proposed as a final dividend for the year. Under the laws of Bermuda, the share premium account of the Company of approximately HK\$996,391,000 as at 31 December 2005 may be distributed in the form of fully paid bonus shares.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

Purchases from the Group's five largest suppliers accounted for 54% of the total purchases for the year and the purchases from the largest supplier included therein amounted to 31%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers.

## DIRECTORS

The directors of the Company during the year were as follows:

### Executive directors

Mr. Tsoi Tin Chun	
Mr. Cheung Chun Yuen Barry	
Mr. Ib Fruergaard	(appointed on 18 November 2005)
Mr. Lee Yeow Long Dave	(resigned on 31 August 2005)
Mr. Wong Siu Hung Patrick	(resigned on 18 November 2005)

### Non-executive director

Mr. Cheong Soo Kiong

### Independent non-executive directors

Mr. Liu Hongru  
Mr. Wong Kong Hon  
Ms. Tam Wai Chu Maria

Subsequent to the balance sheet date, on 27 February 2006, Mr. Liu Hongru resigned as an independent non-executive director of the Company. On the same date, Mr. Abraham Shek Lai-Him and Mr. John William Crawford were appointed as independent non-executive directors of the Company.

In accordance with the Company's bye-laws, Messrs. Ib Fruergaard, Abraham Shek Lai-Him, John William Crawford, Wong Kong Hon, and Mr. Tsoi Tin Chun will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Independent non-executive directors are appointed for a period of two years and are subject to retirement by rotation and re-election in accordance with the Company's bye-laws.

The Company has received annual confirmations of independence from Mr. Liu Hongru, Mr. Wong Kong Hon and Ms. Tam Wai Chu Maria.

## BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 36 to 38 of the Annual Report.

## DIRECTORS' SERVICE CONTRACTS

Mr. Cheung Chun Yuen Barry, an executive director, entered into a service contract with the Company on 9 July 2004 for a period of three years until terminated with cause or, during the third year of his appointment, by either party giving to the other not less than three calendar month prior notice in writing. Pursuant to the service contract, Mr. Cheung received a basic annual remuneration of HK\$3,101,000 for the year ended 31 December 2005 and a year end bonus determined by the board of directors.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' REMUNERATION

The fees of directors are subject to shareholder approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties and responsibilities and the performance and results of the Group.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as those disclosed in note 39 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the year.

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

At 31 December 2005, the interests and short positions of the directors and the chief executive in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise 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 and the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

### Long positions in ordinary shares of the Company:

Name of director	Capacity	Number of ordinary shares held	Percentage of the Company's issued share capital
Mr. Tsoi Tin Chun	Interest of a controlled corporation	2,744,780,202	56.64

### Short positions in ordinary shares of the Company:

Name of director	Capacity	Number of ordinary shares held	Percentage of the Company's issued share capital
Mr. Tsoi Tin Chun	Interest of a controlled corporation	438,836,815	9.06

Note: Mr. Tsoi Tin Chun ("Mr. Tsoi") is deemed to be interested in the shares of the Company held by Great Logistics Holdings Limited ("Great Logistics") as a result of his shareholding in Titan Oil Pte. Ltd. ("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 and as to 5% by Ms. Tsoi Yuk Yi, the spouse of Mr. Tsoi. Mr. Tsoi is also a director of Titan Oil and Great Logistics.

### Options outstanding under the share option scheme of the Company:

Name of director	Capacity	Total number of underlying shares (options granted) held	Approximate percentage of the Company's issued share capital
Mr. Cheung Chun Yuen Barry	Beneficial owner	20,000,000	0.41

Note: Share options carrying rights to subscribe for 20,000,000 ordinary shares of the Company were granted to Mr. Cheung Chun Yuen Barry on 21 September 2005 pursuant to the share option scheme adopted by the Company on 31 May 2002.

Save as disclosed above, at 31 December 2005, none of the directors or the chief executive had registered any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as required to be recorded pursuant to Divisions 7 and 8 of Part XV of the SFO, Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and chief executive's interests and short positions in shares and underlying shares and debentures" above and in the share option scheme disclosures in note 32 to the financial statements, at no time during the year 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 spouses or minor children, 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 arrangements to enable the directors to acquire such rights in any other body corporate.

## SHARE OPTION SCHEME

Concerning the share options granted during the year to Mr. Cheung Chun Yuen Barry under which 20,000,000 shares are issuable, the directors have estimated the theoretical value of the options to be HK\$3,437,000 at the date of grant using the Black Scholes model, taking into account the terms and conditions upon which the options were granted. The Black Scholes model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the value of the share options are set out in note 32 to the financial statements.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2005, so far as is known to the directors and the chief executive of the Company, the following persons had interests or short positions in the shares and underlying shares of the Company which were recorded in the register of interests required 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

### Long positions:

Name	Capacity	Number of ordinary shares held	Percentage of the Company's issued share capital
Great Logistics	Beneficial owner	2,744,780,202 (Note 1)	56.64
Titan Oil	Interest of a controlled corporation	2,744,780,202 (Note 2)	56.64
Ms. Tsoi Yuk Yi	Interest of spouse	2,744,780,202 (Note 3)	56.64
OZ Management, L.L.C.	Holding the Company's shares as security	1,136,000,000	23.44
OZ Management, L.L.C.	Others	438,836,815	9.06
HSBC Trustee (C.I.) Limited	Trustee	529,042,509	10.92
Nederlandse Financierings - Maatschappij Voor Ontwikkelingslanden N.V.	Holding the Company's shares as security	356,971,112	7.37
The State of the Netherlands	Interest of a controlled corporation	356,971,112 (Note 4)	7.37
Ms. Tse Lai Hing	Beneficial owner	280,000,000	5.78
Mr. Tse Yin Tuen	Interest of spouse	280,000,000 (Note 5)	5.78

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

### Short positions:

Name	Capacity	Number of ordinary shares held	Percentage of the Company's issued share capital
Great Logistics	Beneficial owner	438,836,815 (Note 1)	9.06
Titan Oil	Interest of a controlled corporation	438,836,815 (Note 2)	9.06
Ms. Tsoi Yuk Yi	Interest of spouse	438,836,815 (Note 3)	9.06

Note 1: Mr. Tsoi is deemed to be interested in such ordinary 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 and as to 5% by Ms. Tsoi Yuk Yi, the spouse of Mr. Tsoi. Mr. Tsoi is also a director of Titan Oil and Great Logistics.

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

Note 3: 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 is beneficially interested in 95% of the issued share capital of Titan Oil. As Ms. Tsoi Yuk Yi is the spouse of Mr. Tsoi, she is deemed to be interested in the ordinary shares held by Great Logistics.

Note 4: The State of the Netherlands is interested in such ordinary shares through its shareholding in Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.

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

Save as disclosed above, at 31 December 2005, no person, other than the directors and the chief executive of the Company whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares and debentures" above, had an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register required to be kept under Section 336 of the SFO, or which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of the Company.

### CONNECTED TRANSACTION

On 28 December 2004, Petro Titan Pte. Ltd. ("Petro Titan"), a wholly-owned subsidiary of the Company, entered into a tenancy agreement (the "Tenancy Agreement") with Titan Oil, pursuant to which Petro Titan leased an office space located at 8 Temasek Boulevard, #29-02, Suntec Tower 3, Singapore from Titan Oil for a term of three years from 1 January 2005 to 31 December 2007 inclusive at an aggregate rental of S\$212,660 per annum on the basis of S\$17,722 per month. The Tenancy Agreement is a continuing connected transaction of the Group under Chapter 14A of the Listing Rules as Titan Oil is the controlling shareholder of the Company and thus a connected person of the Company.

The above transaction was reviewed by the independent non-executive directors of the Company who confirmed that the transaction had been entered into:

- in the ordinary and usual course of business of Petro Titan;
- on normal commercial terms; and
- in accordance with the relevant agreement governing the transaction on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditors provided a confirmation in respect of the Tenancy Agreement in accordance with Rule 14A.38 (1), (3) and (4) of the Listing Rules.

## DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, no director is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, pursuant to the Listing Rules of the Stock Exchange, other than those businesses to which the directors were appointed as directors to represent the interest of the Company and/or the Group.

## DISCLOSURES PURSUANT TO RULE 13.17 OF THE LISTING RULES

In accordance with the disclosure requirements of Rule 13.17 of the Listing Rules, the following disclosure is included in respect of one of the Group's loan agreements and one of the bank facility letters in respect of which the controlling shareholder of the Company pledged an interest in certain shares of the Company.

Pursuant to loan agreements dated 16 March 2004 between certain subsidiaries of the Company and DBS Bank Limited, relating to term loan facilities and a revolving credit facility of US\$38.5 million (equivalent to approximately HK\$300.3 million) for the acquisition of Neptune Associated Shipping Pte. Ltd. and its subsidiaries, Great Logistics charged a total of 500,000,000 ordinary shares in the Company as security against a portion of the loan in the amount of US\$26.5 million which was fully repaid as at the balance sheet date.

Pursuant to a bank facility letter dated 18 January 2005 between Petro Titan and DBS Bank Limited in connection with certain trading facilities of US\$43 million (equivalent to approximately HK\$335.4 million), Great Logistics further charged the above 500,000,000 ordinary shares in the Company as security against the amount of US\$2.89 million utilised by Petro Titan.

Subsequent to the balance sheet date, on 6 January 2006, the above security charges provided by Great Logistics were released.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to good corporate governance to enhance long term shareholder value, with an emphasis on transparency, responsibility, independence and accountability. Throughout the year, the Company was fully complied with all code provisions of the Code on Corporate Governance Practices contained in the Listing Rules. Full details on the subject of corporate governance are set out in the Corporate Governance Report.

## CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling approximately HK\$625,500.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issues of the Listing Rules (the "Model Code") as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiries of the Company's directors, the directors have complied with the required standards set out in the Model Code throughout the accounting period covered by the Annual Report.

## AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules, for the purposes of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The audit committee comprises the three independent non-executive directors of the Company. The Group's financial statements for the year ended 31 December 2005 have been reviewed by the audit committee, who are satisfied that such statements comply with the applicable accounting standards, including the Stock Exchange and legal requirements, and that adequate disclosures have been made.

## AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Barry C. Cheung**

*Chief Executive*

Hong Kong

12 April 2006