1. CORPORATE INFORMATION

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

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company is located at 6706 Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

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

(i) supply of oil products;

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

(iii) provision of bunker refuelling services.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") 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, except for inventories and derivative financial instruments, which have been measured at fair value. Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell as further explained in note 2.5. These financial statements are presented in Hong Kong dollars and all amounts are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of a subsidiary during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combination to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

The adoption of HKASs 7, 8, 10, 12, 14, 17, 18, 19, 21, 23, 27, 28, 33, 37, 38 and 39 Amendment has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The effects of adopting the other HKFRSs are summarised as follows:

(a) HKAS 2 – Inventories

In prior years, all inventories were stated at the lower of cost and net realisable value.

Upon the adoption of HKAS 2, all inventories of the Group, which are principally commodities held for sale, are measured at fair value less costs to sell, with changes in fair value less costs to sell recognised in profit or loss in the period of the change. As the inventories held by the Group approximate fair value as at 31 December 2004, the effects of the change in accounting policy do not have any material impact on the consolidated financial statements for the year ended 31 December 2004. Accordingly, the comparative amounts for the year ended 31 December 2004 have not been restated to conform to the new policy. The effects of the above changes for the year are summarised in note 2.4 to the financial statements.

(b) HKAS 16 – Property, plant and equipment

In prior years, the residual values of the Group's assets were estimated at the dates of acquisition and were not reassessed at each subsequent balance sheet date.

Upon the adoption of HKAS 16, the residual values of assets are reviewed and adjusted if appropriate, at each balance sheet date. During the year, the residual values of the Group's vessels were reassessed and, accordingly, the depreciation charge on vessels for the year ended 31 December 2005 has been calculated based on the revised estimated residual values. This represents a change in accounting estimate and the effects of this change in accounting estimate to the consolidated financial statements for the year are summarised in note 2.4 to the financial statements.

(c) HKAS 32 and HKAS 39 – Financial instruments

(i) Interest-bearing bank and other loans

In prior years, all interest-bearing bank and other loans were stated at cost. All transaction costs relevant to all interest-bearing bank and other loans were capitalised as a deferred expenditure under prepayments, deposits and other receivables. All transaction costs were previously amortised over the terms of the relevant loans on the straight-line basis to the income statement.

Upon the adoption of HKAS 32 and HKAS 39, all loans, which include the fixed rate guaranteed senior notes (the "Notes"), are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, they are subsequently measured at amortised cost using the effective interest method.

The effects of the above changes do not have any material impact on the interest-bearing bank and other loans as at 31 December 2005 while the impact on the Notes issued during the current year is summarised in note 2.4 to the financial statements.

(ii) Derivative financial instruments

In prior years, the Group's derivative financial instruments were all previously held for hedging purposes. Any gains or losses arising from these derivative financial instruments were recognised in the income statement upon the completion of contracts on accrual basis. For hedge of forecast transactions, gains or losses arising at the time of entering into such hedging transactions were deferred and brought to account in the consolidated balance sheet over the lives of the hedges.

During the year, the Group uses derivative financial instruments, including oil price swap contracts, a forward freight rate agreement and an interest rate swap agreement to hedge its risks associated with price fluctuations for oil products and freight rates, and interest rate fluctuations.

Upon the adoption of HKAS 39, those derivative financial instruments not qualifying for hedge accounting are initially recognised at fair value on the date on which these derivative financial instruments are entered into and are subsequently measured at fair value. Any gains or losses are recognised in the income statement. For the interest rate swap agreement, it was designated as a cash flow hedge to hedge the Group's exposure to variability of cash flows that is attributable to the Group's future expected loan requirements, is recorded at fair value. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity until the transaction which is being hedged is itself recognised in the financial statements. The ineffective portion of the hedge, if any, is recognised immediately in the income statement.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(d) HKFRS 2 – Share-based payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services in consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 December 2004 but had not yet vested as at 1 January 2005, the adoption of HKFRS 2 has had no impact on the retained profits as at 31 December 2003 and at 31 December 2004. The Group has recognised the cost of options which were granted during the year in the current year's income statement in accordance with the revised accounting policy.

The effects of adopting HKFRS 2 are summarised in note 2.4 to the financial statements.

(e) HKFRS 3 – Business combinations and HKAS 36 – Impairment of assets

In prior years, goodwill arising on acquisition was recognised in the consolidated balance sheet as a non-current asset and amortised on the straight-line basis over its estimated useful life of 20 years and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing of impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

(f) HKFRS 5 – Non-current assets held for sale and discontinued operations

In prior years, non-current assets classified as held for sale were not separately presented as current assets on the face of the balance sheet.

Upon the adoption of HKFRS 5, non-current assets are required to be reclassified as held for sale under current assets if their carrying amounts will be recovered principally through sale transactions rather than through continuing use.

The effects of adopting HKFRS 5 for the year are summarised in note 2.4 to the financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 and HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

The HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions and HKFRS 1 Amendment do not apply to the activities of the Group.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES AND ESTIMATE

(a) Effects on the consolidated balance sheet as at 31 December 2005

	Effect of adopting							
	HKAS 2	HKAS 16	HKAS 39	HKAS 39	HKFRS 2	HKFRS 3	HKFRS 5	
Effect of new policies (Increase/(decrease))	Fair value adjustment of inventories HK$'000	Change in residual values HK$'000	Cash flow hedge HK$'000	Fixed rate guaranteed senior notes HK$'000	Equity-settled share option arrangements HK$'000	Discontinuation of amoritsation of goodwill HK$'000	Non-current assets classified as held for sale HK$'000	Total HK$'000
ASSETS								
Property, plant and equipment	–	67,896	–	–	–	–	(14,458)	53,438
Goodwill	–	–	–	–	–	11,867	–	11,867
Prepayments, deposits and other receivables	–	–	(28,121)	(80,484)	–	–	–	(108,605)
Inventories	2,730	–	–	–	–	–	–	2,730
Non-current assets classified as held for sale	–	–	–	–	–	–	14,458	14,458
								(26,112)
LIABILITIES/EQUITY								
Tax payable	248	–	–	–	–	–	–	248
Fixed rate guaranteed senior notes	–	–	–	(6,351)	–	–	–	(6,351)
Other payables and accruals	–	–	–	(75,917)	–	–	–	(75,917)
Share option reserve	–	–	–	–	797	–	–	797
Hedging reserve	–	–	(28,121)	–	–	–	–	(28,121)
Retained profits	2,482	67,896	–	1,784	(797)	11,867	–	83,232
								(26,112)

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES AND ESTIMATE (continued)

(b) Effects on the consolidated income statement for the year ended 31 December 2005

	Effect of adopting							
	HKAS 2	HKAS 16	HKAS 39	HKAS 39	HKFRS 2	HKFRS 3	HKFRS 5	
Effect of new policies (Increase/(decrease))	Fair value adjustment of inventories HK$'000	Change in residual values HK$'000	Cash flow hedge HK$'000	Fixed rate guaranteed senior notes HK$'000	Equity-settled share option arrangements HK$'000	Discontinuation of amoritsation of goodwill HK$'000	Non-current assets classified as held for sale HK$'000	Total HK$'000
Cost of sales	(2,730)	(67,896)	–	–	–	–	–	(70,626)
Gross profit	2,730	67,896	–	–	–	–	–	70,626
Administrative expenses	–	–	–	–	797	(11,867)	–	(11,070)
Finance costs	–	–	–	(1,784)	–	–	–	(1,784)
Tax	248	–	–	–	–	–	–	248
Profit attributable to ordinary equity holders of the parent	2,482	67,896	–	1,784	(797)	11,867	–	83,232
Earnings per share attributable to ordinary equity holders of the parent								
Basic	–	HK1 cent	–	–	–	–	–	HK1 cent
Diluted	–	HK1 cent	–	–	–	–	–	HK1 cent

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity 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 income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

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

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture'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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

A joint venture is treated as:

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

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

(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's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Associates

An associate is an entity, not being a subsidiary, 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 income statement 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 arising from the acquisition of associates is included as part of the Group's interests in associates.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, goodwill and non-current assets classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that 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 such impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a member of the key management personnel of the Group or its parent; or

(d) the party is a close member of the family of any individual referred to in (a) or (c).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets held for sale". The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its 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 shorter of the remaining age and 25 years
Furniture, equipment and motor vehicles	5 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Costs incurred for dry-docking of vessels are included in costs of vessels. They are capitalised and depreciated over the period to the next estimated dry-docking date. When significant dry-docking costs are incurred prior to the expiry of the depreciation period, the remaining costs of the previous dry-docking are written off immediately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents oil berthing and storage facilities under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets, other than financial assets, classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

Licences

Licences represent the rights acquired to undertake floating storage operations. They are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 20 years, and assessed for impairment whenever there is an indication that the licences may be impaired. The amortisation period and the amortisation method for the licences with a finite useful life are reviewed at least at each balance sheet date.

Leases

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 property, plant and equipment, 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 income statement 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 income statement on the straight-line basis over the lease terms.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the remaining lease terms.

Financial assets (applicable to the year ended 31 December 2005)

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss or loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of loans and receivables, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets held for trading

Financial assets are classified as held for trading if they are acquired for the purpose of benefiting from short term fluctuation in prices. These assets are recorded in the balance sheet at fair value, with changes in fair value recognised in the income statement in the period of change.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

The fair value of financial assets that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For financial assets where there is no active market, fair value is determined using recent arm's length market transactions or reference to the current market value of another instrument which is substantially the same.

Impairment of loans and receivables (applicable to the year ended 31 December 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (applicable to the year ended 31 December 2005)

A financial asset (or, where applicable, a part of a financial asset or part of group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Interest-bearing bank and other loans (applicable to the year ended 31 December 2005)

All loans, which include fixed rate guaranteed senior notes, are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Derivative financial instruments and hedging (applicable to the year ended 31 December 2005)

The Group uses derivative financial instruments such as oil price swap contracts, a forward freight rate agreement and an interest rate swap agreement to hedge its risks associated with price fluctuations for oil products and freight rates, and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

The Group's forward purchase and sale contracts are recorded in the balance sheet at their fair values. Changes in fair value are recognised in the income statement in the period of change.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging (applicable to the year ended 31 December 2005) (continued)

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as cash flow hedges.

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, the amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

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.

Inventories

Inventories represent oil products that are principally commodities held for sale in the near future to generate a profit from fluctuations in price, are measured at fair value less costs to sell, with changes in fair value less costs to sell being recognised in profit or loss in the period of the change.

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 while 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contracts in progress/excess of progress billings over contract costs (continued)

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 sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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 in a transaction that is not a business combination 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, 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 credits and unused tax losses, to the extent it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits 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 in a transaction that is not a business combination 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 it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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 logistic 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; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Share-based payment transactions

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. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes Model, further details of which are given in note 32. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as an additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on 1 January 2005 and to those granted on or after 1 January 2005.

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 income statement 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 which are charged to the income statement as they become payable in accordance with the rules.

The employees of subsidiaries in Singapore are members of the Central Provident Fund (the "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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Borrowing costs, which are not directly attributable to the acquisition or construction of qualifying assets, are charged to the income statement in the period in which they are incurred.

Dividends

Final dividends proposed by the directors are classified as a separation allocation of retained profits within the equity 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date and all differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effects on the amounts recognised in the financial statements:

Depreciation of vessels

Depreciation of vessels constitutes a substantial portion of the Group's operating costs. The cost of property, plant and equipment is charged as depreciation expense over the estimated useful lives of the respective assets using the straight-line method. The Group periodically reviews changes in market conditions, asset retirement activities and salvage values to determine adjustments to the estimated remaining useful lives and residual values.

Actual economic lives may differ from estimated useful lives. Periodic reviews could result in changes in residual values and, therefore, depreciation charges in future periods.

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections, including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rate or the growth rate assumptions in the cash flow projections, could materially affect the net present values used in impairment tests.

Income tax

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Income tax (continued)

Deferred tax assets are recognised as unused tax losses carried forward to the extent that it is probable (that is, more likely than not) that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and, to the extent there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the carryforward tax losses, the asset balance will be reduced and charged to the income statement.

Estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired, at least ,on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make estimates of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

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:

(i) supply of oil products;

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

(iii) provision of bunker refuelling services.

In determining the Group's geographical segments, revenues are 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, profit and certain asset, liability and expenditure information for the Group's business segments for the years end 31 December 2005 and 2004.

	Supply of oil products		Provision of logistic services: Oil transportation		Provision of logistic services: Oil storage		Provision of bunker refuelling services		Eliminations		Consolidated	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
SEGMENT REVENUE:												
Revenue from external customers	5,599,257	1,281,458	1,778,835	907,862	48,066	37,148	3,037,492	1,267,097	–	–	10,463,650	3,493,565
Intersegment revenue	675,326	–	116,476	23,375	18,866	1,638	460,638	38,880	(1,271,306)	(63,893)	–	–
	6,274,583	1,281,458	1,895,311	931,237	66,932	38,786	3,498,130	1,305,977	(1,271,306)	(63,893)	10,463,650	3,493,565
SEGMENT RESULTS	53,689	6,540	548,889	431,688	14,084	16,143	17,843	7,518	–	–	634,505	461,889
Interest income and unallocated gains											64,854	5,305
Unallocated expenses											(79,991)	(24,678)
Finance costs											(312,864)	(39,608)
Profit before tax											306,504	402,908
Tax											(3,474)	(2,450)
Profit for the year											303,030	400,458

	Supply of oil products		Provision of logistic services: Oil transportation		Provision of logistic services: Oil storage		Provision of bunker refuelling services		Consolidated	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
ASSETS AND LIABILITIES:										
Segment assets	1,308,150	254,452	4,878,153	1,879,510	472,460	153,358	462,231	193,448	7,120,994	2,480,768
Interests in associates	–	–	–	–	294,317	249,380	–	–	294,317	249,380
Unallocated assets									186,918	279,977
Total assets									7,602,229	3,010,125
Segment liabilities	383,654	2,004	152,529	115,353	41,565	4,555	224,691	130,063	802,439	251,975
Unallocated liabilities									4,914,028	1,128,804
Total liabilities									5,716,467	1,380,779
OTHER SEGMENT INFORMATION:										
Depreciation and amortisation	–	–	236,727	87,805	6,215	8,870	–	–	242,942	96,675
Unallocated depreciation and amortisation									4,823	3,222
									247,765	99,897
Capital expenditure	–	–	3,231,606	956,783	143,619	17,228	–	–	3,375,225	974,011
Unallocated capital expenditure									7,301	11,287
									3,382,526	985,298

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2005 and 2004.

	China		Other Asia Pacific Countries		Consolidated	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
SEGMENT REVENUE:						
Revenue from external customers	**2,507,348**	752,422	**7,956,302**	2,741,143	**10,463,650**	3,493,565
OTHER SEGMENT INFORMATION:						
Segment assets	**892,875**	537,467	**2,522,272**	1,230,750	**3,415,147**	1,768,217
Unallocated assets					**4,187,082**	1,241,908
					7,602,229	3,010,125
Capital expenditure	**144,715**	8,510	**6,205**	22,206	**150,920**	30,716
Unallocated capital expenditure					**3,231,606**	954,582
					3,382,526	985,298

5. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of oil products 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 services. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

	2005 HK$'000	2004 HK$'000
Supply of oil products	**5,599,257**	1,281,458
Provision of bunker refuelling services	**3,037,492**	1,267,097
Provision of oil transportation services	**1,778,835**	907,862
Provision of oil storage services	**48,066**	37,148
	10,463,650	3,493,565

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Group 2005 HK$'000	Group 2004 HK$'000
Cost of inventories sold		**8,549,079**	2,522,856
Cost of services rendered		**1,287,549**	483,623
Depreciation*	*14*	**245,168**	96,560
Amortisation of licences**	*16*	**2,597**	2,597
Amortisation of goodwill	*17*	**–**	740
Minimum lease payments under operating leases in respect of:			
Vessels		**262,746**	75,295
Leasehold buildings		**9,696**	7,163
Staff costs (excluding directors' remuneration – *note 8*)			
Wages and salaries		**168,401**	99,589
Retirement benefits scheme contributions		**3,672**	2,509
		172,073	102,098
Auditors' remuneration		**2,341**	1,600
Loss on disposal of items of property, plant and equipment		**311**	352
Impairment of non-current assets classified as held for sale	*14*	**3,086**	–
Net change in fair value of derivative instruments not qualifying as hedges**		**(16,123)**	–
Foreign exchange differences, net		**633**	(578)
Provision for bad and doubtful debts		**2,033**	–
Interest income		**(34,065)**	(979)

* Depreciation of vessels of HK$238,982,000 (2004: HK$91,183,000) is included in "Cost of sales" on the face of the consolidated income statement.

** These items are included in "Cost of sales" on the face of the consolidated income statement.

7. FINANCE COSTS

	Group 2005 HK$'000	Group 2004 HK$'000
Interest on bank loans wholly repayable within five years	**53,001**	12,514
Interest on bank loans not wholly repayable within five years	**15,521**	4,193
Interest on other loan	**1,230**	–
Interest on trust receipt loans, secured	**887**	2,220
Interest on finance lease payables	**24,567**	14,953
Interest on fixed rate guaranteed senior notes	**217,694**	–
Other borrowing costs	**1,560**	5,728
Total interest	**314,460**	39,608
Less: Interest capitalised	**(1,596)**	–
	312,864	39,608

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	
	2005 HK$'000	2004 HK$'000
Fees	**800**	470
Other emoluments:		
Salaries, allowances and benefits in kind	**7,737**	4,083
Employee share option benefits	**797**	–
Retirement benefits scheme contributions	**97**	71
	9,431	4,624

During the year, a director was granted share options, in respect of his service to the Group, under the share option scheme of the Company, further details of which are set out in note 32 to the financial statements. The fair value of such options, which has been charged to the income statement, was determined as at the date of grant and is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2005 HK$'000	2004 HK$'000
Mr. Liu Hongru	**200**	150
Mr. Wong Kong Hon	**200**	150
Ms. Tam Wai Chu Maria	**200**	80
	600	380

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and a non-executive director

2005	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Employee share option benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
EXECUTIVE DIRECTORS:					
Mr. Tsoi Tin Chun	–	–	–	–	–
Mr. Cheung Chun Yuen Barry	–	3,101	797	12	3,910
Mr. Ib Fruergaard	–	447	–	2	449
Mr. Lee Yeow Long Dave	–	1,132	–	37	1,169
Mr. Wong Siu Hung Patrick	–	3,057	–	46	3,103
	–	7,737	797	97	8,631
NON-EXECUTIVE DIRECTOR:					
Mr. Cheong Soo Kiong	200	–	–	–	200
	200	7,737	797	97	8,831

2004	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Employee share option benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
EXECUTIVE DIRECTORS:					
Mr. Tsoi Tin Chun	–	–	–	–	–
Mr. Cheung Chun Yuen Barry	–	1,795	–	6	1,801
Mr. Lee Yeow Long Dave	–	1,035	–	49	1,084
Mr. Wong Siu Hung Patrick	–	359	–	12	371
Mr. Zheng Dun Xun	–	470	–	–	470
Mr. Sun Zhong	–	424	–	4	428
	–	4,083	–	71	4,154
NON-EXECUTIVE DIRECTOR:					
Mr. Cheong Soo Kiong	90	–	–	–	90
	90	4,083	–	71	4,244

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

The above executive directors' remuneration are equivalent to the compensation of key management personnel of the Group.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2004: two) directors, details of whose remuneration are disclosed in note 8 above. Details of the remuneration of the remaining three (2004: three) non-director, highest paid employees for the year are as follows:

	Group	
	2005 HK$'000	2004 HK$'000
Salaries, allowances and benefits in kind	**4,797**	3,667
Retirement benefits scheme contributions	**92**	85
	4,889	3,752

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

	Number of employees	
	2005	2004
HK$1,000,001 to HK$1,500,000	**–**	3
HK$1,500,001 to HK$2,000,000	**3**	–
	3	3

10. TAX

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 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 subsidiaries are domiciled in Singapore where the prevailing tax rate is 20% (2004: 20%).

With the Global Trader Programme ("GTP") incentive awarded by the Inland Revenue Authority of Singapore, certain qualified income generated during the year from the oil supply business of the Group has been charged at a concessionary rate of 10%. Any other income not qualified for the GTP incentive has been charged at the rate of 20% during the year.

Under Section 13A of the Singapore Income Tax Act, charter and freight income derived from certain Singapore incorporated subsidiaries of which their vessels are all sea-going Singapore flagged ships are exempted from corporate income tax in Singapore. No provision for taxation has been made on the estimated assessable profits generated from the charter and freight income during the year.

	2005 HK$'000	2004 HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**271**	1,243
Overprovision in prior years	**(152)**	(163)
Current – Elsewhere		
Charge for the year	**10,513**	4,381
Overprovision in prior years	**(487)**	(2,120)
Deferred *(note 30)*	**(6,671)**	(891)
Total tax charge for the year	**3,474**	2,450

10. TAX (continued)

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	
	2005 HK$'000	2004 HK$'000
Profit before tax	**306,504**	402,908
Tax at the applicable rates to profits in the countries concerned	**54,702**	71,422
Adjustments in respect of current tax of previous periods	**(639)**	(2,283)
Income not subject to tax	**(123,585)**	(146,434)
Expenses not deductible for tax	**72,996**	79,745
Tax charge at the Group's effective rate	**3,474**	2,450

11. NET PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The net profit attributable to ordinary equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company, was approximately HK$28,319,000 (2004: HK$69,436,000) (note 33(b)).

12. DIVIDEND

	2005 HK$'000	2004 HK$'000
Proposed final – HK0.6 cent (2004: HK1.0 cent) per ordinary share	**29,077**	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.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the net profit for the year attributable to ordinary equity holders of the parent of approximately HK$303,030,000 (2004: HK$400,458,000), and the 4,846,240,202 (2004: weighted average of 4,489,164,742) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit for the year attributable to ordinary equity holders of the parent of approximately HK$303,030,000 (2004: HK$400,458,000). The number of ordinary shares used in the calculation is 4,846,240,202 (2004: weighted average of 4,489,164,742) ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average of 75,393,836 (2004: 36,759,265) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

14. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold improvements	Vessels	Furniture, equipment and motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2005					
At 31 December 2004 and at 1 January 2005:					
Cost	7,449	1,479,114	16,577	–	1,503,140
Accumulated depreciation	(1,089)	(96,390)	(3,977)	–	(101,456)
Net carrying amount	6,360	1,382,724	12,600	–	1,401,684
At 1 January 2005, net of accumulated depreciation	6,360	1,382,724	12,600	–	1,401,684
Additions	1,669	3,231,042	7,028	142,787	3,382,526
Disposals *	(110)	(101,743)	(72)	–	(101,925)
Acquisition of a subsidiary *(note 34)*	–	–	1,566	20,095	21,661
Transfer to non-current assets classified as held for sale *	–	(14,312)	(146)	–	(14,458)
Depreciation provided during the year	(2,073)	(238,982)	(4,113)	–	(245,168)
At 31 December 2005, net of accumulated depreciation	5,846	4,258,729	16,863	162,882	4,444,320
At 31 December 2005:					
Cost	8,995	4,552,488	23,824	162,882	4,748,189
Accumulated depreciation	(3,149)	(293,759)	(6,961)	–	(303,869)
Net carrying amount	5,846	4,258,729	16,863	162,882	4,444,320

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group	Leasehold improvements	Vessels	Furniture, equipment and motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2004				
At 1 January 2004:				
Cost	421	235,711	1,619	237,751
Accumulated depreciation	(175)	(7,874)	(393)	(8,442)
Net carrying amount	246	227,837	1,226	229,309
At 1 January 2004, net of accumulated depreciation	246	227,837	1,226	229,309
Additions	7,455	973,517	4,326	985,298
Disposals	(226)	(85,024)	(2,580)	(87,830)
Acquisition of subsidiaries *(note 34)*	–	357,577	13,890	371,467
Depreciation provided during the year	(1,115)	(91,183)	(4,262)	(96,560)
At 31 December 2004, net of accumulated depreciation	6,360	1,382,724	12,600	1,401,684
At 31 December 2004:				
Cost	7,449	1,479,114	16,577	1,503,140
Accumulated depreciation	(1,089)	(96,390)	(3,977)	(101,456)
Net carrying amount	6,360	1,382,724	12,600	1,401,684

* On 15 June 2005, the Group entered into a memorandum of agreement with an independent third party to dispose of a vessel at a consideration of US$27,000,000 (equivalent to approximately HK$210,600,000) (the "Disposal"). Upon the completion of the Disposal on 27 June 2005, the Group recorded a gain of HK$137,922,000. The Disposal constituted a discloseable transaction under the Listing Rules, further details of which are set out in the Company's circular dated 8 July 2005.

On 28 November 2005, the Group entered into seven memorandums of agreement with an independent third party to dispose of seven vessels at a consideration of S$7,000,000 (equivalent to approximately HK$32,403,000). Three out of seven vessels have not yet been delivered as at 31 December 2005. Their fair values less cost to sell of HK$11,372,000, which represented their net carrying amounts as at 31 December 2005 of HK$14,458,000 and net of impairment loss of HK$3,086,000 (note 6), have been reclassified from property, plant and equipment to non-current assets classified as held for sale. For the year ended 31 December 2005, the Group recorded a loss on disposal of HK$7,317,000 for those four vessels delivered in the consolidated income statement. The remaining three vessels were delivered in February 2006.

At 31 December 2005, the Group's vessels and construction in progress with carrying values of approximately HK$2,717,825,000 (2004: HK$1,140,537,000) and HK$162,882,000 (2004: Nil), respectively, were pledged to secure certain banking facilities granted to the Group (note 26).

Upon the adoption of HKAS 16, the Group has reassessed and reviewed the residual values of items of property, plant and equipment. During the year, the residual values of the Group's vessels were reassessed with reference to the valuation by Ritchie & Bitsset (Far East) Pte. Ltd., independent professionally qualified valuers and, accordingly, the depreciation charges on vessels for the year ended 31 December 2005 have been calculated taking into consideration the revised estimated residual values. This represented a change in accounting estimate and the depreciation charge for the year has been reduced by HK$67,896,000 accordingly.

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of vessels and furniture, equipment and motor vehicles at 31 December 2005 amounted to HK$212,895,000 (2004: HK$218,688,000) and HK$448,000 (2004: Nil), respectively.

15. PREPAID LAND LEASE PAYMENTS

Group

	2005 HK$'000
Prepaid land lease payments through acquisition of a subsidiary *(note 34)* during the year and balance at 31 December 2005	**60,750**

Prepaid land lease payments represent outlays in respect of the acquisition of land use rights that are accounted for as operating leases. The land leases are long term leases and are situated in Mainland China.

At 31 December 2005, the Group's land use rights were pledged to secure certain banking facilities granted to the Group (note 26).

16. LICENCES

Group

31 December 2005	**HK$'000**
Cost at 1 January 2005, net of accumulated amortisation	**47,733**
Amortisation provided during the year	**(2,597)**
At 31 December 2005	**45,136**
At 31 December 2005:	
Cost	**51,935**
Accumulated amortisation	**(6,799)**
Net carrying amount	**45,136**

31 December 2004	HK$'000
At 1 January 2004	
Cost	51,935
Accumulated amortisation	(1,605)
Net carrying amount	50,330
Cost at 1 January 2004, net of accumulated amortisation	50,330
Amortisation provided during the year	(2,597)
At 31 December 2004	47,733
At 31 December 2004 and at 1 January 2005:	
Cost	51,935
Accumulated amortisation	(4,202)
Net carrying amount	47,733

Licences represent the rights acquired to undertake floating storage operations within the port limits of the east and west coasts of Malaysia, pursuant to the licences issued by the Ministry of Transport of Malaysia.

17. GOODWILL

Group

31 December 2005	**HK$'000**
At 1 January 2005:	
Cost as previously reported	**237,339**
Effect of adopting HKFRS 3 *(note 2.2(e))*	**(740)**
Cost as restated	**236,599**
Accumulated amortisation as previously reported	**740**
Effect of adopting HKFRS 3 *(note 2.2(e))*	**(740)**
Accumulated amortisation as restated	**–**
Net carrying amount	**236,599**
Cost at 1 January 2005	**236,599**
Acquisition of a subsidiary *(note 34)*	**1,308**
Cost and carrying amount at 31 December 2005	**237,907**

31 December 2004	HK$'000
At 1 January 2004	–
Acquisition of subsidiaries *(note 34)*	19,699
Acquisition of oil supply business *(note 39(a)(i))*	217,640
Amortisation provided during the year	(740)
At 31 December 2004	236,599
At 31 December 2004:	
Cost	237,339
Accumulated amortisation	(740)
Net carrying amount	236,599

In 2004, goodwill was amortised on the straight-line basis over its estimated useful life of 20 years.

In 2005, goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

- Oil supply cash-generating unit; and

- Oil transportation services cash-generating unit attributable to Neptune Associated Shipping Pte. Ltd. and its subsidiaries (the "NAS Group").

Impairment testing of goodwill

Oil supply cash-generating unit

The recoverable amount of the oil supply cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a period of more than five years. The discount rate applied to cash flow projections is 10%.

17. GOODWILL (continued)

Impairment testing of goodwill (continued)

Oil transportation services cash-generating unit attributable to the NAS Group

The recoverable amount of the oil transportation services cash-generating unit is also determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The discount rate applied to the cash flow projections is 10%.

As at 31 December 2005, no impairment provisions have been made against the goodwill arising from the acquisition of the oil supply business and the oil transportation services provided by the NAS Group.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2005 HK$'000	2004 HK$'000
Unlisted shares, at cost	**8**	8
Due from subsidiaries	**4,246,296**	1,163,648
Due to subsidiaries	**(11,819)**	(4,361)
	4,234,485	1,159,295

The amounts due are unsecured, interest-free and have no fixed terms of repayment.

The carrying amounts of these amounts due from and to subsidiaries approximate their fair values.

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
Titan Oil Trading (Asia) Limited	BVI	Ordinary US$1	100	Investment holding
Titan Bunkering Investment Limited	BVI	Ordinary US$1	100	Investment holding
Harbour Sky Investments Limited	BVI	Ordinary US$1	100	Investment holding

18. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Percentage of equity attributable to the Company	Principal activities
INDIRECTLY HELD				
Petro Titan Pte. Ltd. ("Petro Titan")	Singapore	Ordinary S$10,000,000	100	Supply of oil products
Titan Oriental Tiger Limited	Hong Kong	Ordinary HK$100	100	Provision of oil transportation services
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
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 Libra Pte. Ltd. *	Singapore	Ordinary S$1,000,000	100	Provision of oil transportation services

18. INTERESTS IN SUBSIDIARIES (continued)

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)				
Estonia Capital Ltd. *	BVI	Ordinary US$1	100	Provision of oil transportation services
Titan Gemini Pte. Ltd. *	Singapore	Ordinary S$1,000,000	100	Provision of oil transportation services
Titan Aries Pte. Ltd. *	Singapore	Ordinary S$1,000,000	100	Provision of oil transportation services
Titan Neptune Shipping Pte. Ltd. *	Singapore	Ordinary S$1,000,000	100	Provision of oil transportation services
Titan Pisces Pte. Ltd. *	Singapore	Ordinary S$1,000,000	100	Provision of oil transportation services
Titan Mercury Shipping Pte. Ltd. *	Singapore	Ordinary S$1,000,000	100	Provision of oil transportation services
Wendelstar International Ltd. *	BVI	Ordinary US$1	100	Provision of oil transportation services
Titan Ocean Pte. Ltd. *	Singapore	Ordinary S$100,000	100	Provision of ship management and agency services
Titan Mars Limited *	BVI/ Malaysia	Ordinary US$1,000	100	Provision of floating storage services

18. INTERESTS IN SUBSIDIARIES (continued)

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)				
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 Virgo Pte. Ltd.	Singapore	Ordinary S$1,000,000	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.	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$1,000,000	100	Provision of consultancy services
Guangzhou Nansha Titan Petrochemical Development Company Limited ("GZ Nansha")*^	Mainland China	US$11,600,000	70	Provision for oil berthing and storage facilities

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

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

^ GZ Nansha is registered as a Sino-Foreign joint venture enterprise under the PRC law.

@ For identification only.

18. INTERESTS IN SUBSIDIARIES (continued)

During the year, the Group entered into a share transfer agreement to acquire an additional 25% equity interest in GZ Nansha, a 45% owned associate of the Group, from Huahai (Singapore) Pte. Ltd. ("Huahai"), an independent third party, at a consideration of US$2.9 million (equivalent to approximately HK$22,620,000) (the "Acquisition"). The consideration for the Acquisition was determined by arm's length negotiations between both parties. Together with those directly attributable costs incurred for the Acquisition, the total cost of the business combination was HK$23,529,000.

The Acquisition constituted a discloseable transaction under the Listing Rules and was completed on 2 August 2005. Upon completion of the Acquisition, the Group held a 70% equity interest in GZ Nansha and it thereafter has been accounted for as a subsidiary of the Group. Further details of the Acquisition are set out in note 34 to the financial statements and the Company's circular dated 24 August 2005.

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.

Shares of certain subsidiaries held by the Group were pledged against the fixed rate guaranteed senior notes (note 29) and to banks to secure banking facilities (note 26) granted to the Group.

19. INTERESTS IN ASSOCIATES

	Group	
	2005 HK$'000	2004 HK$'000
Share of net assets	**65,795**	46,510
Goodwill on acquisition	**154,304**	154,304
	220,099	200,814
Due from an associate	**74,218**	48,566
	294,317	249,380

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the amount due from an associate approximates its fair value.

Goodwill on acquisition is attributable to the Group's 40% interests in Sky Sharp (as defined below) and its attributable asset represents a 38% equity interest in Fujian Titan (as defined below). As at 31 December 2005, the oil berthing and oil storage facilities are still under construction. The Group has performed an impairment testing on the goodwill of which the recoverable amount of the oil berthing and storage facilities cash-generating unit still exceeds the carrying amount of goodwill. The recoverable amount has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering the period equivalent to the lease term of the land where the oil berthing and storage facilities are erected. The discount rate applied to the cash flow projections is 10%.

19. INTERESTS IN ASSOCIATES (continued)

Particulars of the associates are as follows:

Name	Particulars of issued shares held	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
Sky Sharp Investments Limited ("Sky Sharp")	Ordinary shares of US$1 each	Corporate	BVI	40	Investment holding
Forever Fortune Holdings Limited ("Forever Fortune") *	Non-voting deferred shares of HK$1 each	Corporate	Hong Kong	40	Investment holding
Fujian Titan Petrochemical Storage Development Co., Ltd. ("Fujian Titan") *	Registered capital US$12,000,000	Corporate	Mainland China	38	Provision for oil berthing and storage facilities
Quanzhou Titan Petrochemical Terminal Development Co., Ltd. ("Quanzhou Titan") *	Registered capital US$10,000,000	Corporate	Mainland China	40	Provision for oil berthing and storage facilities
Yangshan Shen Gang International Oil Logistics Co., Ltd. ("Yangshan Shen Gang") *	Registered capital US$19,350,000	Corporate	Mainland China	28	Provision for oil berthing and storage facilities

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

The following table sets out the summarised financial information of the Group's associates extracted from their management accounts:

	2005 HK$'000	2004 HK$'000
Assets	**401,554**	282,066
Liabilities	**183,574**	164,884
Loss for the year	**4,465**	–

20. DEPOSIT HELD IN A COLLATERAL ACCOUNT

The balance represented a deposit held in a collateral account in respect of certain swap agreements with a financial institute, which bears interest at the prevailing market interest rate and will be refunded to the Group upon the expiry or termination of the swap agreements. The carrying amount of the deposit held in the collateral account approximates its fair value. Further details of the swap agreements are set out in notes 24 and 29 to the financial statements.

21. VESSEL RENTAL DEPOSITS

In the prior year, the Group paid deposits of US$11,752,000 (equivalent to HK$91,975,000) 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. The bareboat charter was terminated during the year.

22. ACCOUNTS RECEIVABLE

The Group normally allows credit terms to well-established customers ranging from 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and that the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts receivable are non-interest-bearing.

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

	Group	
	2005	2004
	HK$'000	HK$'000
1 to 3 months	**998,278**	318,491
4 to 6 months	**10,669**	1,070
7 to 12 months	**10,904**	3,076
Over 12 months	**1,333**	–
	1,021,184	322,637

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

	Group	
	2005	2004
	HK$'000	HK$'000
CONTRACTS IN PROGRESS		
Direct costs incurred plus recognised profits less recognised losses to date	**211,938**	77,625
EXCESS OF PROGRESS BILLINGS OVER CONTRACT COSTS		
Direct costs incurred plus recognised profits less recognised losses to date	**36,951**	90,416
Less: Progress billings	**(66,158)**	(106,195)
	(29,207)	(15,779)

24. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Company
	Assets	Liabilities	Liabilities
2005	**HK$'000**	**HK$'000**	**HK$'000**
Derivative financial instruments for hedging purposes:			
Forward freight rate agreement	–	5,765	5,765
Oil price swap contracts	22,462	5,104	–
Forward sale and purchase contracts	4,530	–	–
Derivative financial instruments held as cash flow hedge:			
Interest rate swap agreement	–	28,121	28,121
	26,992	38,990	33,886

The carrying amounts of the derivative financial instruments are the same as their fair values.

At 31 December 2005, US$10 million (approximately HK$78,000,000 (note 20)) was on deposit in a collateral account held with a financial institute in respect of the interest rate swap agreement and the forward freight rate agreement.

Interest rate swap agreement – cash flow hedge

At 31 December 2005, the Group had an interest rate swap agreement in place with notional amounts ranging from US$216,199,000 to US$391,879,000, whereby it receives interest at variable rates ranging from 3.22% to 5.51% and pays at a fixed rate equal to LIBOR on the notional amounts for a period of seven years until 18 March 2012. The swap is used to hedge the exposure to variability of cash flows that is attributable to the Group's future expected loan requirements, which are highly probable. The expected loan requirements and the interest rate swap agreement have the same critical terms and the hedge of the interest rate swap has been assessed to be highly effective. The change in fair value of this cash flow hedge of HK$28,121,000 was included in the hedging reserve.

In addition, the Group has entered into the forward freight rate agreement with the financial institute and various oil price swap contracts with certain counterparties to hedge against the fluctuations in freight rates and oil prices which do not meet the criteria for hedge accounting. Changes in the fair values of these non-hedging derivatives amounting to HK$16,123,000 were charged to the income statement during the year.

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**301,508**	400,423	**2,639**	4,476
Time deposits	**355,743**	43,912	**–**	–
	657,251	444,335	**2,639**	4,476
Less: Amounts pledged for trading facilities *(note 26(iii))*				
Bank balances	**(4,457)**	–	**–**	–
Time deposits	**(8,543)**	(43,912)	**–**	–
	(13,000)	(43,912)	**–**	–
Cash and cash equivalents	**644,251**	400,423	**2,639**	4,476

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$101,667,000 (2004: HK$874,000). 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 Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the market short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate their fair values.

26. INTEREST-BEARING BANK AND OTHER LOANS

	Effective interest rate (%)	Maturity	Group		Company	
			2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Current						
Bank loans – secured	5.62-6.51	2006	**420,521**	240,642	**–**	–
Non-current						
Bank loans – unsecured	6.12-6.51	2007-2015	**154,923**	78,000	**–**	–
Bank loans – secured	5.62-6.51	2007-2011	**923,969**	587,548	**–**	–
Other loan – secured	8.03	2007-2012	**53,967**	–	**53,967**	–
			1,132,859	665,548	**53,967**	–
			1,553,380	906,190	**53,967**	–

	Group		Company	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Analysed into:				
Bank loans repayable:				
Within one year	**420,521**	240,642	**–**	–
In the second year	**242,240**	166,455	**–**	–
In the third to fifth years, inclusive	**733,411**	400,748	**–**	–
Beyond five years	**103,241**	98,345	**–**	–
	1,499,413	906,190	**–**	–
Other loan repayable:				
In the second year	**8,113**	–	**8,113**	–
In the third to fifth years, inclusive	**29,292**	–	**29,292**	–
Beyond five years	**16,562**	–	**16,562**	–
	53,967	–	**53,967**	–
	1,553,380	906,190	**53,967**	–

26. INTEREST-BEARING BANK AND OTHER LOANS (continued)

Certain of the Group's bank and other loans are secured by:

(i) the Group's vessels with a carrying value of HK$2,717,825,000 (2004: HK$1,140,537,000);

(ii) the Group's construction in progress with a carrying value of HK$162,882,000 (2004: Nil);

(iii) the Group's deposits of HK$13,000,000 (2004: HK$43,912,000);

(iv) the Group's deposit held in a collateral account of HK$78,000,000 (2004: Nil);

(v) the Group's land use rights of HK$60,750,000 (2004: Nil);

(vi) 500,000,000 ordinary shares held by Great Logistics in the Company;

(vii) shares of certain subsidiaries;

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

(ix) corporate guarantees executed by the Company.

Other interest rate information:

	Group			
	2005		2004	
	Fixed rate HK$'000	**Floating rate HK$'000**	Fixed rate HK$'000	Floating rate HK$'000
Bank loans – secured	**115,385**	**1,229,105**	–	828,190
Bank loans – unsecured	**76,923**	**78,000**	–	78,000
Other loan – secured	**53,967**	**–**	–	–

	Company			
	2005		2004	
	Fixed rate HK$'000	**Floating rate HK$'000**	Fixed rate HK$'000	Floating rate HK$'000
Other loan – secured	**53,967**	**–**	–	–

The carrying amounts of the Group's current and floating rate loans approximate their fair values. The carrying amounts and fair values of the Group's non-current and fixed rate loans are as follows:

	Carrying amounts		Fair value	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Bank loans – secured	**115,385**	–	**107,365**	–
Bank loans – unsecured	**76,923**	–	**72,090**	–
Other loan – secured	**53,967**	–	**52,829**	–
	246,275	–	**232,284**	–

At 31 December 2005, the fair value of the Company's secured other loan with a carrying amount of HK$53,967,000 was HK$52,829,000.

The fair values of the bank and other loans of the Group and of the Company are estimated by discounting the expected future cash flows at prevailing interest rates.

27. ACCOUNTS AND BILLS PAYABLE/OTHER PAYABLES AND ACCRUALS

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	
	2005 HK$'000	2004 HK$'000
1 to 3 months	**619,224**	138,861
4 to 6 months	**3,855**	6,655
7 to 12 months	**3,679**	3,033
Over 12 months	**3,758**	1,462
	630,516	150,011
Other payables and accruals	**159,373**	99,316
	789,889	249,327

Accounts and bills payable are non-interest-bearing and are normally settled on terms of 30 to 90 days. Other payables and accruals are non-interest-bearing and have an average term of three months.

28. FINANCE LEASE PAYABLES

The Group leases a vessel for its oil transportation business and a motor vehicle for the Group's business. These leases are classified as finance leases and have remaining lease terms ranging from three to five years.

At 31 December 2005, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Present value of minimum lease payments
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Amounts payable:				
Within one year	**42,904**	42,728	**21,807**	18,188
In the second year	**42,890**	42,705	**25,930**	21,629
In the third to fifth years, inclusive	**135,952**	128,232	**117,136**	93,052
After five years	**–**	50,378	**–**	49,793
Total minimum finance lease payments	**221,746**	264,043	**164,873**	182,662
Future finance charges	**(56,873)**	(81,381)		
Total net finance lease payables	**164,873**	182,662		
Portion classified as current liabilities	**(21,807)**	(18,188)		
Non-current portion	**143,066**	164,474		

At 31 December 2005, the effective interest rate of the finance lease payables was 13.88% per annum.

29. FIXED RATE GUARANTEED SENIOR NOTES

Pursuant to an indenture dated 17 March 2005 entered into by the Company, together with certain subsidiaries of the Company, which guarantee the issue of the Notes (the "Subsidiary Guarantors"), and the Deutsche Bank Trust Company Americas, as the trustee, the Company issued the Notes in the aggregate principal amount of US$400 million (equivalent to approximately HK$3,120 million) with directly attributable transaction costs of HK$90,709,000. The Notes are due on 18 March 2012 with bullet repayment, unless earlier redeemed pursuant to their terms. The Notes bear interest at the rate of 8.5% per annum, payable semi-annually in arrears on 18 March and 18 September of each year, commencing on 18 September 2005, which are listed on the Singapore Exchange Securities Trading Limited. Proceeds from the Notes have been utilised partially for purchases of vessels, further investments in oil storage facilities in China, repayment of bank loans and working capital of the Group.

The obligations of the Company under the Notes are guaranteed by the Subsidiary Guarantors and the pledge of shares of certain Subsidiary Guarantors (the "Subsidiary Guarantor Pledgors"). The list of subsidiaries comprising the Subsidiary Guarantors and the Subsidiary Guarantor Pledgors are more fully described in the Company's announcement dated 11 March 2005 (the "Announcement"). Further details of the principal terms of the Notes are set out in the Announcement.

In connection with the Notes, the Group entered into an interest rate swap agreement with a financial institute under which the Group receives interest payments semi-annually at a fixed rate of 8.5% per annum on a notional amount of US$400 million during the period from 18 September 2005 to 18 March 2012, and makes interest payments semi-annually at fixed rates of 5% per annum and 9.575% per annum during the periods from 18 March 2005 to 18 September 2006 and from 18 September 2006 to 18 March 2012, respectively. At 31 December 2005, this interest rate swap agreement with the financial institute represents an additional loan of HK$53,967,000 being granted to the Group which bears interest at an effective interest rate of 8.03% per annum and is included in interest-bearing bank and other loans in the balance sheet.

As detailed in note 20 to the financial statements, the above interest rate swap agreement was secured by a US$10 million deposit (approximately HK$78,000,000) held by the financial institute.

At 31 December 2005, the effective interest rate of the Notes was 9.27% per annum and the fair value of the Notes was HK$3,021,564,000.

30. DEFERRED TAX LIABILITIES

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

Group	**Accelerated capital allowances**
	HK$'000
At 1 January 2004	–
Arising on acquisition of subsidiaries *(note 34)*	15,054
Deferred tax credited to the income statement during the year	(891)
At 31 December 2004 and 1 January 2005	14,163
Deferred tax credited to the income statement during the year *(note 10)*	(6,671)
At 31 December 2005	7,492

At 31 December 2005, there were no significant unrecognised deferred tax liabilities (2004: 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 liabilities for additional taxes should such amounts be remitted.

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

31. SHARE CAPITAL

Shares

	2005 HK$'000	2004 HK$'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

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

	Number of shares in issue '000	Nominal value of shares issued HK$'000
At 1 January 2004	3,933,543	39,335
Issue of shares *(Notes)*	912,697	9,127
At 31 December 2004, 1 January 2005 and 31 December 2005	4,846,240	48,462

Notes: (a) On 16 January 2004, Great Logistics, through a placing agent, Deutsche Bank AG, Hong Kong, completed the placement of 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").

On the same date, Great Logistics completed a subscription of 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 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 of HK$21,984,000 for the Placing were debited to the share premium account.

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 business; (ii) to finance the development of oil storage facilities, and (iii) to provide additional working capital to the Group.

(b) On 4 May 2004, 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. In connection with this transaction, the Company then issued a total number of 184,563,333 new ordinary shares (the "Fujian Consideration Shares") at the fair value of HK$0.3786 per share to Great Logistics 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 39(a)(i) to the financial statements, the oil supply business acquisition was completed on 28 December 2004. The consideration for the acquisition of US$25,000,000 (equivalent to approximately HK$195,000,000) was satisfied by the issue and allotment of 278,134,360 new ordinary shares at the fair value of HK$0.7825 per share to Great Logistics. The excess of the oil supply business consideration shares over the nominal value of the issued shares of approximately HK$214,859,000 was credited to the share premium account.

Share option scheme

Details of the Company's share option scheme and the movements in share options issued by the Company are included in note 32 to the financial statements.

32. 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 approval of the financial statements	411,424,020 ordinary shares, representing 8.49% of the issued shares of the Company at the date of approval of the financial statements.
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 the ordinary shares on the Stock Exchange at the date of the offer; (ii) the average closing price of the ordinary shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date of the offer; or (iii) the nominal value of the ordinary shares of the Company.
Remaining life of the Scheme	The Scheme remains in force until 31 May 2012.

32. 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 2005	Granted during the year	Lapsed during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$
DIRECTORS							
Mr. Cheung Chun Yuen Barry	–	10,000,000	–	**10,000,000**	21 September 2005	9 July 2006 to 8 July 2008	0.68
	–	10,000,000	–	**10,000,000**	21 September 2005	21 September 2007 to 20 September 2009	0.68
Mr. Lee Yeow Long Dave	5,000,000	–	(5,000,000)	**–**	25 June 2004	25 June 2006 to 25 June 2008	0.45
Mr. Wong Siu Hung Patrick *(Note)*	5,000,000	–	–	**5,000,000**	25 June 2004	25 June 2006 to 25 June 2008	0.45
	10,000,000	20,000,000	(5,000,000)	**25,000,000**			
OTHER EMPLOYEES							
In aggregate	155,920,000	–	(7,700,000)	**148,220,000**	25 June 2004	25 June 2006 to 25 June 2008	0.45
	155,920,000	–	(7,700,000)	**148,220,000**			
OTHERS							
In aggregate	32,800,000	–	–	**32,800,000**	25 June 2004	25 June 2006 to 25 June 2008	0.45
	32,800,000	–	–	**32,800,000**			
	198,720,000	20,000,000	(12,700,000)	**206,020,000**			

* Options granted on 25 June 2004 were vested to grantees immediately on the date of grant. The closing price of the Company's share was HK$0.43 on 24 June 2004. Options granted on 21 September 2005 had a vesting period from the date of the grant until the commencement of the exercise period. The closing price of the Company's share was HK$0.68 on 20 September 2005.

** 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.

Note: Mr. Wong Siu Hung Patrick resigned as a director of the Company with effect from 18 November 2005 but he remains as an employee of the Group. The outstanding share options held by him have not lapsed.

32. SHARE OPTION SCHEME (continued)

The fair value of the share options granted during the year was HK$3,437,000.

The fair value of the equity-settled share options granted during the year was estimated as at the date of grant using the Black Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the input to the model used for the year ended 31 December 2005.

Dividend yield (%)	1.52
Expected volatility (%)	47.80
Risk-free interest rate (%)	3.77
Expected life of option (year)	2.00
Closing share price at the date of grant (HK$)	0.66
Exercise price (HK$)	0.68

The expected life of the options is based on historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the balance sheet date, the Company had share options for the subscription of 206,020,000 shares under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 206,020,000 additional ordinary shares of the Company and additional share capital of HK$2,060,000 and share premium of HK$95,249,000 (before issue expenses).

Subsequent to the balance sheet date, on 20 February 2006, share options for subscription of 5,000,000 and 48,200,000 shares were granted to a director and certain employees of the Company, respectively. The share options have an exercise price of HK$0.72 per share. 50% of the share options vest on 20 February 2007 and have an exercise period from 20 February 2007 to 19 February 2012. The remaining 50% of the share options vest on 20 February 2008 and have an exercise period from 20 February 2008 to 19 February 2013. The price of the Company's shares at the date of grant was HK$0.72 per share.

33. RESERVES

(a) Group

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Hedging reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2004		325,986	18,261	–	–	–	165,734	509,981
Issue of new shares	*31*	692,389	–	–	–	–	–	692,389
Share issue expenses	*31*	(21,984)	–	–	–	–	–	(21,984)
Exchange realignment		–	–	–	–	40	–	40
Profit for the year		–	–	–	–	–	400,458	400,458
Proposed final 2004 dividend	*12*	–	–	–	–	–	(48,462)	(48,462)
At 31 December 2004 and 1 January 2005		996,391	18,261	–	–	40	517,730	1,532,422
Equity-settled share option arrangements		–	–	797	–	–	–	797
Exchange realignment		–	–	–	–	2,507	–	2,507
Change in fair value on cash flow hedge	*24*	–	–	–	(28,121)	–	–	(28,121)
Profit for the year		–	–	–	–	–	303,030	303,030
Proposed final 2005 dividend	*12*	–	–	–	–	–	(29,077)	(29,077)
At 31 December 2005		996,391	18,261	797	(28,121)	2,547	791,683	1,781,558

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.

33. RESERVES (continued)

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Hedging reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2004		325,986	60,916	–	–	(14,060)	372,842
Issue of new shares	*31*	692,389	–	–	–	–	692,389
Share issue expenses	*31*	(21,984)	–	–	–	–	(21,984)
Profit for the year	*11*	–	–	–	–	69,436	69,436
Proposed final 2004 dividend	*12*	–	–	–	–	(48,462)	(48,462)
At 31 December 2004 and 1 January 2005		996,391	60,916	–	–	6,914	1,064,221
Equity-settled share option arrangements		–	–	797	–	–	797
Change in fair value on cash flow hedge	*24*	–	–	–	(28,121)	–	(28,121)
Profit for the year	*11*	–	–	–	–	28,319	28,319
Proposed final 2005 dividend	*12*	–	–	–	–	(29,077)	(29,077)
At 31 December 2005		996,391	60,916	797	(28,121)	6,156	1,036,139

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 referred to above, 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.

34. BUSINESS COMBINATION

As further detailed in note 18 to the financial statements, during the year, the Group acquired an additional of 25% equity interest in GZ Nansha from Huahai. GZ Nansha then became a subsidiary of the Group.

The fair values of the identifiable assets and liabilities of GZ Nansha and of the NAS Group acquired in the prior year, as at the dates of acquisition, do not differ materially from their respective carrying amounts. They are analysed as follows:

	Notes	**2005** **HK$'000**	2004 HK$'000
Net assets acquired:			
Property, plant and equipment	*14*	**21,661**	371,467
Prepaid land lease payments	*15*	**60,750**	–
Bunker oil		**–**	10,397
Accounts receivable		**–**	35,353
Prepayments, deposits and other receivables		**14,638**	12,113
Cash and cash equivalents		**1,884**	73,913
Accounts payable		**–**	(11,778)
Other payables and accruals		**(10,050)**	(23,944)
Tax payable		**–**	(9,169)
Finance lease payables		**–**	(39)
Deferred tax liabilities	*30*	**–**	(15,054)
Minority interests		**(26,665)**	–
		62,218	443,259
Goodwill on acquisition	*17*	**1,308**	19,699
		63,526	462,958
Reclassification from interest in an associate		**(39,997)**	–
Total net assets acquired		**23,529**	462,958
Satisfied by:			
Cash		**23,529**	444,868
Other payables		**–**	18,090
		23,529	462,958

34. BUSINESS COMBINATION (continued)

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

	2005 HK$'000	2004 HK$'000
Cash consideration	**(23,529)**	(444,868)
Cash and cash equivalents acquired	**1,884**	73,913
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(21,645)**	(370,955)

The subsidiaries acquired in the prior year contributed HK$256,630,000 to the Group's turnover and HK$35,766,000 to the consolidated profit for the year ended 31 December 2004.

Since the acquisition of GZ Nansha, it has not made any material contribution to the consolidated profit for the year ended 31 December 2005.

Had the combination taken place at the beginning of the year, the profit of the Group for the year would have been HK$301,141,000.

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

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

(i) As detailed in note 31(b), the Company issued the Fujian Consideration Shares to satisfy part of the Fujian acquisition cost during the prior year and the balance of HK$39,859,000 was offset against the note due from Titan Oil.

(ii) As detailed in note 39(a)(i) to the financial statements during the prior year, the Company issued and allotted a total of 278,134,360 new ordinary shares at a fair value of HK$0.7825 per share to Titan Oil for the oil supply business acquisition.

(iii) During the year, the Group entered into a finance lease arrangement in respect of a vehicle with a total capital value at the inception of the lease of HK$498,000. During the prior 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.

36. 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 buildings are negotiated for terms ranging from one to three years.

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

	Group	
	2005	2004
	HK$'000	HK$'000
VESSELS		
Within one year	**380,449**	246,689
In the second to fifth years, inclusive	**975,985**	889,557
Beyond five years	**–**	107,289
	1,356,434	1,243,535
LEASEHOLD LAND AND BUILDINGS		
Within one year	**8,481**	7,836
In the second to fifth years, inclusive	**2,353**	9,173
	10,834	17,009
	1,367,268	1,260,544

37. COMMITMENTS

(a) At 31 December 2005, the Group had a capital contribution commitment of US$20,972,000 (equivalent to approximately HK$163,585,000) (2004: US$2,088,000 (equivalent to approximately HK$16,286,000)) in respect of the formation of GZ Nansha and Yangshan Shen Gang. The Group also had a capital contribution commitment of RMB51,000,000 (equivalent to approximately HK$49,038,000) (2004: Nil) in respect of the construction of oil berthing and storage facilities.

(b) On 25 November 2005, the Group entered into three share transfer agreements with three independent third parties to acquire certain equity interests in two companies which are engaged in oil logistic related businesses at an aggregate consideration of RMB60,555,000 (equivalent to approximately HK$58,226,000). At 31 December 2005, the Group had total commitments of RMB60,555,000 (equivalent to approximately HK$58,226,000) in respect of these acquisitions.

(c) At 31 December 2005, the Group's associates had capital commitments, amounting to approximately RMB59 million (equivalent to approximately HK$57 million) (2004: RMB41 million (equivalent to approximately HK$38 million)) in respect of the construction of oil berthing and storage facilities. In the prior year, Forever Fortune had a 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).

37. COMMITMENTS (continued)

(d) At 31 December 2004, the Group had the following commitments:

(i) The Group paid a deposit of HK$30,030,000 in accordance with the memorandum of agreement for the acquisition of a VLCC for a consideration of US$38,500,000 (equivalent to approximately HK$300,300,000). The deposit paid was included in "Prepayments, deposits and other receivables" on the face of consolidated balance sheet and the outstanding commitment to the Group as at 31 December 2004 amounted to HK$270,270,000. The entire amount of deposit paid was transferred to property, plant and equipment in 2005.

(ii) The Group paid a deposit of HK$38,805,000 in accordance with another memorandum of agreement for the acquisition of another VLCC for a consideration of US$49,750,000 (equivalent to approximately HK$388,050,000). The deposit paid was included in "Prepayments, deposits and other receivables" on the face of consolidated balance sheet, and the outstanding commitment to the Group as at 31 December 2004 amounted to HK$349,245,000. The entire amount of deposit paid was transferred to property, plant and equipment in 2005.

38. CONTINGENT LIABILITIES

At 31 December 2005, guarantees aggregating HK$4,268,719,000 (2004: HK$1,626,662,000) were given by the Company to banks in connection with banking facilities granted to subsidiaries. An amount of HK$1,944,467,000 (2004: HK$943,631,000) of the facilities had been utilised by subsidiaries of the Company.

At 31 December 2005, a guarantee of HK$164,474,000 (2004: HK$182,639,000) was given by the Company in connection with a finance lease arrangement granted to a subsidiary.

At 31 December 2005, guarantees aggregating HK$35,760,000 (2004: HK$46,800,000) were given by the Company to suppliers in connection with the bunkering refuelling business. An amount of HK$9,333,000 (2004: HK$20,660,000) 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 2005.

39. RELATED PARTY TRANSACTIONS

(a) In addition to those transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during both years:

(i) Acquisition of oil supply business from Titan Oil (the "Oil Supply Business Acquisition")

On 2 November 2004, Petro Titan, an indirect wholly-owned subsidiary of the Company, and Titan Oil entered into a conditional sale and purchase agreement (the "Acquisition Agreement"), for the acquisition of the oil supply business at a consideration of US$25,000,000 (equivalent to HK$195,000,000) (the "Acquisition Consideration"). The Acquisition Consideration was determined after arm's length negotiations between the parties to the Acquisition Agreement, and after taking into consideration the financial performance and future prospects of the oil supply business. On 28 December 2004, the 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 31(c)).

The Oil Supply Business Acquisition did not involve any acquisition of assets or liabilities from Titan Oil. The Acquisition Consideration, therefore, represented the goodwill arising on the acquisition of the oil supply 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 Supply Business 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 Supply Business Acquisition was approved by independent shareholders of the Company at a special general meeting.

39. RELATED PARTY TRANSACTIONS (continued)

(a) (ii) Tenancy agreement with Titan Oil

Following the completion of the Oil Supply Business 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 supply business for a term of three years commencing from 1 January 2005 until 31 December 2007. During the year, Petro Titan paid a total amount of S$212,660 (equivalent to approximately HK$996,289) to Titan Oil for the lease of office premises, which is comparable to the prevailing market rental for similar properties.

(b) Other transaction with a related party:

During the year, a subsidiary of Titan Oil advanced an amount of RMB10,000,000 to an associate of the Group as its working capital, which is unsecured, interest-free and has no fixed terms of repayment.

(c) Outstanding balance with a related party:

At 31 December 2005, an amount of HK$1,184,000 (2004: Nil) due from Titan Oil was included in "Prepayments, deposits and other receivables" which is unsecured, interest-free and has no fixed terms of repayment. Such amount also represented the maximum outstanding amount during the year.

The related party transaction in respect of item (a)(ii) above also constituted a continuing connected transaction as defined in Chapter 14A of the Listing Rules.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank and other loans, fixed rate guaranteed senior notes, finance lease payables, cash and bank balances, and short term time deposits. The main purpose of these financial instruments is to raise and/or retain funds for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and accounts and bills payable, which arise directly from its operations.

The Group also enters into derivative transactions, including oil price swap contracts, a forward freight rate agreement and an interest rate swap agreement. The purpose of entering into these derivative transactions is to manage the risks from fluctuations in commodity prices, freight rates and interest rates arising from the Group's operations and its sources of finance.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The Group is principally exposed to commodity price risks, cash flow interest rate risks, credit risks and liquidity risks and, to a lesser extent, foreign currency risks, and uses derivatives and other instruments in connection with its risk management activities.

The Group has written risk management policies and guidelines recommended by its risk committee which set out its tolerance for risk and its general risk management philosophy, and has established processes to monitor and control hedging transactions in a timely and accurate manner. Such written policies are reviewed annually by the board of directors and regularly by the risk committee to ensure that the Group's policies and guidelines are appropriate and adhered to.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Commodity price risks

The Group's exposures to price risks on goods and services is closely monitored by the Group's risk manager to ensure they fall within approved limits.

Credit risks

Credit risks arise from the inability of a counterparty to meet the payment terms of the Group's financial instrument contracts (including physical contracts). It is the Group's policy to minimise such credit exposures by careful assessment of customer credit worthiness. The Group further lowers its credit exposure by obtaining export letters of credit, bank guarantees, credit insurance, etc. Therefore, the Group does not expect to incur any material credit losses on its risk management or other derivative financial instruments.

Cash flow interest rate risks

The Group has entered into an interest rate swap agreement to hedge all floating rate loans to fixed rate loans. The Group's treasury department continually monitors the positions and explores other ways to reduce interest costs.

Liquidity risks

The Group's treasury department monitors the Group's cash flow positions on a regular basis to ensure the cash flow of the Group remains positive.

Foreign currency risks

The Group's foreign currency exposures are minimal in view of the natural hedge between costs and revenues which are both primarily in US dollars. The Group do not have any significant exchange rate exposures to Hong Kong dollars or Singapore dollars.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 12 April 2006.