# 2006 Interim Report

Titan Petrochemicals Group Limited

Stock Code : 1192

# Corporate Information

## Directors

### Executive Directors

Tsoi Tin Chun, *Chairman*
Barry C. Cheung, *JP*, *Chief Executive*
Ib Fruergaard

### Independent Non-executive Directors

Maria W. Tam, GBS, *JP*
Wong Kong Hon, OBE, *JP*
John William Crawford, *JP*
Abraham Shek, *JP*

### Non-executive Director

Cheong Soo Kiong

## Audit Committee

John William Crawford, *JP*, Committee Chairman
Maria W. Tam, GBS, *JP*
Wong Kong Hon, *OBE, JP*

## Remuneration Committee

Maria W. Tam, GBS, *JP*, Committee Chairman
Wong Kong Hon, *OBE, JP*
Abraham Shek, *JP*
Tsoi Tin Chun

## Company Secretary

Allen C. Tu

## Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

## Head Office and Principal Place of Business

6706 Two International Finance Centre
8 Finance Street
Central
Hong Kong

## Principal Bankers

ABN AMRO Bank N.V.
Bank of China (Hong Kong)
China Construction Bank
DBS Bank Ltd
HSH Nordbank Singapore Branch
Malayan Banking Berhad
Raiffeisen Zentralbank Österreich AG (RZB-Austria)
Singapore Branch Asia Pacific
Standard Chartered Bank
Sumitomo Mitsui Banking Corporation
UFJ Bank Limited
United Overseas Bank Ltd
Commerzbank Aktiengesellschaft
Rabobank International
ING Bank N.V., Singapore Branch

## Auditors

Ernst & Young

## Solicitors

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

## Principal Registrars

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

## Hong Kong Branch Registrars

Tengis Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

## Website

www.petrotitan.com

## HIGHLIGHTS

| | 2006<br>HK$ million | 2005<br>HK$ million | Change*<br>% |
|---|---|---|---|
| Revenue | **6,472** | 3,549 | 82 |
| Gross Profit | **325** | 289 | 13 |
| EBITDA** | **422** | 378 | 12 |
| Profit<br>attributable to shareholders | **65** | 255 | (74) |
| Earnings per share<br>attributable to ordinary equity holders of the Company (HK cents) | **1.35** | 5.26 | (74) |

* % change is computed based on amounts in HK$ thousands

** excluding gain on a vessel disposal in 2005

- Strong revenue growth across all segments of the Group
- Growth in gross profit and EBITDA, excluding gain on a vessel disposal in 2005, of 13% and 12%, respectively
- Strong cash position at HK$786 million, compared to HK$657 million at 2005 year-end
- Nansha and Fujian onshore storage projects to be operational in second half of this year
- Positive outlook on stronger Very Large Crude Carrier (VLCC) market and higher available fleet capacity in second half of 2006

# CHIEF EXECUTIVE'S STATEMENT

I am pleased to report that during the first half of 2006 Titan achieved a satisfactory performance which, together with a favourable market outlook for the future, puts us well on track to achieve targetted full year results.

All of our businesses benefited from the expansion program of the last two years to post higher revenues. Net profit attributable to shareholders was lower than last year primarily because of the sizeable gain that we booked that year on disposal of a vessel and higher interest and fuel costs. Cash flow is strong, and following our heavy expansion last year, capital expenditure is set to fall substantially going forward. Market conditions remain favourable, especially for our transportation business, and we will increasingly benefit from synergies among the Group's businesses, particularly as our onshore storage operations in mainland China come on stream.

## RESULTS

The Group's revenue for the half year was HK$6,472 million, an increase of 82% over the same period in 2005. Gross profit for the period grew by 13% to HK$325 million, and earnings before interest, tax, depreciation and amortisation (EBITDA), excluding the gain on vessel disposal last year, rose by 12% to HK$422 million. Profit attributable to shareholders of the period was HK$65 million, a decrease of 74% which is primarily attributable to higher interest expense compared to the first half of 2005 and the 2005 vessel disposal gain of HK$138 million. The resulting earnings per share also dropped 74% to HK1.35 cents. No interim dividend has been declared as we expect to continue our practice of declaring a dividend only at year end.

## TRANSPORTATION

The oil transportation business, which focuses on carrying crude oil from producing regions such as the Arabian Gulf to Asian importers such as India, China, Taiwan and Korea, recorded revenues during the first half of 2006 of HK$1,081 million, a 46% rise over the same period of last year. Segment results for the period, excluding the vessel disposal gain in 2005, increased by 42% to HK$279 million. This was achieved despite a 45% increase in average fuel prices.

During 2004 and 2005, Titan expanded the capacity in its oil transportation business in order to achieve the economies of scale we considered necessary to be competitive. Thus, by the beginning of 2006, our fleet has reached 3.75 million deadweight tonnes (dwt), including 13 VLCCs, making us a major player in Asia.

The higher revenues reflect the above planned fleet expansion and much firmer rates for VLCCs on the Middle East-Japan routes, driven by higher demand, especially from China. Rates were, as usual, stronger in the first quarter and we took advantage of the seasonal dip in April and May to dry dock five of our VLCCs for maintenance in preparation for an expected strong upturn that began in June. As a result of the dry docking, the operational capacity of our fleet in the first six months was only 18% higher than for the first half of 2005.

Having achieved the desired economies of scale and an improved vessel mix, considerable effort is now being devoted to enhancing operational quality, increasing efficiency and further developing the appropriate organisational infrastructure required to manage growth.

## STORAGE

The Group's storage revenues, at present coming entirely from its two FSUs in Malaysian waters near the port of Singapore, increased by 132% to HK$42 million for the six months, as compared with the same period of 2005. Segment results declined 56% to HK$2 million, however, as fuel costs rose substantially and adversely affected profit margins.

Solid progress continued to be made on the construction of the onshore storage facilities in mainland China, which will become the core of the Group's storage business in the near future. All of these facilities are being built to the highest international standards and will deploy advanced equipment and systems.

At Nansha in Guangzhou, both Phase I and the enlarged Phase II (combined from the original Phase II and III) are well on track. Phase I consists of 410,000 $m^3$ of fuel oil storage. Construction is complete and bonded storage status has been granted by the General Customs Administration. Trial operations for Phase I are scheduled for the third quarter of 2006. To meet the high demand for storage in southern China, the Group increased the total designed capacity of Phase II from 830,000 $m^3$ to 1,090,000 $m^3$. Site preparation work has begun and construction is expected to be completed by late 2007.

At Quanzhou in Fujian province, construction of the initial phase, consisting of 90,000 $m^3$ of chemical and oil storage facilities, saw the main construction work on the 5,000 dwt chemical jetty and on the main body of the storage completed. Heavy rain during the second quarter has, however, pushed back the estimated operations start date to December 2006. In August 2006, the Group decided to increase its stake in the Fujian project from 38% to 100%, allowing us to take full control of the project and secure maximum benefit from its future prospects.

The storage facility at Yangshan near Shanghai gained approval from the National Development and Reform Commission, thereby allowing work to start on Phase I. This project has a capacity of 420,000 $m^3$ and operations are scheduled to begin in 2008.

## DISTRIBUTION

The Group's distribution business, consisting of bunkering or ship refuelling operations in Singapore and Hong Kong, increased its contribution in the first six months of 2006. Revenues rose by 131% over the first six months of 2005 to HK$2,380 million and segment results increased 26% to HK$14 million.

Despite high oil prices, the bunker market is growing strongly in both Singapore and Hong Kong, fuelled by continued growth in shipping volumes in Asia, particularly China. In Singapore, the Group has benefited particularly from synergies with its floating storage operations, which allow us to time bunker purchases to achieve the best margins. As a result, Titan's volume growth in Singapore has exceeded that of the overall market. We expect the same advantages will accrue to the Hong Kong operations once the Nansha storage facility becomes operational later this year.

## SUPPLY

The Group's oil supply business recorded a 69% increase in revenues for the first six months of 2006 to HK$2,969 million. Segment results dropped 93% to HK$2 million. This was largely a result of the reversal of the unrealised mark-to-market gain of HK$25.2 million from last year. In addition, profitability was somewhat affected by the China market, where high global oil prices led to negative import margins.

While the business will continue to provide procurement services for end users of oil from suppliers in Asia using its experience in blending and hedging, the Group has decided to further integrate this operation more closely with the other businesses, particularly our China storage, in future. To achieve this, Titan has made several key appointments and put in place a new, more experienced team, led by its President of Oil Services, Mr Christopher Yong, formerly from the BP Group, who will oversee the oil supply, distribution and floating storage operations.

## FINANCIAL RESOURCES

Cash flow remained strong during the six months and capital expenditure was 88% lower than for the same period last year.

As at 30 June 2006, the Group had a cash position of HK$786 million and unused facilities of HK$3,270 million for its continuing operations. The Group's gearing stood at 0.62, an improvement from 0.64 six months earlier.

Funding for the Group's onshore storage projects will come from non-recourse project financing arrangements. For Nansha, a Rmb300 million facility has been agreed and a further Rmb60 million facility is in the final stages of negotiation, while for Quanzhou, a Rmb150 million loan facility has been signed.

## OUTLOOK

We believe that the second half of 2006 will continue to see firmer market conditions for our businesses, especially transportation. VLCC rates for July averaged WS123.6, almost 30% higher than in July 2005, and momentum is even stronger going into August. With a number of our vessels having completed maintenance, we are well positioned to take full advantage of the higher freight rates, which normally peak in the final quarter.

In the storage sector, demand for the FSU business is expected to remain strong, although this will continue to be hampered by high fuel costs. On a positive note, however, the transformation of our storage business will crystallise in the second half of the year, when Nansha Phase I comes on stream. The fuel oil storage capacity is expected to be fully utilized as soon as it becomes operational and the strong demand is encouraging us to push ahead with Phase II for operation in 2007. In addition, by year end the initial 90,000 $m^3$ capacity in the Quanzhou storage facility should also be operational.

Although these facilities are not expected to contribute significantly this year, they will quickly start generating opportunities for the Group's other businesses, which will enhance performance in these divisions.

The distribution business in Singapore, meanwhile, is expected to further benefit from continued strong demand in the bunkering market and will aim to build market share. Our distribution business in Hong Kong is expected to gain significant advantages from the opening of the Nansha facility. To expand and upgrade our bunkering business, in July Titan ordered two new double hulled barges for delivery in late 2007 or early 2008, with options to buy a further eight barges.

The oil supply operation should benefit significantly both from Nansha, which will improve its competitiveness in southern China, and from the shift in Chinese Government policy towards more market based prices for refined products. The new Oil Services team will enable us to take advantage of these opportunities for synergies across the Group's businesses.

In summary, therefore, we expect the second half of 2006 to build on the momentum of the first half of the year, especially in transportation, to achieve significantly better results than last year. Moving into 2007, the efforts invested in expansion and integration will see Titan on an even stronger footing as a significant player in Asia's downstream oil services, and we expect improved contributions from our other businesses to enhance the scope and quality of our earnings.

**Barry C. Cheung**, JP.
*Chief Executive*

Hong Kong, 30 August 2006

# Consolidated Income Statement

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2006** | 2005 |
| | | **(Unaudited)** | (Unaudited) |
| | Notes | **HK$'000** | HK$'000 |
| **REVENUE** | 4 | **6,472,134** | 3,548,649 |
| Cost of sales | | **(6,146,820)** | (3,260,056) |
| Gross profit | | **325,314** | 288,593 |
| Other revenue | | **13,877** | 24,311 |
| Gain on disposal of a vessel, net | | **—** | 137,922 |
| Administrative expenses | | **(89,733)** | (69,847) |
| Finance costs | 5 | **(181,416)** | (120,486) |
| **PROFIT BEFORE TAX** | 6 | **68,042** | 260,493 |
| Tax | 7 | **(3,589)** | (5,636) |
| **PROFIT FOR THE PERIOD** | | **64,453** | 254,857 |
| **ATTRIBUTABLE TO:** | | | |
| Equity holders of the Company | | **65,394** | 254,857 |
| Minority interests | | **(941)** | — |
| | | **64,453** | 254,857 |
| **DIVIDENDS** | 8 | **—** | — |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY** | 9 | | |
| Basic | | **HK1.35 cents** | HK5.26 cents |
| Diluted | | **HK1.32 cents** | HK5.17 cents |

# Consolidated Balance Sheet

| | Notes | **30 June 2006 (Unaudited) HK$'000** | 31 December 2005 (Audited) HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **4,495,080** | 4,444,320 |
| Prepaid land lease payments | | **135,197** | 60,750 |
| Licences | | **43,836** | 45,136 |
| Goodwill | | **237,907** | 237,907 |
| Interests in associates | | **298,829** | 294,317 |
| Deposit held in a collateral account | | **78,000** | 78,000 |
| Total non-current assets | | **5,288,849** | 5,160,430 |
| **CURRENT ASSETS** | | | |
| Bunker oil | | **96,684** | 81,413 |
| Inventories | | **163,415** | 318,276 |
| Accounts receivable | 10 | **767,119** | 1,021,184 |
| Prepayments, deposits and other receivables | | **436,029** | 113,373 |
| Contracts in progress | | **33,772** | 211,938 |
| Derivative financial instruments | | **47,066** | 26,992 |
| Pledged deposits | | **45,362** | 13,000 |
| Cash and cash equivalents | | **740,823** | 644,251 |
| Non-current assets classified as held for sale | | **—** | 11,372 |
| Total current assets | | **2,330,270** | 2,441,799 |
| **CURRENT LIABILITIES** | | | |
| Interest-bearing bank and other loans | | **388,506** | 420,521 |
| Accounts and bills payable | 11 | **511,966** | 630,516 |
| Other payables and accruals | 11 | **250,604** | 159,373 |
| Finance lease payables | | **24,702** | 21,807 |
| Excess of progress billings over contract costs | | **4,585** | 29,207 |
| Derivative financial instruments | | **45,150** | 38,990 |
| Tax payable | | **14,851** | 18,987 |
| Total current liabilities | | **1,240,364** | 1,319,401 |
| **NET CURRENT ASSETS** | | **1,089,906** | 1,122,398 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **6,378,755** | 6,282,828 |

# Consolidated Balance Sheet (continued)

| | 30 June 2006 (Unaudited) HK$'000 | 31 December 2005 (Audited) HK$'000 |
|---|---|---|
| **NON-CURRENT LIABILITIES** | | |
| Fixed rate guaranteed senior notes | **(3,118,908)** | (3,113,649) |
| Interest-bearing bank and other loans | **(1,075,465)** | (1,132,859) |
| Finance lease payables | **(125,766)** | (143,066) |
| Deferred tax liabilities | **(7,664)** | (7,492) |
| Total non-current liabilities | **(4,327,803)** | (4,397,066) |
| Net assets | **2,050,952** | 1,885,762 |
| **EQUITY** | | |
| **Equity attributable to equity holders of the Company** | | |
| Issued capital | **48,487** | 48,462 |
| Reserves | **1,902,425** | 1,781,558 |
| Proposed final dividend | **—** | 29,077 |
| | **1,950,912** | 1,859,097 |
| **Minority interests** | **100,040** | 26,665 |
| Total equity | **2,050,952** | 1,885,762 |

# Condensed Consolidated Statement of Changes in Equity

| | Attributable to equity holders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital HK$'000 | Share premium account HK$'000 | Contributed surplus HK$'000 | Share option reserve HK$'000 | Hedging reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Retained profits HK$'000 | Proposed dividend HK$'000 | Total HK$'000 | Minority interests HK$'000 | Total equity HK$'000 |
| At 1 January 2006 (Audited) | **48,462** | **996,391** | **18,261** | **797** | **(28,121)** | **2,547** | **791,683** | **29,077** | **1,859,097** | **26,665** | **1,885,762** |
| Issue of new shares | **25** | **1,100** | **—** | **—** | **—** | **—** | **—** | **—** | **1,125** | **—** | **1,125** |
| Share option expenses | **—** | **—** | **—** | **5,054** | **—** | **—** | **—** | **—** | **5,054** | **—** | **5,054** |
| Exchange realignment | **—** | **—** | **—** | **—** | **—** | **(695)** | **—** | **—** | **(695)** | **—** | **(695)** |
| Change in fair value on cashflow hedge | **—** | **—** | **—** | **—** | **50,014** | **—** | **—** | **—** | **50,014** | **—** | **50,014** |
| Profit for the period | **—** | **—** | **—** | **—** | **—** | **—** | **65,394** | **—** | **65,394** | **(941)** | **64,453** |
| Capital contribution by minority shareholders | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **74,316** | **74,316** |
| Final 2005 dividend declared | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **(29,077)** | **(29,077)** | **—** | **(29,077)** |
| At 30 June 2006 (Unaudited) | **48,487** | **997,491*** | **18,261*** | **5,851*** | **21,893*** | **1,852*** | **857,077*** | **—** | **1,950,912** | **100,040** | **2,050,952** |
| At 1 January 2005 (Audited) | 48,462 | 996,391 | 18,261 | — | — | 40 | 517,730 | 48,462 | 1,629,346 | — | 1,629,346 |
| Exchange realignment | — | — | — | — | — | (371) | — | — | (371) | — | (371) |
| Profit for the period | — | — | — | — | — | — | 254,857 | — | 254,857 | — | 254,857 |
| Final 2004 dividend declared | — | — | — | — | — | — | — | (48,462) | (48,462) | — | (48,462) |
| At 30 June 2005 (Unaudited) | 48,462 | 996,391* | 18,261* | — | — | (331)* | 772,587* | — | 1,835,370 | — | 1,835,370 |

* These reserves accounts comprise the consolidated reserves of HK$1,902,425,000 (2005:HK$1,786,908,000) in the consolidated balance sheet.

# Condensed Consolidated Cash Flow Statement

| | Six months ended 30 June | |
|---|---|---|
| | **2006** | 2005 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Net cash inflow/(outflow) from operating activities | **599,555** | (247,866) |
| Net cash outflow from investing activities | **(210,878)** | (2,351,867) |
| Net cash inflow/(outflow) from financing activities | **(259,088)** | 3,295,228 |
| INCREASE IN CASH AND CASH EQUIVALENTS | **129,589** | 695,495 |
| Cash and cash equivalents at beginning of period | **657,251** | 444,335 |
| Effect of foreign exchange rate changes, net | **(655)** | (371) |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | **786,185** | 1,139,459 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and cash equivalents | **740,823** | 1,123,340 |
| Deposits with original maturities of less than three months when acquired, pledged as security for trading facilities | **45,362** | 16,119 |
| | **786,185** | 1,139,459 |

# Notes to Condensed Consolidated Financial Statements

## 1. Basis of Preparation

The unaudited condensed consolidated interim financial statements of the Group for the period have been prepared in accordance with Hong Kong Accounting Standard No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## 2. Significant Accounting Policies

The accounting policies used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the Group's audited financial statements for the year ended 31 December 2005, except for the adoption of the following amendments and interpretations mandatory for accounting periods beginning on or after 1 January 2006:

| | |
|---|---|
| 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 |
| HK(IFRIC)-Int 4 | Determining Whether an Arrangement Contains a Lease |

The HKAS 39 Amendments regarding cash flow hedge accounting of forecast intragroup transactions and the fair value option do not apply to the activities of the Group.

In accordance with the HKAS 39 and HKFRS 4 Amendments, 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. The adoption of this new accounting standard does not have a material effect on the Group's accounting policies and on amounts disclosed in the unaudited condensed consolidated interim financial statements.

HK(IFRIC)-Int 4 regarding the determination of whether an arrangement contains a lease based on the substance of the arrangement, its adoption does not have a material effect on the Group's accounting policies and on amounts disclosed in the unaudited condensed consolidated interim financial statements.

# Notes to Condensed Consolidated Financial Statements (continued)

## 3. Segment Information

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. The Group is principally engaged in the supply of oil products, the provision of logistic services including oil transportation and oil storage, and the provision of bunker refuelling services. The following table presents the unaudited revenues and results for the Group's business segments.

| | Supply of oil products | | Provision of logistic services: Oil transportation | | Provision of logistic services: Oil storage | | Provision of bunker refuelling services | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Six months ended 30 June | | Six months ended 30 June | | Six months ended 30 June | | Six months ended 30 June | | Six months ended 30 June | | Six months ended 30 June | |
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Segment revenues** | | | | | | | | | | | | |
| Revenue from external customers | **2,969,143** | 1,756,850 | **1,080,771** | 741,657 | **41,844** | 18,030 | **2,380,376** | 1,032,112 | **—** | — | **6,472,134** | 3,548,649 |
| Intersegment revenue | **607,096** | 66,769 | **76,266** | 35,569 | **16,890** | 1,277 | **350,452** | 161,815 | **(1,050,704)** | (265,430) | **—** | — |
| | **3,576,239** | 1,823,619 | **1,157,037** | 777,226 | **58,734** | 19,307 | **2,730,828** | 1,193,927 | **(1,050,704)** | (265,430) | **6,472,134** | 3,548,649 |
| **Segment results** | **1,969** | 28,004 | **279,278** | 334,698 | **2,166** | 4,974 | **13,945** | 11,026 | **—** | — | **297,358** | 378,702 |
| Interest income and unallocated gains | | | | | | | | | | | **10,631** | 21,166 |
| Unallocated expenses | | | | | | | | | | | **(58,531)** | (18,889) |
| Finance costs | | | | | | | | | | | **(181,416)** | (120,486) |
| Profit before tax | | | | | | | | | | | **68,042** | 260,493 |
| Tax | | | | | | | | | | | **(3,589)** | (5,636) |
| Profit for the period | | | | | | | | | | | **64,453** | 254,857 |

## 4. 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.

# Notes to Condensed Consolidated Financial Statements (continued)

## 5. Finance Costs

| | Six months ended 30 June | |
|---|---|---|
| | **2006** | 2005 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Interest on bank loans wholly repayable within five years | **32,641** | 8,649 |
| Interest on bank loans not wholly repayable within five years | **2,285** | 18,980 |
| Interest on other loan | **3,340** | — |
| Interest on finance lease payables | **6,865** | 12,634 |
| Interest on fixed rate guaranteed senior notes | **137,859** | 76,613 |
| Other finance costs | **3,627** | 3,610 |
| Total interest | **186,617** | 120,486 |
| Less: interest capitalised | **(5,201)** | — |
| | **181,416** | 120,486 |

## 6. Profit Before Tax

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

| | Six months ended 30 June | |
|---|---|---|
| | **2006** | 2005 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Cost of inventories sold | **5,329,311** | 2,732,581 |
| Cost of services rendered | **817,509** | 527,475 |
| Depreciation and amortisation | **172,511** | 135,260 |
| Interest income | **(11,442)** | (18,321) |

# Notes to Condensed Consolidated Financial Statements (continued)

## 7. Tax

| | Six months ended 30 June | |
|---|---|---|
| | **2006** | 2005 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Current — Hong Kong | | |
| Charge for the period | **—** | 106 |
| Under/(over) provision in the prior period | **134** | (530) |
| Current — Elsewhere | | |
| Charge for the period | **4,587** | 6,060 |
| Overprovision in the prior period | **(1,228)** | — |
| Deferred tax | **96** | — |
| Tax charge for the period | **3,589** | 5,636 |

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits in Hong Kong during the period. In the prior period, Hong Kong profits tax had been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries where the Group operates, based on existing legislation, interpretations and practices in respect thereof. The majority of its remaining subsidiaries are domiciled in Singapore where the prevailing tax rate is 20% (2005: 20%).

## 8. Dividends

The 2005 final dividend of HK0.6 cent (2004 final: HK1.0 cent) per ordinary share, totalling HK$29,077,000 (2004 final: HK$48,462,000) was paid during the period.

The board of directors does not recommend the payment of any interim dividend in respect of the period (2005: Nil).

# Notes to Condensed Consolidated Financial Statements (continued)

## 9. Earnings Per Share Attributable to Ordinary Equity Holders of the Company

The calculation of basic earnings per share is based on the unaudited profit for the period attributable to equity holders of the Company of HK$65,394,000 (2005: HK$254,857,000), and the weighted average of 4,846,256,777 (2005: 4,846,240,202) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the unaudited profit for the period attributable to equity holders of the Company of HK$65,394,000 (2005: HK$254,857,000). The weighted average number of ordinary shares used in the calculation is 4,846,256,777 (2005: 4,846,240,202) ordinary shares in issue during the period, as used in the basic earnings per share calculation; and the weighted average of 107,801,764 (2005: 87,695,637) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

## 10. 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 and overdue balances are reviewed regularly by senior management. An aged analysis of accounts receivable, net of provisions, as at the balance sheet date, based on the date of recognition of sales, is as follows:

| | **30 June 2006 (Unaudited) HK$'000** | 31 December 2005 (Audited) HK$'000 |
|---|---|---|
| 1 to 3 months | **685,977** | 998,278 |
| 4 to 6 months | **54,898** | 10,669 |
| 7 to 12 months | **23,129** | 10,904 |
| Over 12 months | **3,115** | 1,333 |
| | **767,119** | 1,021,184 |

# Notes to Condensed Consolidated Financial Statements (continued)

## 11. 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 accounts and bills payable as at the balance sheet date, based on the receipt of goods purchased, is as follows:

| | **30 June 2006 (Unaudited) HK$'000** | 31 December 2005 (Audited) HK$'000 |
|---|---|---|
| 1 to 3 months | **503,551** | 619,224 |
| 4 to 6 months | **6,364** | 3,855 |
| 7 to 12 months | **1,862** | 3,679 |
| Over 12 months | **189** | 3,758 |
| | **511,966** | 630,516 |
| Other payables and accruals | **250,604** | 159,373 |
| | **762,570** | 789,889 |

## 12. Commitments

(a) At 30 June 2006, the Group had a capital contribution commitment of US$2,192,000 (2005: US$2,192,000) (equivalent to approximately HK$17,101,000) in respect of the formation of Yangshan Shen Gang International Oil Logistics Co., Ltd., RMB23,520,000 (equivalent to approximately HK$22,615,000) (2005: Nil) for 廣州華南石化產品及交易中心有限公司 and US$2,261,000 (equivalent to approximately HK$17,636,000) (2005: Nil) for Quanzhou Titan Petrochemical Terminal Development Co., Ltd. The Group also had a capital contribution commitment of RMB14,712,000 (equivalent to approximately HK$14,146,000) (2005: RMB51,000,000 (equivalent to approximately HK$49,038,000)) in respect of the construction of oil berthing and storage facilities.

At 31 December 2005, the Group had a capital contribution commitment of US$18,780,000 (equivalent to approximately HK$146,484,000) in respect of the formation of Guangzhou Nansha Titan Petrochemical Development Company Limited. During the period, such amount has been fully paid.

(b) At 30 June 2006, the Group had total commitments of RMB60,555,000 (2005: RMB60,555,000) (equivalent to approximately HK$58,226,000) in respect of the acquisition of certain equity interests in two companies from certain independent third parties, which are engaged in oil logistic related businesses in China.

(c) At 30 June 2006, the Group's associates had capital commitments, amounting to approximately RMB103 million (equivalent to approximately HK$99 million) (2005: RMB59 million (equivalent to approximately HK$57 million)) in respect of the construction of oil berthing and storage facilities.

# Notes to Condensed Consolidated Financial Statements (continued)

## 13. Operating Lease Arrangements

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

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

| | **30 June 2006 (Unaudited) HK$'000** | 31 December 2005 (Audited) HK$'000 |
|---|---|---|
| Vessels: | | |
| Within one year | **375,769** | 380,449 |
| In the second to fifth years, inclusive | **775,244** | 975,985 |
| | **1,151,013** | 1,356,434 |
| Leasehold land and buildings: | | |
| Within one year | **7,457** | 8,481 |
| In the second to fifth years, inclusive | **5,908** | 2,353 |
| | **13,365** | 10,834 |
| | **1,164,378** | 1,367,268 |

## 14. Contingent Liabilities

At 30 June 2006, neither the Group nor the Company had any significant contingent liabilities.

# Notes to Condensed Consolidated Financial Statements (continued)

## 15. Related Party Transactions/Continuing Connected Transaction

During the period, the Group paid total rent of HK$513,000 (30 June 2005: HK$480,000) for office premises to Titan Oil Pte. Ltd. ("Titan Oil"), the Company's ultimate holding company, which was charged based on the prevailing market rentals.

At 30 June 2006, Titan Oil and a director of the Company have guaranteed certain banking facilities of the Group which were utilised to the extent of HK$508,853,000 (30 June 2005: HK$825,598,000).

At 30 June 2005, 500,000,000 ordinary shares of the Company held by a substantial shareholder of the Company were used to secure certain banking facilities of the Group which were utilised to the extent of HK$210,986,000. The relevant charges were released in January 2006.

## 16. Post Balance Sheet Events

On 3 July 2006, the Company entered into a conditional shipbuilding contract with Titan Quanzhou Shipyard Co., Ltd., a company which is approximately 46.52% owned by Titan Oil, to purchase two bunker barges and with two options to acquire a further eight bunker barges for an aggregate consideration of US$86.7 million (equivalent to approximately HK$675 million) (the "Purchase").

The Purchase constituted a connected and major transaction of the Company pursuant to the Listing Rules. Further details in relation to the Purchase are set out in the Company's circular dated 27 July 2006. On 15 August 2006, the Purchase was approved by independent shareholders at a special general meeting of the Company.

On 27 July 2006, the Group entered into a purchase agreement to acquire an additional 60% equity interest in Sky Sharp Investments Limited at a consideration of RMB220,596,000 (equivalent to approximately HK$212 million) from independent third parties. On the same date, Forever Fortune Holdings Limited, an associate of the Group entered into a purchase agreement to acquire the remaining 5% equity interest in Fujian Titan Petrochemical Storage Development Co., Ltd., at a consideration of RMB7,004,000 (equivalent to approximately HK$6.7 million). Upon the completion of the above acquisitions, the Group will hold the entire equity interest in a project involving the construction of oil berthing and storage facilities in Quanzhou City, Fujian province in China.

The above acquisitions constituted discloseable transactions of the Company pursuant to the Listing Rules. Further details in relation to the acquisitions are set out in the Company's announcement dated 31 July 2006.

## Capital Structure and Liquidity

The Group finances its operations largely through internally generated resources, term loans, other loans and trade finance facilities provided by banks in Hong Kong, Singapore and China. At 30 June 2006, the Group had cash and cash equivalents of HK$741 million (31 December 2005: HK$644 million) and pledged deposits of HK$45 million (31 December 2005: HK$13 million), comprised of an equivalent of HK$645 million denominated in US dollars, an equivalent of HK$15 million denominated in Singapore dollars, an equivalent of HK$121 million in Renminbi and HK$5 million in Hong Kong dollars.

At 30 June 2006, the Group had interest-bearing bank and other loans of HK$1,464 million (31 December 2005: HK$1,553 million), of which 77% were floating rate loans denominated in US dollars. HK$389 million of the Group's bank loans at 30 June 2006 had maturities within one year.

At 30 June 2006, the Group's banking and other facilities were secured or guaranteed by cash deposits of HK$45 million, deposits of HK$78 million held in a collateral account, vessels with an aggregate net carrying value of HK$2,860 million, land use rights with an aggregate net carrying value of HK$61 million, construction in progress with a net carrying value of HK$229 million, issued shares of a wholly-owned subsidiary of the Group, personal guarantees executed by a director of the Company, and an unlimited corporate guarantee executed by Titan Oil Pte. Ltd., the Company's ultimate holding company.

At 30 June 2006, the fixed rate guaranteed senior notes (the "Notes") of HK$3,119 million (31 December 2005: HK$3,114 million) were secured by shares of certain subsidiaries.

At 30 June 2006, the Group had current assets of HK$2,330 million (31 December 2005: HK$2,442 million). The Group's current ratio increased from 1.85 at 31 December 2005 to 1.88 at 30 June 2006. At 30 June 2006, the Group had total assets of HK$7,619 million (31 December 2005: HK$7,602 million), total bank and other loans of HK$1,464 million (31 December 2005: HK$1,553 million), finance lease payables of HK$150 million (31 December 2005: HK$165 million) and the Notes of HK$3,119 million (31 December 2005: HK$3,114 million). The gearing of the Group, calculated as the total bank and other loans, finance lease payables and the Notes to total assets, was 0.62 at 30 June 2006 (31 December 2005: 0.64).

The Group's business contracts are mostly settled in US dollars. The reporting currency of the Group is Hong Kong dollars. Since the exchange rate of the US dollar against the Hong Kong dollar was stable during the period, the directors consider that the Group has no significant exposure to foreign exchange fluctuations. During the period, the Group entered into interest rate swap contracts, a forward freight contract and oil price swap contracts to hedge exposures on fluctuations in interest rates, freight rates and commodity prices. The Group did not use any financial instruments for speculative purposes.

## Employees

As at 30 June 2006, the Group had approximately 257 employees in Singapore, Hong Kong and Mainland China, and approximately 607 officers and crew on board the Group's fleet and floating storage units. Remuneration packages including basic salaries, bonuses and benefits in kind are structured by reference to market terms and individual merit and are reviewed on an annual basis based on performance appraisals. Share options are also available for grant to certain employees and directors of the Group.

## Directors' and Chief Executives' Interests and Short Positions

As at 30 June 2006, the interests and short positions of the Directors and chief executives of the Company or their respective associates have the following interests in the shares, underlying shares of the Company or any associated corporations (within the meaning of the Securities and Future Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and which were required to be entered into the register required to be kept under Section 352 of the SFO were as follows:

### (i) Long positions in Shares

| Name | Capacity | Total number of Shares | Approximate % shareholding |
|---|---|---|---|
| Mr. Tsoi Tin Chun | Interest of a controlled corporation | 2,750,060,202 (Note 1) | 56.72 |

### (ii) Short positions in Shares

| Name | Capacity | Total number of Shares | Approximate % shareholding |
|---|---|---|---|
| Mr. Tsoi Tin Chun | Interest of a controlled corporation | 438,836,815 (Note 1) | 9.05 |

Note 1: Mr. Tsoi Tin Chun ("Mr. Tsoi") is deemed to be interested in the shares of the Company ("Shares") held by Great Logistics Holdings Limited ("Great Logistics") as a result of his shareholding in Titan Oil, the ultimate holding company of Great Logistics. Great Logistics' issued share capital is beneficially and wholly-owned by Titan Oil, which is in turn owned as to 95% by Mr. Tsoi and as to 5% by Ms. Tsoi Yuk Yi, the spouse of Mr. Tsoi. Mr. Tsoi is also a director of Titan Oil and Great Logistics.

### (iii) Options outstanding under the share option scheme of the Company

| Name | Capacity | Total number of underlying Shares (options) | Approximate % of shareholding |
|---|---|---|---|
| Mr. Barry Cheung Chun Yuen | Beneficial owner | 20,000,000 (Note 2) | 0.41 |
| Mr. Ib Fruergaard | Beneficial owner | 5,000,000 (Note 2) | 0.10 |

Note 2: Share options carrying rights to subscribe for 20,000,000 Shares and 5,000,000 Shares were granted to Mr. Barry Cheung Chun Yuen and Mr. Ib Fruergaard on 21 September 2005 and 20 February 2006 respectively, pursuant to the share option scheme adopted by the Company on 31 May 2002.

Save as disclosed above, based on the register required to be kept under section 352 of the SFO, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests and/or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code and which were required to be entered into the register required to be kept under section 352 of the SFO.

## Share Option Scheme

Movements in the share options during the six months ended 30 June 2006 under the share option scheme adopted by the Company on 31 May 2002 were as follows:

| Name or category of participant | Number of shares issuable under options granted: At 1 January 2006 | Granted during the period | Lapsed during the period | Exercised during the period | At 30 June 2006 | Date of grant of share options* | Exercise period | Exercise price** 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. Ib Fruergaard | — | 2,500,000 | — | — | 2,500,000 | 20 February 2006 | 20 February 2007 to 19 February 2012 | 0.72 |
| | — | 2,500,000 | — | — | 2,500,000 | 20 February 2006 | 20 February 2008 to 19 February 2013 | 0.72 |
| | 20,000,000 | 5,000,000 | — | — | 25,000,000 | | | |
| OTHER EMPLOYEES | | | | | | | | |
| In aggregate | 153,220,000 | — | (13,220,000) | (2,500,000) | 137,500,000 | 25 June 2004 | 25 June 2006 to 25 June 2008 | 0.45 |
| | — | 24,100,000 | (350,000) | — | 23,750,000 | 20 February 2006 | 20 February 2007 to 19 February 2012 | 0.72 |
| | — | 24,100,000 | (350,000) | — | 23,750,000 | 20 February 2006 | 20 February 2008 to 19 February 2013 | 0.72 |
| | 153,220,000 | 48,200,000 | (13,920,000) | (2,500,000) | 185,000,000 | | | |
| OTHERS | | | | | | | | |
| In aggregate | 32,800,000 | — | — | — | 32,800,000 | 25 June 2004 | 25 June 2006 to 25 June 2008 | 0.45 |
| | 206,020,000 | 53,200,000 | (13,920,000) | (2,500,000) | 242,800,000 | | | |

* Options granted on 25 June 2004 were vested to grantees immediately on the date of grant. The closing price of the Company's shares was HK$0.43 on 24 June 2004. Options granted on 21 September 2005 are vested to the grantee in two tranches. 50% of such options will be vested on 9 July 2006 with an exercise period from 9 July 2006 to 8 July 2008, the remaining 50% will be vested on 21 September 2007 with an exercise period from 21 September 2007 to 20 September 2009. Options granted on 20 February 2006 are also vested to grantees in two tranches. 50% of such options will be vested on 20 February 2007 with an exercise period from 20 February 2007 to 19 February 2012, the remaining 50% will be vested on 20 February 2008 with an exercise period from 20 February 2008 to 19 February 2013. The closing price of the Company's shares was HK$0.68 on 20 September 2005 and was HK$0.72 on 17 February 2006.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of the Company.

## Directors' Rights to Acquire Shares or Debentures

Save as disclosed under the paragraphs headed "Directors' and Chief Executives' Interests and Short Positions" and "Share Option Scheme" mentioned above, at no time during the period there were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

## Substantial Shareholders' Interests and Short Positions

As at 30 June 2006, so far as is known to the Directors and the chief executives of the Company, the following persons (other than a director or chief executive of the Company) who have interests or short positions in the shares and underlying shares which were required to be recorded in the register to be kept by the Company pursuant to Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules were as follows:

### (i) Long positions in Shares

| Name | Capacity | Number of Shares | % shareholding |
|---|---|---|---|
| Great Logistics | Beneficial owner | 2,750,060,202 (Note 1 above) | 56.72 |
| Titan Oil | Interest of a controlled corporation | 2,750,060,202 (Note 3) | 56.72 |
| Ms. Tsoi Yuk Yi | Interest of spouse | 2,750,060,202 (Note 4) | 56.72 |
| OZ Management, L.L.C. | Holding Shares as security | 1,536,000,000 | 31.68 |
| | Other | 394,953,134 | 8.15 |
| OZ Master Fund, Ltd. | Holding Shares as security | 1,394,688,000 | 28.76 |
| | Other | 358,968,515 | 7.40 |
| HSBC Trustee (C.I.) Limited | Trustee | 529,042,509 | 10.91 |
| Nederlandse Financierings-Maatschapplj Voor Ontwikkelingslanden N.V. | Holding Shares as security | 356,971,112 | 7.36 |
| The State of the Netherlands | Interest of a controlled corporation | 356,971,112 (Note 5) | 7.36 |
| Ms. Tse Lai Hing | Beneficial owner | 280,000,000 | 5.77 |
| Mr. Tse Yin Tuen | Interest of spouse | 280,000,000 (Note 6) | 5.77 |

### (ii) Short position in Shares

| Name | Capacity | Number of Shares | % shareholding |
|---|---|---|---|
| Great Logistics | Beneficial owner | 438,836,815 (Note 1 above) | 9.05 |
| Titan Oil | Interest of a controlled corporation | 438,836,815 (Note 3) | 9.05 |
| Ms. Tsoi Yuk Yi | Interest of spouse | 438,836,815 (Note 4) | 9.05 |

Note 3: Titan Oil is beneficially interested in the entire issued share capital of Great Logistics and, therefore, is deemed to be interested in the Company's shares held by Great Logistics.

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

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

Note 6: Mr. Tse Yin Tuen is the spouse of Ms. Tse Lai Hing and, therefore, Mr. Tse Yin Tuen is deemed to be interested in the Company's shares held by Ms. Tse Lai Hing.

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

## Purchase, Sale or Redemption of the Company's Listed Securities

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

## Corporate Governance

The Group is committed to maintaining a high standard of corporate governance to enhance long term shareholder value. The Company has complied throughout the period with all the code provisions as set out in the Code on Corporate Governance Practice in Appendix 14 to the Listing Rules.

Directors are obliged to observe the requirements stipulated in the Model Code in Appendix 10 to the Listing Rules. Based on specific enquires, all directors have confirmed that they have complied with the Model Code throughout the period. Furthermore, the Company also adopted corporate guidelines for securities transactions to regulate employees' conduct on securities dealings.

The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements of the Company for the period and is satisfied that such statements have complied with the applicable accounting standards, the Listing Rules and other legal requirements, and that adequate disclosures have been made.