Notes to Financial Statements

31 December 2006

1. CORPORATE INFORMATION

Titan Petrochemicals Group Limited (the "Company") was incorporated in Bermuda on 24 April 1999 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. During the year, the principal place of business of the Company was located at 6706 Two International Finance Centre, 8 Finance Street, Central, Hong Kong. Effective from 12 February 2007, the principal place of business of the Company has been changed to Suite 4901, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, 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 refueling 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 their carrying amounts and fair values less costs to sell as further explained in note 2.4 to the financial statements. 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 2006. 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 subsidiaries 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 identifiable assets acquired and the 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 not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Hong Kong (IFRIC) Interpretations ("HK(IFRIC)-Int"), herein collectively referred to as the new HKFRSs for the first time for the current year financial statements:

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining Whether an Arrangement Contains a Lease

The adoption of the above new and revised standards and interpretations has had no material impact on these financial statements.

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Amendment for net investment in a foreign operation

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 39 *Financial Instruments: Recognition and Measurements*

Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provision, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of the amendment has had no material impact on these financial statements.

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

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these 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:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

HKAS 1 Amendment is to be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures on qualitative information about the Group's objectives, 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.

HKFRS 7 is to be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will superseded HKAS 14 Segment Reporting.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 are to be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 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 joint venture operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture 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 joint venture 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 joint venture 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 the liabilities and contingent liabilities assumed as at the date of acquisition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 non-financial assets other than goodwill

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 consolidated 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 consolidated income statement in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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); or

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

(f) the party is a post employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

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 consolidated 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.

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
Oil storage facilities	30 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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 consolidated 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 consolidated 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 consolidated income statement on the straight-line basis over the lease terms.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Financial assets under 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 considers whether a contract contains an embedded derivative when the Group first becomes a party to it. Embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

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 standard purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Such 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 at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derrivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the consolidated income statement.

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 subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

The fair value of investments 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 investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same, and a discounted cash flow analysis.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is 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 the consolidated income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets carried at amortised cost (continued)

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 consolidated income statement to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to accounts receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

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 them 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including accounts and other payables, an amount due to a related company and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts under the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provision, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Derecognition of financial liabilities

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 the consolidated income statement.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as oil price swap contracts, a forward freight rate agreement and interest rate swap agreements 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 the consolidated income statement.

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

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 an unrecognised firm commitment (except for foreign currency risk); 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 highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or

- hedges of a net investment in a foreign operation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging (continued)

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 as set out below.

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised immediately in the consolidated income statement.

Amounts taken to equity are transferred to the consolidated income statement when the hedged transaction affects the consolidated income statement, 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 non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the consolidated income statement. 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 or firm commitment occurs.

Bunker oil, 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 the consolidated income statement in the period of the change.

Contracts in progress/excess of progress billings over contract costs

Voyage chartering is accounted for in the consolidated 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable 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.

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 an appropriate pricing model, further details of which are given in note 32 to the financial statements. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

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 consolidated 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.

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 consolidated 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 subsidiaries which operate in Mainland China are required to participate in a central pension scheme (the "CB Scheme") operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll to the CB Scheme. The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the CB Scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension schemes (continued)

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 contributions are charged to the consolidated income statement as they become payable in accordance with the rules of 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 consolidated 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.

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 consolidated income statement. 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 consolidated 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 effect on the amounts recognised in the financial statements:

Depreciation of vessels

Depreciation of vessels constitutes a 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 rates or the growth rates 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.

Deferred tax assets are recognised for 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 consolidated 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.

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 refueling 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.

(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 2006 and 2005.

			Provision of logistic services				Provision of bunker					
	Supply of oil products		Oil transportation		Oil storage		refueling services		Eliminations		Consolidated	
	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 revenue:												
Revenue from external customers	**4,811,090**	5,599,257	**2,081,842**	1,761,014	**96,022**	48,066	**4,471,026**	3,055,313	**—**	—	**11,459,980**	10,463,650
Intersegment revenue	**1,762,349**	675,326	**147,158**	116,476	**72,581**	18,866	**624,092**	460,638	**(2,606,180)**	(1,271,306)	**—**	—
	6,573,439	6,274,583	**2,229,000**	1,877,490	**168,603**	66,932	**5,095,118**	3,515,951	**(2,606,180)**	(1,271,306)	**11,459,980**	10,463,650
Segment results	**38,569**	53,689	**445,329**	548,169	**25,499**	14,084	**36,507**	18,563	**—**	—	**545,904**	634,505
Interest income and unallocated gains											**51,334**	64,854
Unallocated expenses											**(101,205)**	(79,991)
Finance costs											**(385,544)**	(312,864)
Profit before tax											**110,489**	306,504
Tax											**(13,977)**	(3,474)
Profit for the year											**96,512**	303,030

Note: During the year, the Group performed a review on its businesses and rationalised the classifications for oil transportation, oil storage and bunkering refueling services. Accordingly, certain comparative amounts have been reclassified to conform to the current year presentation.

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Supply of oil products		Provision of logistic services				Provision of bunker refueling services		Consolidated	
			Oil transportation		Oil storage					
	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
Assets and liabilities:										
Segment assets	**2,042,910**	1,308,150	**4,362,583**	4,878,153	**1,587,756**	472,460	**442,920**	462,231	**8,436,169**	7,120,994
Interests in associates	**—**	—	**—**	—	**169,661**	294,317	**—**	—	**169,661**	294,317
Unallocated assets									**341,206**	186,918
Total assets									**8,947,036**	7,602,229
Segment liabilities	**1,299,924**	383,654	**218,963**	152,529	**154,518**	41,565	**223,034**	224,691	**1,896,439**	802,439
Unallocated liabilities									**4,898,692**	4,914,028
Total liabilities									**6,795,131**	5,716,467
Other segment information:										
Depreciation and amortisation	**10,688**	—	**343,254**	236,727	**10,453**	6,215	**—**	—	**364,395**	242,942
Unallocated depreciation and amortisation									**8,002**	4,823
									372,397	247,765
Capital expenditure	**—**	—	**138,180**	3,231,606	**597,137**	143,619	**—**	—	**735,317**	3,375,225
Unallocated capital expenditure									**52,604**	7,301
									787,921	3,382,526
Write-off of/allowance for bad and doubtful debts	**6,492**	—	**9,702**	832	**—**	—	**218**	—	**16,412**	832
Unallocated write-off of/allowance for bad and doubtful debts									**852**	1,201
									17,264	2,033

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 2006 and 2005.

	China		Other Asia Pacific Countries		Consolidated	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Segment revenue:						
Revenue from external customers	**885,073**	2,507,348	**10,574,907**	7,956,302	**11,459,980**	10,463,650
Other segment information:						
Segment assets	**1,776,099**	892,875	**3,381,555**	2,522,272	**5,157,654**	3,415,147
Unallocated assets					**3,789,382**	4,187,082
					8,947,036	7,602,229
Capital expenditure	**648,353**	144,715	**1,387**	6,205	**649,740**	150,920
Unallocated capital expenditure					**138,181**	3,231,606
					787,921	3,382,526
Write-off of/allowance for bad and doubtful debts	**—**	—	**17,264**	2,033	**17,264**	2,033

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 refueling 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.

	2006 HK$'000	2005 HK$'000
Supply of oil products	**4,811,090**	5,599,257
Provision of bunker refueling services	**4,471,026**	3,055,313
Provision of oil transportation services	**2,081,842**	1,761,014
Provision of oil storage services	**96,022**	48,066
	11,459,980	10,463,650

6. PROFIT BEFORE TAX

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

		Group	
		2006	2005
	Notes	**HK$'000**	HK$'000
Cost of inventories sold		**9,160,132**	8,549,079
Cost of services rendered		**1,636,748**	1,287,549
Depreciation*	14	**369,789**	245,168
Amortisation of licences**	17	**2,608**	2,597
Minimum lease payments under operating leases:			
Vessels		**470,259**	262,746
Leasehold buildings		**9,460**	9,696
Employee benefits expense (excluding directors' remuneration — note 8):			
Wages and salaries		**188,990**	168,401
Equity-settled share option expenses		**6,235**	—
Pension scheme contributions		**4,568**	3,672
		199,793	172,073
Auditors' remuneration		**3,800**	2,341
Loss on disposal of items of property, plant and equipment		**258**	311
Impairment of non-current assets classified as held for sale		**—**	3,086
Net change in fair value of derivative instruments not qualifying as hedges**		**(75,213)**	(16,123)
Foreign exchange differences, net		**2,379**	633
Write-off of/allowance for bad and doubtful debts		**17,264**	2,033
Bank interest income		**(22,114)**	(34,065)

* Depreciation of vessels of HK$360,981,000 (2005: HK$238,982,000) is included in "Cost of sales" in the consolidated income statement.

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

7. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	HK$'000
Interest on bank loans wholly repayable within five years	**80,807**	53,001
Interest on bank loans not wholly repayable within five years	**8,119**	15,521
Interest on an other loan	**16,234**	1,230
Interest on trust receipt loans, secured	**7,225**	887
Interest on finance lease payables	**16,387**	24,567
Interest on fixed rate guaranteed senior notes	**275,857**	217,694
Other borrowing costs	**760**	1,560
Total interest	**405,389**	314,460
Less: Interest capitalised	**(19,845)**	(1,596)
	385,544	312,864

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Fees	**1,094**	800
Other emoluments:		
Salaries, allowances and benefits in kind	**7,254**	7,737
Equity-settled share option expenses	**2,595**	797
Pension scheme contributions	**24**	97
	10,967	9,431

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 recognised to the consolidated income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

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

	2006	2005
	HK$'000	HK$'000
Mr. Abraham Shek Lai Him	**191**	—
Mr. John William Crawford	**200**	—
Mr. Liu Hongru	**33**	200
Ms. Tam Wai Chu Maria	**240**	200
Mr. Wong Kong Hon	**230**	200
	894	600

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and a non-executive director

2006	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. Cheung Chun Yuen Barry	—	**3,359**	**1,943**	**12**	**5,314**
Mr. Ib Fruergaard	—	**3,895**	**652**	**12**	**4,559**
Mr. Tsoi Tin Chun	—	—	—	—	—
	—	**7,254**	**2,595**	**24**	**9,873**
Non-executive director:					
Mr. Cheong Soo Kiong	**200**	—	—	—	**200**
	200	**7,254**	**2,595**	**24**	**10,073**

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

There were no arrangements 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 (2005: two) directors, details of whose remuneration are disclosed in note 8 above. Details of the remuneration of the remaining three (2005: three) non-director, highest paid employees for the year are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**7,217**	4,797
Equity-settled share option expenses	**1,826**	—
Pension scheme contributions	**128**	92
	9,171	4,889

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

	Number of employees	
	2006	2005
HK$1,500,001 to HK$2,000,000	**2**	3
HK$3,500,001 to HK$4,000,000	**1**	—
	3	3

During the year, share options were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 32 to the financial statements. The fair value of such options, which has been recognised to the consolidated income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005 : 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 the Group's subsidiaries are domiciled in Singapore where the prevailing tax rate is 20% (2005 : 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 tax concessionary rate of 10%. Any other income not qualified for the GTP incentive has been charged at the rate of 20% during the year.

10. TAX (continued)

Under Section 13A of the Singapore Income Tax Act, charter and freight income derived from certain Singapore incorporated subsidiaries whose 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 charter and freight income during the year.

	2006 HK$'000	2005 HK$'000
Group:		
Current — Hong Kong		
Charge for the year	**—**	271
Overprovision in prior years	**(11)**	(152)
Current — Elsewhere		
Charge for the year	**15,517**	10,513
Under/(over)provision in prior years	**1,585**	(487)
Deferred	**(3,173)**	(6,671)
Share of tax attributable to an associate	**59**	—
Total tax charge for the year	**13,977**	3,474

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 is as follows:

	Group	
	2006 HK$'000	2005 HK$'000
Profit before tax	**110,489**	306,504
Tax at the applicable rates to profits in the countries concerned	**20,088**	54,702
Adjustments in respect of current tax of previous periods	**1,574**	(639)
Income not subject to tax	**(448,036)**	(123,585)
Expenses not deductible for tax	**440,351**	72,996
Tax charge at the Group's effective rate	**13,977**	3,474

11. PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to ordinary equity holders of the parent for the year ended 31 December 2006 includes a profit of HK$43,061,000 (2005: HK$28,319,000) which has been dealt with in the financial statements of the Company (note 33(b)).

12. DIVIDENDS

	2006 HK$'000	2005 HK$'000
Proposed final — Nil (2005 : HK0.6 cent) per ordinary share	**—**	29,077

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

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent of approximately HK$100,333,000 (2005 : HK$303,030,000), and the weighted average of 4,853,689,462 (2005 : 4,846,240,202) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent of approximately HK$100,333,000 (2005 : HK$303,030,000). The number of ordinary shares used in the calculation is the weighted average of 4,853,689,462 (2005 : 4,846,240,202) ordinary shares in issue during the year, as used in the basic earnings per share calculation, plus the weighted average of 102,817,352 (2005 : 75,393,836) 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 HK$'000	Vessels HK$'000	Oil storage facilities HK$'000	Furniture, equipment and motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2006						
At 31 December 2005 and at 1 January 2006:						
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
At 1 January 2006, net of accumulated depreciation	5,846	4,258,729	—	16,863	162,882	4,444,320
Additions	9,444	137,843	10	49,588	516,805	713,690
Disposals	—	(106)	—	(401)	—	(507)
Acquisition of subsidiaries (note 34)	—	—	—	—	180,843	180,843
Depreciation provided during the year	(2,611)	(359,278)	(295)	(7,605)	—	(369,789)
Transfers	—	—	159,430	—	(159,430)	—
Exchange realignment	(14)	(474)	—	64	29,577	29,153
At 31 December 2006, net of accumulated depreciation	12,665	4,036,714	159,145	58,509	730,677	4,997,710
At 31 December 2006:						
Cost	18,452	4,687,414	159,440	72,581	730,677	5,668,564
Accumulated depreciation	(5,787)	(650,700)	(295)	(14,072)	—	(670,854)
Net carrying amount	12,665	4,036,714	159,145	58,509	730,677	4,997,710

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group	Leasehold improvements HK$'000	Vessels HK$'000	Furniture, equipment and motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2005					
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

* 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 were set out in the Company's circular dated 8 July 2005.

** On 28 November 2005, the Group entered into seven memoranda 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 had 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 net of impairment loss of HK$3,086,000, had 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 2006, the Group's vessels, oil storage facilities and construction in progress with carrying values of approximately HK$2,560,454,000 (2005: HK$2,717,825,000), HK$159,145,000 (2005: Nil) and HK$166,402,000 (2005: HK$162,882,000), respectively, were pledged to secure certain banking facilities granted to the Group (note 26).

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 2006 amounted to HK$206,958,000 (2005: HK$212,895,000) and HK$348,000 (2005: HK$448,000), respectively.

15. DEPOSITS FOR ACQUISITION OF VESSELS

The balance represents deposits for acquisition of bunker barges from a related company (note 39(a)(ii)).

16. PREPAID LAND/SEABED LEASE PAYMENTS

	Group	
	2006 **HK$'000**	2005 HK$'000
Carrying amount at 1 January	**60,750**	—
Additions	**74,231**	—
Acquisition of subsidiaries (note 34)	**208,089**	60,750
Exchange realignment	**5,624**	—
Carrying amount at 31 December	**348,694**	60,750

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

At 31 December 2006 and 2005, the Group's land/seabed use rights were pledged to secure certain banking facilities granted to the Group (note 26).

17. LICENCES

Group

	HK$'000
31 December 2006	
Cost at 1 January 2006, net of accumulated amortisation	45,136
Amortisation provided during the year	(2,608)
At 31 December 2006	42,528
At 31 December 2006:	
Cost	51,935
Accumulated amortisation	(9,407)
Net carrying amount	42,528
31 December 2005	
At 1 January 2005:	
Cost	51,935
Accumulated amortisation	(4,202)
Net carrying amount	47,733
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 and at 1 January 2006:	
Cost	51,935
Accumulated amortisation	(6,799)
Net carrying amount	45,136

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

18. GOODWILL

Group

	HK$'000
31 December 2006	
Cost and net carrying amount at 1 January 2006	237,907
Acquisition of subsidiaries (note 34)	245,298
At 31 December 2006	483,205
31 December 2005	
Cost and net carrying amount at 1 January 2005	236,599
Acquisition of a subsidiary (note 34)	1,308
At 31 December 2005	237,907

There were no accumulated impairments as at 1 January 2005 and 1 January 2006.

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

- Oil supply cash-generating unit;
- Oil storage 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 five-year period. The discount rate applied to cash flow projections is 10%.

Oil storage cash-generating unit

The recoverable amount of the oil storage 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 the period equivalent to the lease term of the land where the oil berthing and storage facilities are erected. The discount rate applied to cash flow projections is 10% and the cash flows beyond five-year period are projected by using average growth rates from 2% to 5% for different oil storage revenue.

18. 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%.

The key assumptions for the above cash flow projections are the budgeted gross margins which is the average gross margins achieved in the year immediately before budgeted years, increases for expected market development, and the discount rate of 10%, which is before tax and reflects specific risks relating to the respective cash generating units.

As at 31 December 2006, no impairment provisions have been made against the goodwill arising from the acquisition of the oil supply and storage business and the oil transportation services provided by the NAS Group.

19. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**39,008**	8
Due from subsidiaries	**4,465,452**	4,246,296
Due to subsidiaries	**(218,609)**	(11,819)
	4,285,851	4,234,485
Portion of amounts due from subsidiaries classified as current assets	**(351,000)**	(241,800)
Non-current portion	**3,934,851**	3,992,685

The amounts due are unsecured and interest-free. Except for the amounts due from subsidiaries of HK$351,000,000 (2005: HK$241,800,000) which are expected to be settled within the next twelve months from the balance sheet date, the amounts due from and to subsidiaries have no fixed terms of repayment.

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

19. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/registered capital	Percentage of equity attributable to the Company	Principal activities
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
Indirectly held				
Petro Titan Pte. Ltd. ("Petro Titan")	Singapore	Ordinary S$10,000,000	100	Provision of supply and procurement services 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 refueling services
Titan Bunkering Pte. Ltd.	Singapore	Ordinary S$500,000	100	Provision of bunker refueling 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
Estonia Capital Ltd.	BVI/Singapore	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/Singapore	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
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

19. 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
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
Roswell Pacific Ltd.	BVI/Singapore	Ordinary S$1	100	Provision of floating storage services
Wynham Pacific Ltd.	BVI/Singapore	Ordinary S$1	100	Provision of oil transportation 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
泰山企業管理咨詢(上海)有限公司*#	Mainland China	US$1,000,000	100	Provision of consultancy services
Guangzhou Nansha Titan Petrochemical Development Company Limited ("GZ Nansha")*^	Mainland China	US$42,000,000	70	Provision for oil berthing and storage facilities
廣州華南石化交易中心有限公司 ("交易中心")*^	Mainland China	RMB60,000,000	70	Provision of services
Sky Sharp Investments Limited ("Sky Sharp")	BVI	US$10,000	100	Investment holding
Forever Fortune Holdings Limited ("Forever Fortune")	Hong Kong	Ordinary HK$10,000 and non-voting deferred shares HK$10,000	100	Investment holding
Fujian Titan Petrochemical Storage Development Co., Ltd. ("Fujian Titan")*#	Mainland China	US$22,000,000	100	Provision for oil berthing and storage facilities
Quanzhou Titan Petrochemical Terminal Development Co., Ltd. ("Quanzhou Titan")*#	Mainland China	US$10,000,000	100	Provision for oil berthing and storage facilities
石獅市益泰潤滑油脂貿易有限責任公司 ("益泰")*@	Mainland China	RMB28,000,000	100	Investment holding
Titan Petrochemicals (Fujian) Ltd.*#	Mainland China	US$5,000,000	100	Holding of land

* The statutory financial statements of these companies were not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

\# Registered as wholly foreign-owned enterprises under the PRC law.

^ Registered as Sino-Foreign joint venture enterprises under the PRC law.

@ Registered as a limited company under the PRC law.

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.

On 27 July 2006, the Group entered into a purchase agreement to acquire the remaining 60% equity interest in Sky Sharp for a total consideration of RMB220,596,000 (equivalent to approximately HK$212 million) from independent third parties. On the same date, Forever Fortune, a wholly-owned subsidiary of Sky Sharp, entered into a purchase agreement to acquire the remaining 5% equity interest in Fujian Titan, for a consideration of RMB7,004,000 (equivalent to approximately HK$6.7 million). The consideration for these acquisitions (the "Acquisitions") was determined by arm's length negotiations between the parties.

19. INTERESTS IN SUBSIDIARIES (continued)

The Acquisitions constituted discloseable transactions of the Company pursuant to the Listing Rules and were completed on 31 August 2006. Further details in relation to the Acquisitions are set out in the note 34 to the financial statements and in the Company's circular dated 21 August 2006.

On 19 December 2006, the Group entered into a share transfer agreement to acquire the entire equity interest in 益泰 at a consideration of RMB77,000,000 (equivalent to HK$77,000,000) from independent third parties. On 22 December 2006, this acquisition was completed when the Group obtained the necessary approval from the relevant PRC authority for the acquisition.

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.

20. INTERESTS IN ASSOCIATES

	Group	
	2006	2005
	HK$'000	HK$'000
Share of net assets	**76,283**	65,795
Goodwill on acquisition	**36,391**	154,304
	112,674	220,099
Due from associates	**56,987**	74,218
	169,661	294,317

The amounts due from associates are unsecured, interest-free, have no fixed terms of repayment and approximate their fair value.

As at 31 December 2006, goodwill on acquisition is attributable to the Group's 30% equity interests in GZ Xiaohu (as defined below) and 福建中油油品倉儲有限公司. The Group has performed impairment tests on the goodwill and the Group's interests in the relevant associates and no impairment is required. The recoverable amounts have been determined based on value in use calculations 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 terminal and oil product storage facilities are erected. The discount rate applied to the cash flow projections is 10% and the cash flows beyond five-year period are projected by using average growth rates from 2% to 5% for terminal facilities revenue and oil product storage revenue.

20. INTERESTS IN ASSOCIATES (continued)

Particulars of the associates are as follows:

Name	Particulars of issued shares held	Business structure	Place of registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
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
Guangzhou Xiaohu Petrochemical Terminal Co., Ltd ("GZ Xiaohu")*	Registered capital RMB45,000,000	Corporate	Mainland China	30	Provision for terminal facilities
福建中油油品倉儲有限公司*	Registered capital RMB46,000,000	Corporate	Mainland China	30	Provision of oil product storage
福建石獅中油油品銷售有限公司*	Registered capital RMB6,000,000	Corporate	Mainland China	30	Provision of oil product sale services

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

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

	2006 **HK$'000**	2005 HK$'000
Assets	**842,112**	401,554
Liabilities	**(576,383)**	183,574
Revenue	**4,777**	—
Profit/(loss) for the year	**1,614**	(4,465)

21. DEPOSIT HELD IN A COLLATERAL ACCOUNT

At 31 December 2006, the balance represents a deposit held in a collateral account in respect of an interest rate swap agreement with a financial institution. At 31 December 2005, in addition to the interest rate swap agreement, the deposit was also held in a collateral account in respect of a forward freight rate agreement. During the current year, the forward freight rate agreement has been expired. The deposit bears interest at the prevailing market interest rate and will be refunded to the Group upon the expiry or termination of the swap agreement. The carrying amount of the deposit held in the collateral account approximates its fair value. Further details of the swap agreement are set out in notes 24 and 29 to the financial statements.

22. ACCOUNTS RECEIVABLE

The Group normally allows credit terms to well-established customers ranging from 30 to 90 days. Efforts are made to maintain strict control over outstanding receivables and overdue balances are reviewed regularly by senior management. On this basis and 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	
	2006	2005
	HK$'000	HK$'000
1 to 3 months	**1,190,255**	998,278
4 to 6 months	**30,381**	10,669
7 to 12 months	**22,641**	10,904
Over 12 months	**7,375**	1,333
	1,250,652	1,021,184

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

	Group	
	2006	2005
	HK$'000	HK$'000
Contracts in progress		
Direct costs incurred plus recognised profits less recognised losses to date	**20,296**	211,938
Excess of progress billings over contract costs		
Direct costs incurred plus recognised profits less recognised losses to date	**19,672**	36,951
Less progress billings	**(31,162)**	(66,158)
	(11,490)	(29,207)

24. DERIVATIVE FINANCIAL INSTRUMENTS

Group

	Assets		Liabilities	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Derivative financial instruments for hedging purposes:				
Forward freight rate agreement	**—**	—	**—**	5,765
Oil price swap contracts	**119,625**	22,462	**42,595**	5,104
Forward sale and purchase contracts	**20,380**	4,530	**6,074**	—
Derivative financial instruments held as cash flow hedge:				
Interest rate swap agreement	**8,434**	—	**—**	28,121
	148,439	26,992	**48,669**	38,990

24. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Company

	Assets		Liabilities	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Derivative financial instruments for hedging purposes:				
Forward freight rate agreement	**—**	—	**—**	5,765
Derivative financial instruments held as cash flow hedge:				
Interest rate swap agreement	**8,434**	—	**—**	28,121
	8,434	—	**—**	33,886

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

At 31 December 2006, US$1,250,000 (approximately HK$9,750,000) (2005: US$10,000,000 (approximately HK$78,000,000)) (note 21) was on deposit in a collateral account held with a financial institution in respect of an interest rate swap agreement. At 31 December 2005, in addition to the interest rate swap agreement, the deposit was also held in a collateral account in respect of a forward freight rate agreement. During the year, the forward freight rate agreement has been expired.

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. During the year, a restructured interest rate swap agreement was entered by the Group with the same financial institution whereby the Group receives interest at LIBOR and pays at a fixed rate of 4.55% on the notional amounts ranging from US$1,500,000 to US$154,095,000 for a period from 27 July 2006 to 18 September 2012.

The swap is used to hedge the exposure to variability in 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 increase in fair value of this cash flow hedge during the year ended 31 December 2006 of HK$36,555,000 (2005: decrease of HK$28,121,000) has been included in the hedging reserve.

In addition, the Group entered into a forward freight rate agreement during last year with a financial institution and various oil price swap contracts during last year and current year with certain counterparties to hedge against fluctuations in freight rates and oil prices. The forward freight rate agreement was terminated during the year. The increase in fair values of these non-hedging derivatives amounting to HK$75,213,000 (2005: HK$16,123,000) have been charged to the consolidated income statement during the year.

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**124,792**	301,508	**4,627**	2,639
Time deposits	**248,400**	355,743	**—**	—
	373,192	657,251	**4,627**	2,639
Less amounts pledged for trading facilities (note 26(iii))				
Bank balances	**(12,141)**	(4,457)	**—**	—
Time deposits	**(60,503)**	(8,543)	**—**	—
	(72,644)	(13,000)	**—**	—
Cash and cash equivalents	**300,548**	644,251	**4,627**	2,639

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$17,511,000 (2005: HK$101,667,000). 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

	2006			2005		
Group	**Effective interest rate (%)**	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Trust receipt loans, secured	**6.60–6.85**	**2007**	**320,854**	—	—	—
Bank loans — secured	**6.81–7.37**	**2007**	**302,045**	5.62-6.51	2006	420,521
Bank loans — unsecured	**5.58**	**2007**	**20,000**	—	—	—
			642,899			420,521
Non-current						
Bank loans — unsecured	**8.08**	**2008-2012**	**78,000**	6.12-6.51	2007-2015	154,923
Bank loans — secured	**6.12-7.37**	**2008-2015**	**1,124,464**	5.62-6.51	2007-2011	923,969
Other loan — secured	**—**	**—**	**—**	8.03	2007-2012	53,967
			1,202,464			1,132,859
			1,845,363			1,553,380

	2006			2005		
Company	**Effective interest rate (%)**	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Other loan — secured	**—**	**—**	**—**	8.03	2007-2012	53,967

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Analysed into:				
Trust receipt loans, secured	**320,854**	—	—	—
Bank loans repayable:				
Within one year	**322,045**	420,521	—	—
In the second year	**246,882**	242,240	—	—
In the third to fifth years, inclusive	**562,482**	733,411	—	—
Beyond five years	**393,100**	103,241	—	—
	1,524,509	1,499,413	—	—
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
	1,845,363	1,553,380	—	53,967

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

(i) the Group's vessels with a carrying value of HK$2,560,454,000 (2005: HK$2,717,825,000);

(ii) the Group's construction in progress with a carrying value of HK$166,402,000 (2005: HK$162,882,000);

(iii) the Group's deposits of HK$72,644,000 (2005: HK$13,000,000);

(iv) the Group's deposit held in a collateral account of HK$9,750,000 (2005: HK$78,000,000);

(v) the Group's land/seabed use rights of HK$269,477,000 (2005: HK$60,750,000);

(vi) the Group's oil storage facilities with a carrying value of HK$159,145,000 (2005: Nil);

(vii) the Group's inventory with a carrying value of HK$320,854,000 (2005: Nil);

(viii) 500,000,000 ordinary shares of the Company held by Great Logistics were pledged as at 31 December 2005 but the pledge was released during the year ended 31 December 2006;

(ix) shares of certain subsidiaries;

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

(xi) corporate guarantees executed by the Company;

(xii) a corporate guarantee executed by a related company which is a subsidiary of Titan Oil (note 39(a)(iii)); and

(xiii) an unlimited corporate guarantee executed by Titan Oil (note 39(a)(iii)).

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

Other interest rate information:

	Group			
	2006		2005	
	Fixed rate HK$'000	**Floating rate HK$'000**	Fixed rate HK$'000	Floating rate HK$'000
Trust receipt loans — secured	**—**	**320,854**	—	—
Bank loans — secured	**551,000**	**875,509**	115,385	1,229,105
Bank loans — unsecured	**20,000**	**78,000**	76,923	78,000
Other loan — secured	**—**	**—**	53,967	—

	Company			
	2006		2005	
	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	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Bank loans — secured	**551,000**	115,385	**496,932**	107,365
Bank loans — unsecured	**—**	76,923	**—**	72,090
Other loan — secured	**—**	53,967	**—**	52,829
	551,000	246,275	**496,932**	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	
	2006 **HK$'000**	2005 HK$'000
1 to 3 months	**899,396**	619,224
4 to 6 months	**8,254**	3,855
7 to 12 months	**3,464**	3,679
Over 12 months	**1,520**	3,758
	912,634	630,516
Other payables and accruals	**629,469**	159,373
	1,542,103	789,889

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 administrative purposes. These leases are classified as finance leases and have remaining lease terms ranging from two to four years.

At 31 December 2006, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments		Present value of minimum lease payments	
	2006 **HK$'000**	2005 HK$'000	**2006** **HK$'000**	2005 HK$'000
Amounts payable:				
Within one year	**42,890**	42,904	**26,352**	21,807
In the second year	**42,868**	42,890	**29,943**	25,930
In the third to fifth years, inclusive	**93,084**	135,952	**82,062**	117,136
Total minimum finance lease payments	**178,842**	221,746	**138,357**	164,873
Future finance charges	**(40,485)**	(56,873)		
Total net finance lease payables	**138,357**	164,873		
Portion classified as current liabilities	**(26,352)**	(21,807)		
Non-current portion	**112,005**	143,066		

At 31 December 2006, the effective interest rate of the finance lease payables was 13.88% (2005: 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 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, and 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 Mainland 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"). Also, 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 institution 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 institution represented an additional loan of HK$53,967,000 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.

During the year, a restructured interest rate swap was entered by the Group with the same financial institution and the above interest rate swap agreement was terminated and the additional loan amount was fully settled. Details of the restructured interest rate swap are set out in note 24 to the financial statements.

At 31 December 2006, the effective interest rate of the Notes was 9.27% (2005: 9.27%) per annum and the fair value of the Notes was HK$2,737,800,000 (2005: 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$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Total HK$'000
At 1 January 2005	14,163	—	14,163
Deferred tax credited to the consolidated income statement during the year *(note 10)*	(6,671)	—	(6,671)
At 31 December 2005 and 1 January 2006	7,492	—	7,492
Arising on acquisition of subsidiaries *(note 34)*	—	54,431	54,431
Deferred tax credited to the consolidated income statement during the year *(note 10)*	(3,173)	—	(3,173)
At 31 December 2006	4,319	54,431	58,750

At 31 December 2006, there were no significant unrecognised deferred tax liabilities (2005: 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

	2006 HK$'000	2005 HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
4,864,900,202 (2005: 4,846,240,202) ordinary shares of HK$0.01 each	**48,649**	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 2005, 31 December 2005, and 1 January 2006	4,846,240	48,462
Exercise of share options during the year	18,660	187
At 31 December 2006	4,864,900	48,649

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 its 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 8.45% 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 2006	Granted during the year	Lapsed during the year	Exercised during the year	At 31 December 2006	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. 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)	(18,660,000)	121,340,000	25 June 2004	25 June 2006 to 25 June 2008	0.45
	—	24,100,000	(1,500,000)	—	22,600,000	20 February 2006	20 February 2007 to 19 February 2012	0.72
	—	24,100,000	(1,500,000)	—	22,600,000	20 February 2006	20 February 2008 to 19 February 2013	0.72
	153,220,000	48,200,000	(16,220,000)	(18,660,000)	166,540,000			
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			
	206,020,000	53,200,000	(16,220,000)	(18,660,000)	224,340,000			

* 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 were vested on 9 July 2006 with an exercise period from 9 July 2006 to 8 July 2008 and the remaining 50% will be vested on 21 September 2007 with an exercise period from 21 September 2007 to 20 September 2009. The closing price of the Company's shares was HK$0.68 on 20 September 2005.

Options granted on 20 February 2006 are also vested to grantees in two tranches. 50% of such options were vested on 20 February 2007 with an exercise period from 20 February 2007 to 19 February 2012 and 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$0.72 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.

The fair value of the share options granted during the year was assessed to be HK$8,830,000.

32. SHARE OPTION SCHEME (continued)

The fair value of the equity-settled share options granted during the year was estimated as at the date of grant using the Binomial 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 2006.

Dividend yield (%)	1.15
Expected volatility (%)	40.21
Risk-free interest rate (%)	4.19
Suboptimal exercise factor	1.50
Closing share price at the date of grant (HK$)	0.71
Exercise price (HK$)	0.72

The suboptimal exercise factor 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 outstanding share options for the subscription of 224,340,000 ordinary shares under the Scheme. The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 224,340,000 additional ordinary shares of the Company and additional share capital of HK$2,243,400 and share premium of HK$116,863,600 (before issue expenses).

33. RESERVES

(a) Group

	Notes	Share premium account HK$'000	Contributed surplus * HK$'000	Share option reserve HK$'000	Hedging reserve HK$'000	Asset revaluation reserve # HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 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 and 1 January 2006		996,391	18,261	797	(28,121)	—	2,547	791,683	1,781,558
Equity-settled share option arrangements		—	—	8,830	—	—	—	—	8,830
Exchange realignment		—	—	—	—	—	20,568	—	20,568
Change in fair value on cash flow hedge	24	—	—	—	36,555	—	—	—	36,555
Exercise of share options		8,211	—	—	—	—	—	—	8,211
Acquisition of subsidiaries	34	—	—	—	—	44,204	—	—	44,204
Profit for the year		—	—	—	—	—	—	100,333	100,333
At 31 December 2006		1,004,602	18,261	9,627	8,434	44,204	23,115	892,016	2,000,259

* 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.

\# The asset revaluation reserve of the Group, after deduction of deferred tax liabilities, arose as a result of the restatement to fair value of certain prepaid land/seabed lease payments at the date of acquisition of further interests in associates which became subsidiaries during the year.

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 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 and 1 January 2006		996,391	60,916	797	(28,121)	6,156	1,036,139
Equity-settled share option arrangements		—	—	8,830	—	—	8,830
Change in fair value on cash flow hedge	24	—	—	—	36,555	—	36,555
Exercise of share options		8,211	—	—	—	—	8,211
Profit for the year	11	—	—	—	—	43,061	43,061
At 31 December 2006		1,004,602	60,916	9,627	8,434	49,217	1,132,796

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.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

34. BUSINESS COMBINATIONS

As further detailed in note 19 to the financial statements, during the year, the Group acquired the remaining 60% and 5% equity interests in Sky Sharp and Fujian Titan (the "Sky Sharp Group"), respectively, and 100% equity interest in 益泰 from independent third parties.

The fair values of the identifiable assets and liabilities of Sky Sharp Group and 益泰 are analysed as follows:

		Fair value recognised on acquisition			
		2006			2005
	Notes	Sky Sharp Group HK$'000	益泰 HK$'000	Total HK$'000	GZ Nansha HK$'000
Net assets acquired:					
Construction in progress	14	180,843	—	180,843	21,661
Interests in associates		—	51,489	51,489	—
Prepaid land/seabed lease payments	16	208,089	—	208,089	60,750
Prepayments, deposits and other receivables		68,660	4,900	73,560	14,638
Cash and cash equivalents		64,826	104	64,930	1,884
Other payables and accruals		(2,364)	—	(2,364)	(10,050)
Amounts due to group companies		(78,765)	(37,274)	(116,039)	—
Bank loans		(144,231)	—	(144,231)	—
Deferred tax liabilities	30	(54,431)	—	(54,431)	—
Minority interest		89	12,600	12,689	(26,665)
		242,716	31,819	274,535	62,218
Goodwill on acquisition	18	200,117	45,181	245,298	1,308
		442,833	77,000	519,833	63,526
Reclassification from interests in associates		(223,726)	—	(223,726)	(39,997)
Total net assets acquired		219,107	77,000	296,107	23,529
Satisfied by:					
Cash		219,107	77,000	296,107	23,529

The fair values of the identifiable assets and liabilities of Sky Sharp Group and 益泰 in the current year and of GZ Nansha acquired in the prior year, as at the dates of acquisition, do not differ materially from their respective carrying amounts except that the carrying amount of the prepaid land/seabed lease payments of Sky Sharp Group is approximately HK$43,147,000 and the respective deferred tax liabilities are approximately HK$54,431,000 immediately before the acquisition in current year.

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

	2006 HK$'000	2005 HK$'000
Cash consideration	(296,107)	(23,529)
Cash and cash equivalents acquired	64,930	1,884
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(231,177)	(21,645)

34. BUSINESS COMBINATIONS (continued)

Since acquisition, Sky Sharp Group and 益泰 have not made a material contribution to the consolidated profit for the year ended 31 December 2006. GZ Nansha also did not make a material contribution to the consolidated profit for the year ended 31 December 2005.

Had the acquisition of Sky Sharp Group taken place at the beginning of the year, the revenue and the profit attributable to ordinary equity holders of the parent for the year would have been HK$11,459,980,000 and HK$100,770,000, respectively.

Had the acquisition of 益泰 taken place at the beginning of the year, the revenue and the profit attributable to ordinary equity holders of the parent for the year would have been HK$11,459,980,000 and HK$102,190,000, respectively.

Had the combination of GZ Nansha taken place at the beginning of the prior year, the revenue and the profit attributable to ordinary equity holders of the parent for the prior year would have been HK$10,463,650,000 and HK$301,141,000, respectively.

35. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

During the year, other receivables and amounts due from associates of HK$37,274,000 and HK$78,765,000, respectively, were reclassified as amounts due from subsidiaries upon the Group's acquisition of 益泰 and Sky Sharp Group. In the prior 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.

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 five 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	
	2006	2005
	HK$'000	HK$'000
Vessels		
Within one year	**376,258**	380,449
In the second to fifth years, inclusive	**585,850**	975,985
	962,108	1,356,434
Leasehold land and buildings		
Within one year	**10,481**	8,481
In the second to fifth years, inclusive	**19,550**	2,353
	30,031	10,834
	992,139	1,367,268

37. COMMITMENTS

(a) At 31 December 2006, the Group had capital contribution commitments of US$4,662,000 (equivalent to approximately HK$36,363,600) (2005: US$2,192,000 (equivalent to approximately HK$17,101,000)), RMB33,750,000 (equivalent to approximately HK$33,750,000) (2005: RMB38,919,000 (equivalent to approximately HK$37,422,000), and US$6,125,000 (equivalent to approximately HK$47,778,000) (2005: Nil) in respect of the increase of capital in Yangshan Shen Gang, GZ Xiaohu and Fujian Titan, respectively. The Group also had a capital commitment of RMB62,879,000 (equivalent to approximately HK$62,879,000) (2005: RMB51,000,000 (equivalent to approximately HK$49,038,000)) in respect of the construction of oil berthing and storage facilities.

(b) At 31 December 2006, the Group had total commitments of RMB21,636,000 (equivalent to approximately HK$21,636,000) (2005: RMB21,636,000 (equivalent to approximately HK$20,804,000)) in respect of the acquisition of certain equity interests in a company engaged in the oil logistics-related business in Mainland China from an independent third party.

(c) At 31 December 2006, the Group's associates had capital commitments, amounting to approximately RMB86,986,000 (equivalent to approximately HK$86,986,000) (2005: RMB59 million (equivalent to approximately HK$57 million)) in respect of the construction of oil berthing and storage facilities.

(d) On 3 July 2006, the Company entered into a shipbuilding agreement with a related company to purchase two bunker barges and with two options to acquire a further eight bunker barges for a contracted sum of US$86,700,000 (equivalent to approximately HK$676,260,000). During the year, the Group has paid deposits of approximately HK$44,207,000 and exercised one of the options of acquiring a further four bunker barges. Accordingly, the Group had total commitments in respect of the purchase of six bunker barges of approximately HK$361,549,000 as at 31 December 2006 (note 39(a)(ii)).

(e) 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 GZ Nansha. The amount was fully settled during the current year.

38. CONTINGENT LIABILITIES

At 31 December 2006, guarantees aggregating HK$6,156,108,000 (2005: HK$4,268,719,000) were given by the Company to banks in connection with banking facilities granted to subsidiaries. An amount of HK$2,615,009,000 (2005: HK$1,944,467,000) of the facilities had been utilised by subsidiaries of the Company.

At 31 December 2006, a guarantee of HK$138,135,000 (2005: HK$164,474,000) was given by the Company in connection with a finance lease arrangement granted to a subsidiary.

At 31 December 2006, guarantees aggregating HK$99,926,000 (2005: HK$35,760,000) were given by the Company to suppliers in connection with the oil trading and bunkering refueling businesses. An amount of HK$38,383,000 (2005: HK$9,333,000) 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 2006 and 2005.

39. RELATED PARTY TRANSACTIONS

(a) As referred to elsewhere in these financial statements, the Group had the following material transactions with related parties during 2006 and 2005:

(i) Tenancy agreement with Titan Oil

In 2004, the Group 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, the Group paid a total amount of S$212,660 (equivalent to approximately HK$1,040,379) (2005: S$212,660 (equivalent to approximately HK$996,289)) to Titan Oil for the lease of the office premises, which is comparable to the prevailing market rental for similar properties.

(ii) Shipbuilding contract

On 3 July 2006, the Company entered into a conditional shipbuilding contract with Titan Quanzhou Shipyard Co., Ltd. ("QZ Shipyard"), 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$676 million) (the "Purchase"). As at 31 December 2006, deposits of approximately HK$44 million were paid to QZ Shipyard (note 37(d)).

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.

(iii) Bank guarantees

As at the balance sheet date, a guarantee was given by a subsidiary of Titan Oil to a bank in connection with a bank loan granted to a subsidiary of the Company of RMB20,000,000 (equivalent to approximately HK$20,000,000) (2005: Nil) (note 26(xii)).

As at the balance sheet date, a guarantee was granted by Titan Oil to a bank in connection to a bank loan granted to a subsidiary of the Company. The utilised amount of the bank loan was US$1,300,000 (equivalent to approximately HK$10,140,000) (2005: US$5,120,000 (equivalent to approximately HK$39,936,000)) (note 26(xiii)) which was fully repaid in January 2007.

(b) Other transaction with a related party:

In current year and as at 31 December 2006, a subsidiary of Titan Oil advanced an amount of RMB660,000 (equivalent to approximately HK$660,000) (2005: RMB10,000,000 (equivalent to approximately HK$9,615,000)) to a subsidiary of the Company (2005: an associate of the Group) for working capital purposes, 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 due from Titan Oil was included in "Prepayments, deposits and other receivables" which was unsecured, interest-free and had no fixed terms of repayment. Such amount also represented the maximum outstanding amount during that year. During the year ended 31 December 2006, this amount was fully settled.

The related party transaction in respect of item (a)(i) 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 Group 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 interest rate swap agreements. 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 a risk committee which set out the tolerance for risk and a 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.

Commodity price risks

The Group's exposures to price risks on goods and services are 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 is positive and closely controlled.

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. POST BALANCE SHEET EVENTS

On 4 January 2007, 14 February 2007 and 9 March 2007, the Group entered into sale and purchase agreements to dispose of five vessels to three independent third parties at considerations of US$6,000,000 (equivalent to approximately HK$46,800,000), US$8,683,000 (equivalent to approximately HK$67,717,000) and US$12,000,000 (equivalent to approximately HK$93,600,000), respectively. The gains on disposal from these transactions are approximately US$2.9 million (equivalent to approximately HK$22.6 million), US$0.7 million (equivalent to approximately HK$5.5 million) and US$10.6 million (equivalent to approximately HK$82.8 million), respectively.

On 28 March 2007, the Group entered into a subscription agreement with Warburg Pincus LLC ("Warburg Pincus"), a private equity investor. Pursuant to this agreement, the Company will secure aggregate funds of US$175 million (equivalent to approximately HK$1,365 million), composed of US$75 million (equivalent to approximately HK$585 million) in subscription of ordinary shares, preferred shares and warrants issued by the Company and US$100 million (equivalent to approximately HK$780 million) in preferred shares and warrants issued by China StorageCo which will be set up and hold the Group's on shore storage terminal operations in the PRC after the approval of the shareholders of the Company on the subscription agreement. Further details of which were set out in the announcement of the Company dated 28 March 2007.

On 28 March 2007, the Company and the Titan Oil entered into a memorandum of understanding to record the intention of both parties to continue in good faith to explore and agree the terms upon which the Company would acquire QZ Shipyard (which is capable both of building and repairing ships) and the certain shipbuilding contracts at a price to be agreed by reference to independent valuation and to be satisfied in cash or the Company's shares or a combination of both. Further details of which were set out in the announcement of the Company dated 28 March 2007.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2007.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements is set out below.

	Year ended 31 December				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE					
Continuing operations	**11,459,980**	10,463,650	3,493,565	996,349	205,697
Discontinued operation	**—**	—	—	110,787	135,804
	11,459,980	10,463,650	3,493,565	1,107,136	341,501
PROFIT BEFORE TAX					
Continuing operations	**110,489**	306,504	402,908	103,616	29,397
Discontinued operation	**—**	—	—	(2,485)	1,050
	110,489	306,504	402,908	101,131	30,447
Tax					
Continuing operations	**(13,977)**	(3,474)	(2,450)	(469)	—
Discontinued operation	**—**	—	—	(144)	(106)
	(13,977)	(3,474)	(2,450)	(613)	(106)
PROFIT FOR THE YEAR	**96,512**	303,030	400,458	100,518	30,341
Attributable to:					
Ordinary equity holders of the parent	**100,333**	303,030	400,458	100,512	30,031
Minority interests	**(3,821)**	—	—	6	310
	96,512	303,030	400,458	100,518	30,341

ASSETS, LIABILITIES AND MINORITY INTERESTS

	At 31 December				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**8,947,036**	7,602,229	3,010,125	755,128	374,852
TOTAL LIABILITIES	**(6,795,131)**	(5,716,467)	(1,380,779)	(205,812)	(64,546)
MINORITY INTERESTS	**(102,997)**	(26,665)	—	—	(310)
	2,048,908	1,859,097	1,629,346	549,316	309,996