Titan

Interim Report

07

Titan Petrochemicals Group Limited

Stock Code : 1192

Corporate Information

DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Maria W. Tam, GBS, *JP*
John William Crawford, *JP*
Abraham Shek, *JP*

Non-executive Director

Ib Fruergaard

AUDIT COMMITTEE

John William Crawford, *JP*, *Committee Chairman*
Maria W. Tam, *GBS, JP*
Abraham Shek, *JP*

REMUNERATION COMMITTEE

Maria W. Tam, GBS, *JP*, *Committee Chairman*
Abraham Shek, JP
Tsoi Tin Chun

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Allen C. Tu

REGISTERED OFFICE

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Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Wanchai
Hong Kong

PRINCIPAL BANKERS

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

AUDITORS

Ernst & Young

SOLICITORS

Richards Butler
Skadden, Arps, Slate, Meagher & Flom LLP
Rajah & Tann
TSMP Law Corporation
Conyers, Dill & Pearman
Raja, Darryl & Loh
Guangdong Zhengda United Law Firm
Global Law Office

PRINCIPAL REGISTRARS

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Bermuda

HONG KONG BRANCH REGISTRARS

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WEBSITE

www.petrotitan.com

STOCK CODE

1192

Highlights

	2007 HK$ million	2006 HK$ million	Change %
Revenue	**7,695**	6,472	19
EBITDA	**609**	422	44
Profit before Tax	**180**	68	164
Profit Attributable to Shareholders	**152**	65	132
Earnings per share Attributable to ordinary equity holders of the Company (HK cents)	**3.10**	1.35	130

- Successful results achieved in strategy to reduce dependence on VLCC (Very Large Crude Carrier) market
- Growth in segment results across all non-VLCC businesses
- Continuing transition towards a more diversified earnings base
- Improved credit profile with a strong cash position at HK$1,729 million

Chief Executive's Statement

The first half of 2007 saw Titan achieve very good progress towards its stated goal of creating an integrated oil logistics company, as we began to reduce our dependence on the volatile VLCC (Very Large Crude Carrier) market and increase revenues from our other businesses.

While this transition resulted in some downtime for vessels as they were converted to floating storage units ("FSUs"), it positions us well for the future.

Financially, we also achieved improvements, with solid increases in revenues, earnings before interest, tax, depreciation and amortization ("EBITDA") and net income. Cash flows were strong and these, combined with the US$175 million investment by Warburg Pincus, have greatly strengthened our balance sheet.

Although our results were to some extent supported by exceptional gains, including vessel disposals, the growth momentum in revenues and income is positive and we are well positioned to further diversify and increase the quality of our earnings in the second half of the year.

RESULTS

The Group's revenue for the half year was HK$7,695 million, an increase of 19% over the same period in 2006. Profit before tax for the period grew by 164% to HK$180 million. EBITDA rose by 44% to HK$609 million while profit attributable to shareholders increased 132% to HK$152 million. These figures include gains on vessel disposals amounting to HK$105 million. Excluding the effect of the exceptional items, EBITDA has increased by 19% to HK$504 million.

Earnings per share rose 130% to HK3.1 cents. No interim dividend has been declared as we expect to continue our practice of declaring a dividend only at year end.

OPERATIONS

Supply

The Group's supply business posted a 59% increase in revenues for the first six months of 2007 to HK$4,726 million. Segment results increased over hundred and nine times to HK$216 million. The strong performance was not only based on volume growth but also from a substantial improvement in profitability, reflecting the value derived from the increased integration and synergies with our other businesses like storage and bunkering. Expansion of the business continued as evidenced by the start of activities in crude oil during the period.

Transportation

During the first half, the Group started reducing our exposure to the VLCC market including the re-deployment of three VLCCs into floating storage facilities, and selling one VLCC. The reduced fleet capacity, combined with continuously weak tanker rates, saw revenues decline by 37% over the first six months of last year to HK$681 million.

Segment results in turn were 31% lower at HK$193 million and were 68% lower at HK$88 million excluding vessel disposal gains. The decline was also affected by bunker prices, which increased over the course of the six months by over 20%.

In the period, we sold the Titan Taurus, a single-hulled VLCC, for a consideration of US$41 million (HK$320 million) and booked a gain of approximately US$8 million (HK$66 million).

VLCC rates continued their downward trend, with World Scale rates for the TD3 route averaging 71.09 for the first half of 2007 against 95.96 for the same period last year, as increased tonnage supply led to greater competition.

In the meantime, our product tanker operations performed consistently well during the six months, leading to a 96.9% utilization rate and increased revenues.

As of 30 June 2007, our transportation division now operates only eight VLCCs and the Group's total fleet capacity, excluding the floating storage units, stands at 2.43 million dwt.

Storage

The Group's storage operations performed very well in the first half of 2007, with contributions from Phase I of both the Nansha and Fujian terminals, which we continue to ramp up, and significantly increased capacity in our FSU operations near Singapore.

Revenues rose 53% over the first six months of the prior year to HK$64 million, while segment results increased by more than 22 times to HK$49 million.

Demand for our FSUs remained strong and during the six months, three VLCCs were added from the transportation fleet, bringing the total to four units. Two of these four units have been leased on term contracts to major international firms and the other two are used by ourselves to support our Supply and Bunkering operations. By the end of June 2007, the total capacity was over one million tons compared to 375,000 tons at the beginning of this year. Revenues from FSUs alone, increased 39% over the first six months of last year to HK$58 million, while segment results rose almost twenty fold to HK$43 million.

Phase I of the Nansha terminal, which came on stream at the end of last year with 410,000 m^3 of capacity, has been operating initially in the spot market. The Fujian Terminal's 90,000 m^3 Phase I facility became operational in April this year.

Consequently, the China storage operations reported total revenues at HK$30 million and segment results at HK$7 million for the period.

Distribution

Our distribution business currently comprises bunkering or ship refueling operations in Singapore and Hong Kong. Revenues declined 7% over the first six months of 2006 to HK$2,223 million, affected by a lower turnover in the Hong Kong market, but segment results have shown considerable growth attributed to a strong performance in Singapore in both volumes and profitability, the latter up by 12% to HK$16 million.

Singapore is currently our main market and the world's largest, and we are increasingly benefiting from synergies with the growing FSU and Supply operations.

FINANCIAL RESOURCES

The Group balance sheet strengthened during the period, with cash and cash equivalents as at 30 June 2007 of HK$1,729 million and unused facilities of HK$3,732 million. Cash flow was positive and included the receipt of US$175 million (HK$1,365 million) in capital from the Warburg Pincus investment. Shareholders' funds increased to HK$2,639 million during the period.

The gearing ratio improved to 0.49 from 0.57 as at 31 December 2006 and interest cover by 41% to 1.82 times from 1.29 times six months earlier.

The Group's long term, non-project debt, excluding the US$400 million bond, continued to decline, by 25% from HK$1,004 million at 31 December 2006 to HK$753 million at 30 June 2007.

OUTLOOK

The second half of the year will see Titan continue to pursue its transformation plan.

The supply business will continue to benefit from synergies within the Group as our storage operations expand. We expect the improvement in margins to be maintained and we now have a small team in China, where we are looking to expand the Group's supply operations.

In the transportation business, we expect the VLCC market to remain weak. Prices for vessels remain firm, however, and we intend to dispose of a further two VLCCs in the second half, as we had earlier indicated in March. The outlook for our coastal product tankers remains good, and we will seek opportunities to upgrade and expand this fleet in future.

Volumes and revenues in our storage business are expected to show significant growth. The FSU business will benefit from continued strong demand and much higher capacity, with four units now in full operation for the second half of the year. In China, the ramp-up of the Nansha and Fujian terminals will continue and our focus will be on securing term contracts from customers and increasing the synergies with our other businesses.

Expansion of terminal facilities is underway, meanwhile. Piling and foundation works have started in the second phase of Nansha, with completion of the project scheduled for the second half of next year. The construction of the 420,000 m^3 Phase One of the Yangshan terminal near Shanghai is progressing well and we anticipate completion in the first half of 2008. The tender process for the construction of the 100,000 dwt berth for the Fujian terminal is about to commence as design approvals have been obtained, and this facility is expected to come on stream by the end of 2008.

The distribution business will continue to expand its market share in Singapore, a strategy which will be enhanced in the last quarter of the year through the delivery of the first new double-hulled bunker tanker, with more to come in 2008.

In summary, we have made significant strides forward towards achieving our goal of transforming our operations into an integrated oil logistics business. The platform we now have in place is not only larger but more diversified than before, thereby offering increasingly stable earnings and greater earnings visibility. We expect our operational achievements to be increasingly reflected in our financial results going forward.

Barry Cheung Chun Yuen, JP
Chief Executive

Hong Kong, 3 September 2007

Condensed Consolidated Income Statement

	Notes	Six months ended 30 June 2007 (Unaudited) HK$'000	Six months ended 30 June 2006 (Unaudited) HK$'000
REVENUE	4	**7,694,577**	6,472,134
Cost of sales		**(7,297,337)**	(6,146,820)
Gross profit		**397,240**	325,314
Other revenue		**35,311**	13,877
Gain on disposal of vessels, net		**105,062**	—
Administrative expenses		**(137,962)**	(89,737)
Finance costs	5	**(220,279)**	(181,416)
Share of profits of associates		**514**	4
PROFIT BEFORE TAXATION	6	**179,886**	68,042
Taxation	7	**(26,413)**	(3,589)
PROFIT FOR THE PERIOD		**153,473**	64,453
DISTRIBUTION			
Attributable to ordinary equity holders of the parent		**151,713**	65,394
Attributable to minority interests		**1,760**	(941)
		153,473	64,453
DIVIDENDS	8	**—**	—
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		**HK3.10 cents**	HK1.35 cents
Diluted		**HK3.03 cents**	HK1.32 cents

Condensed Consolidated Balance Sheet

	Notes	30 June 2007 (Unaudited) HK$'000	31 December 2006 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**4,183,335**	4,997,710
Deposits for acquisition of vessels		**50,419**	44,207
Prepaid land lease payments		**176,692**	348,694
Licences		**41,241**	42,528
Goodwill		**382,707**	483,205
Interests in associates		**129,996**	169,661
Deposit held in a collateral account		**9,750**	9,750
Total non-current assets		**4,974,140**	6,095,755
CURRENT ASSETS			
Bunker oil and inventories		**1,441,954**	876,306
Accounts and bills receivable	10	**950,812**	1,250,652
Prepayments, deposits and other receivables		**675,865**	182,396
Contracts in progress		**47,839**	20,296
Derivative financial instruments		**162,762**	148,439
Pledged deposits		**168,391**	72,644
Cash and cash equivalents		**1,560,843**	300,548
Total current assets		**5,008,466**	2,851,281
CURRENT LIABILITIES			
Interest-bearing bank loans		**853,639**	642,899
Accounts and bills payable	11	**1,454,186**	912,634
Other payables and accruals	11	**372,269**	629,469
Finance lease payables		**135**	26,352
Excess of progress billings over contract costs		**—**	11,490
Derivative financial instruments		**201,045**	48,669
Tax payable		**43,681**	26,093
Total current liabilities		**2,924,955**	2,297,606
NET CURRENT ASSETS		**2,083,511**	553,675
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,057,651**	6,649,430

	Notes	30 June 2007 (Unaudited) HK$'000	31 December 2006 (Audited) HK$'000
NON-CURRENT LIABILITIES			
Fixed rate guaranteed senior notes		**(3,129,139)**	(3,124,306)
Convertible, redeemable preference shares	12	**(232,608)**	—
Interest-bearing bank loans		**(957,292)**	(1,202,464)
Finance lease payables		**—**	(112,005)
Deferred tax liabilities		**(30,784)**	(58,750)
Total non-current liabilities		**(4,349,823)**	(4,497,525)
Net assets		**2,707,828**	2,151,905
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		**54,195**	48,649
Convertible, redeemable preference shares	12	**165,049**	—
Reserves		**2,419,567**	2,000,259
		2,638,811	2,048,908
Minority interests		**69,017**	102,997
Total equity		**2,707,828**	2,151,905

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the parent												
	Issued capital HK$'000	**Convertible, redeemable preference share** HK$'000	**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$'000	**Proposed dividend** HK$'000	**Total** HK$'000	**Minority interests** HK$'000	**Total equity** HK$'000
At 1 January 2007 (Audited)	48,649	—	1,004,602	18,261	9,627	8,434	44,204	23,115	892,016	—	2,048,908	102,997	2,151,905
Issue of new shares	5,546	—	281,454	—	—	—	—	—	—	—	287,000	—	287,000
Issue of convertible, redeemable preference shares	—	207,600	—	—	—	—	—	—	—	—	207,600	—	207,600
Issuance expenses	—	(42,551)	(37,537)	—	—	—	—	—	—	—	(80,088)	—	(80,088)
Share option expenses	—	—	—	—	3,675	—	—	—	—	—	3,675	—	3,675
Exchange realignments	—	—	—	—	—	—	—	18,035	—	—	18,035	—	18,035
Change in fair value on cashflow hedge	—	—	—	—	—	1,968	—	—	—	—	1,968	—	1,968
Released on deemed disposal of subisidaries	—	—	—	—	—	—	—	—	—	—	—	(49,766)	(49,766)
Profit for the period	—	—	—	—	—	—	—	—	151,713	—	151,713	1,760	153,473
Capital contribution by minority shareholders	—	—	—	—	—	—	—	—	—	—	—	14,026	14,026
At 30 June 2007 (Unaudited)	54,195	165,049	1,248,519*	18,261*	13,302*	10,402*	44,204*	41,150*	1,043,729*	—	2,638,811	69,017	2,707,828
At 1 January 2006 (Audited)	48,462	—	996,391	18,261	797	(28,121)	—	2,547	791,683	29,077	1,859,097	26,665	1,885,762
Issue of new shares	25	—	1,100	—	—	—	—	—	—	—	1,125	—	1,125
Share option expenses	—	—	—	—	5,054	—	—	—	—	—	5,054	—	5,054
Exchange realignments	—	—	—	—	—	—	—	(695)	—	—	(695)	—	(695)
Change in fair value on cashflow hedge	—	—	—	—	—	50,014	—	—	—	—	50,014	—	50,014
Profit for the period	—	—	—	—	—	—	—	—	65,394	—	65,394	(941)	64,453
Capital contribution by minority shareholders	—	—	—	—	—	—	—	—	—	—	—	74,316	74,316
Final 2005 dividend declared	—	—	—	—	—	—	—	—	—	(29,077)	(29,077)	—	(29,077)
At 30 June 2006 (Unaudited)	48,487	—	997,491	18,261	5,851	21,893	—	1,852	857,077	—	1,950,912	100,040	2,050,952

* These reserve accounts, collectively, represent the consolidated reserves of HK$2,419,567,000 in the condensed consolidated balance sheet.

Condensed Consolidated Cash Flow Statement

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash inflow/(outflow) from operating activities	**(203,319)**	599,555
Net cash inflow/(outflow) from investing activities	**570,614**	(210,878)
Net cash inflow/(outflow) from financing activities	**941,546**	(259,088)
INCREASE IN CASH AND CASH EQUIVALENTS	**1,308,841**	129,589
Cash and cash equivalents at beginning of period	**373,192**	657,251
Effect of foreign exchange rate changes, net	**47,201**	(655)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**1,729,234**	786,185
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	**1,560,843**	740,823
Deposits with original maturities of less than three months when acquired, pledged as security for trading facilities	**168,391**	45,362
	1,729,234	786,185

Notes to Condensed Consolidated Financial Statements

1. BASIS OF PREPARATION

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

The following adoptions of new accounting polices are applicable in the current year:

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control between the participating parties. The Group's interests in jointly-controlled entities are accounted for by proportionate consolidation which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis.

Convertible, redeemable preference shares

The components of convertible, redeemable preference shares that exhibit characteristics of liabilities are recognised as a liability in the balance sheet. On issuance, the fair value of the liability component is determined based on its probability of redemption and using the current effective interest rate to discount future expected cash flows; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds are allocated to the equity component of the preference shares that is recognised and included in shareholder's equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the Group's audited financial statements for the year ended 31 December 2006, except for the adoption of the following amendments and interpretations mandatory for accounting periods beginning on or after 1 January 2007:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
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

HKAS 1 Amendment affects 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

HKFRS 7 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.

HK(IFRIC)-Int 7 regarding the requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and requires an entity to restate its financial statements in accordance with HKAS29, does not apply to the activities of the Group.

HK(IFRIC)-Int 8 regarding the application of HKFRS 2 to particular transactions in which the entity cannot identify specially some of all of the goods or services received, its adoption does not have a material effect on the Group's accounting policies and on amounts disclosed in the unaudited condensed consolidated interim financial statements.

HK(IFIC)-Int 9 regarding the application of HKAS 39 that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract, and prohibits subsequent reassessment thought the life of the contract except for exceptional circumstances, its adoption does not have a material effect on the Group's accounting policies and on amounts disclosed in the unaudited condensed consolidated interim financial statements.

HK(IFIC)-Int 10 regarding the interaction between the requirements of HKAS 34 and the recognition of impairment losses on goodwill in HKAS 36 and certain financial assets in HKAS 39 and that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost, its adoption does not have a material effect on the Group's accounting policies and on amounts disclosed in the unaudited condensed consolidated interim financial statements.

3. SEGMENT INFORMATION

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

	Supply of oil products		Provision of logistic services						Provision of bunker refueling services		Eliminations		Consolidated	
			Oil transportation		Oil storage									
					Off shore		On shore							
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Segment revenues														
Revenue from external customers	**4,725,807**	2,969,143	**681,261**	1,080,771	**58,150**	41,844	**5,890**	—	**2,223,469**	2,380,376	**—**	—	**7,694,577**	6,472,134
Intersegment revenue	**1,198,806**	607,096	**99,938**	76,266	**122,378**	16,890	**24,565**	—	**235,380**	350,452	**(1,681,067)**	(1,050,704)	**—**	—
	5,924,613	3,576,239	**781,199**	1,157,037	**180,528**	58,734	**30,455**	—	**2,458,849**	2,730,828	**(1,681,067)**	(1,050,704)	**7,694,577**	6,472,134
Segment results	**216,343**	1,969	**193,428**	279,278	**42,661**	2,166	**6,699**	—	**15,603**	13,945	**—**	—	**474,734**	297,358
Interest income and unallocated gains													**14,305**	10,631
Unallocated expenses													**(89,388)**	(58,535)
Finance costs													**(220,279)**	(181,416)
Share of profits of associates	**—**	—	**—**	—	**—**	—	**514**	4	**—**	—	**—**	—	**514**	4
Profit before taxation													**179,886**	68,042
Taxation													**(26,413)**	(3,589)
Profit for the period													**153,473**	64,453

4. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of oil products sold (after allowances for returns and trade discounts), income from the provision of bunker 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.

5. FINANCE COSTS

	Six months ended 30 June	
	2007 (Unaudited) HK$'000	2006 (Unaudited) HK$'000
Interest on bank loans wholly repayable within five years	**40,124**	32,641
Interest on bank loans not wholly repayable within five years	**25,609**	2,285
Interest on other loan	**—**	3,340
Interest on trust receipt loans, secured	**10,874**	—
Interest on finance lease payables	**8,201**	6,865
Interest on fixed rate guaranteed senior notes	**137,432**	137,859
Other finance costs	**2,399**	3,627
Total interest	**224,639**	186,617
Less: interest capitalised	**(4,360)**	(5,201)
	220,279	181,416

6. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2007 (Unaudited) HK$'000	2006 (Unaudited) HK$'000
Cost of inventories sold	**6,637,662**	5,329,311
Cost of services rendered	**659,675**	817,509
Depreciation and amortisation	**208,950**	172,511
Interest income	**(9,860)**	(11,442)

7. TAXATION

	Six months ended 30 June	
	2007 (Unaudited) HK$'000	2006 (Unaudited) HK$'000
Current — Hong Kong		
Underprovision in the prior period	**—**	134
Current — Elsewhere		
Charge for the period	**25,904**	4,587
Under/(over) provision in the prior period	**1,314**	(1,228)
Deferred taxation	**(805)**	96
Taxation charge for the period	**26,413**	3,589

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits in Hong Kong during the period. In the prior period, Hong Kong profits tax had been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries where the Group operates, based on existing legislation, interpretations and practices in respect thereof. The majority of its remaining subsidiaries are domiciled in Singapore where the prevailing tax rate is 18% starting from 1 January 2007 (2006: 20%).

8. DIVIDENDS

The board of directors does not recommend the payment of any interim dividend in respect of the period (2006: Nil).

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

The calculation of basic earnings per share is based on the unaudited profit for the period attributable to ordinary equity holders of the parent of HK$151,713,000 (2006: HK$65,394,000), and the weighted average of 4,900,950,589 (2006: 4,846,256,777) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the unaudited profit for the period attributable to ordinary equity holders of the parent of HK$151,713,000 (2006: HK$65,394,000). The weighted average number of ordinary shares used in the calculation is 4,900,950,589 (2006: 4,846,256,777) ordinary shares in issue during the period, as used in the basic earnings per share calculation; and the weighted average of 111,954,262 (2006: 107,801,764) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options, warrants and deemed conversion of all convertible, redeemable preference shares during the period.

10. ACCOUNTS AND BILLS RECEIVABLE

The Group normally allows credit terms to well-established customers ranging from 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. An aged analysis of accounts and bills receivable, net of provisions, as at the balance sheet date, based on the date of recognition of sales, is as follows:

	30 June 2007 (Unaudited) HK$'000	31 December 2006 (Audited) HK$'000
1 to 3 months	**893,383**	1,190,255
4 to 6 months	**9,899**	30,381
7 to 12 months	**30,043**	22,641
Over 12 months	**17,487**	7,375
	950,812	1,250,652

11. ACCOUNTS AND BILLS PAYABLE/OTHER PAYABLES AND ACCRUALS

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers.

An aged analysis of accounts and bills payable as at the balance sheet date, based on the receipt of goods purchased, is as follows:

	30 June 2007 (Unaudited) HK$'000	31 December 2006 (Audited) HK$'000
1 to 3 months	**1,427,564**	899,396
4 to 6 months	**17,029**	8,254
7 to 12 months	**8,195**	3,464
Over 12 months	**1,398**	1,520
	1,454,186	912,634
Other payables and accruals	**372,269**	629,469
	1,826,455	1,542,103

12. CONVERTIBLE, REDEEMABLE PREFERENCE SHARES

On 28 March 2007, the Group and Warburg Pincus LLC ("Warburg Pincus") entered into a subscription agreement which resulted in the introduction of Warburg Pincus as an investor in the Group and China StorageCo, a Group subsidiary (Titan Group Investment Limited and its subsidiaries immediately after completion of the Reorganisation). On 22 June 2007, the Group issued 555,000,000 convertible, redeemable preference shares at par HK$0.01 each for a total consideration of HK$310,800,000. Such preference shares have a fixed cumulative preferential dividend at a rate of 4.7% per annum on the initial subscription price of each preference shares and do not participate in the profits of the Group. Also, the Group shared 50.1% of the loan component of the China Storage Co convertible, redeemable preference shares. Further details of which were set out in the circular of the Company dated 25 May 2007.

13. COMMITMENTS

(a) At 30 June 2007, the Group had capital contribution commitments of US$33,129,000 (equivalent to approximately HK$258,405,000) (2006: US$10,787,000 (equivalent to approximately HK$84,141,600)) and RMB16,909,000 (equivalent to approximately HK$17,432,000) (2006: RMB33,750,000 (equivalent to approximately HK$33,750,000)) in respect of the increase of capital in jointly controlled entities of the Group (2006: associates and subsidiary of the Group). The Group also had a capital commitment in its jointly controlled entities (2006: subsidiaries of the Group) of RMB13,771,000 (equivalent to approximately HK$14,197,000) (2006: RMB62,879,000 (equivalent to approximately HK$62,879,000)) in respect of the construction of oil berthing and storage facilities.

(b) At 30 June 2007, the Group had total commitments of RMB10,840,000 (equivalent to approximately HK$11,175,000) (2006: RMB21,636,000 (equivalent to approximately HK$21,636,000)) 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 30 June 2007, the Group's jointly controlled entities (2006: associates of the Group) had capital commitments, amounting to approximately RMB56,417,000 (equivalent to approximately HK$58,162,000) (2006: RMB86,986,000 (equivalent to approximately HK$86,986,000)) in respect of the construction of oil berthing and storage facilities.

(d) At 30 June 2007, the Group had total commitments in respect of the purchase of ten bunker barges for approximately HK$632,053,000 (2006: HK$361,549,000).

14. OPERATING LEASE ARRANGEMENTS

The Group leases certain vessels and 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 land and buildings are negotiated for terms ranging from one to three years.

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

	30 June 2007 (Unaudited) HK$'000	31 December 2006 (Audited) HK$'000
Vessels:		
Within one year	**367,538**	376,258
In the second to fifth years, inclusive	**407,989**	585,850
	775,527	962,108
Leasehold land and buildings:		
Within one year	**8,968**	10,481
In the second to fifth years, inclusive	**14,737**	19,550
	23,705	30,031
	799,232	992,139

15. CONTINGENT LIABILITIES

At 30 June 2007, guarantees aggregating HK$6,228,708,000 (31 December 2006: HK$6,156,108,000) were given by the Company to banks in connection with banking facilities granted to subsidiaries. An amount of HK$2,576,336,000 (31 December 2006: HK$2,615,009,000) of the facilities had been utilised by subsidiaries of the Company.

At 30 June 2007, a guarantee given by the Company in connection with a finance lease arrangement granted to a subsidiary was released (31 December 2006: HK$138,135,000).

At 30 June 2007, guarantees aggregating HK$54,893,000 (31 December 2006: HK$99,926,000) were given by the Company to suppliers in connection with the oil trading and bunkering refueling businesses. An amount of HK$293,000 (31 December 2006: HK$38,383,000) 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 30 June 2007 and 31 December 2006.

16. DEEMED DISPOSAL OF SUBSIDIARIES

On 28 March 2007, the Group and Warburg Pincus entered into a subscription agreement which resulted in the introduction of Warburg Pincus as an investor in China StorageCo, a Group subsidiary, via Titan Group Investment Limited and its subsidiaries immediately after completion of the reorganisation. China StorageCo will issue US$100 million China StorageCo preference shares convertible into China StorageCo ordinary shares under the reorganisation which will give Warburg Pincus an equity interest of 49.9% in China StorageCo. Further details in respect of this transaction were set out in the circular of the Company dated 25 May 2007.

As at 30 June 2007 and up to the date of approval of the interim financial statements, the determination and settlement of the difference between the parties per the subscription agreement for the adjusted net book value of China StorageCo compared to the earlier agreed amount had not yet been concluded.

17. RELATED PARTY TRANSACTIONS/CONTINUING CONNECTED TRANSACTION

During the period, the Group paid total rent of HK$543,000 (30 June 2006 : HK$513,000) for office premises to Titan Oil Pte. Ltd. ("Titan Oil"), the Company's ultimate holding company, which was charged based on prevailing market rentals. Such transaction also constituted a continuing connected transaction as defined in Chapter 14A of the Listing Rules.

At 30 June 2007, a director of the Company had guaranteed certain banking facilities of the Group which were utilised to the extent of HK$371,508,000 (31 December 2006 : HK$430,430,000).

A guarantee given by Titan Oil to a bank in connection with a bank loan granted to a subsidiary of the Company was fully repaid in January 2007 (31 December 2006: US$1,300,000 (equivalent to approximately HK$10,140,000)).

At 30 June 2007, a guarantee was given by a subsidiary of Titan Oil to a bank in connection with a bank loan granted to a jointly controlled entity (31 December 2006: a subsidiary) of the Group of RMB10,020,000 (equivalent to approximately HK$10,330,000) (31 December 2006: RMB20,000,000 (equivalent to approximately HK$20,000,000)).

During the period and as at 30 June 2007, a subsidiary of Titan Oil advanced an amount of RMB27,321,000 (equivalent to approximately HK$28,166,000) (31 December 2006: RMB660,000 (equivalent to approximately HK$660,000)) to the Group for working capital purposes, which is unsecured, interest-free and has no fixed terms of repayment.

During the period, a jointly controlled entity (30 June 2006: a subsidiary of the Group) received RMB23,352,000 (equivalent to approximately HK$24,074,000) (30 June 2006: Nil) storage income from the Group.

17. RELATED PARTY TRANSACTIONS/CONTINUING CONNECTED TRANSACTION (CONTINUED)

In 2006, the Company entered into a conditional shipbuilding contract with Titan Quanzhou Shipyard Co. Ltd. ("QZ Shipyard"), a subsidiary of 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). As at 30 June 2007, deposits of approximately HK$50 million (31 December 2006: HK$44 million) were paid to QZ Shipyard.

18. POST BALANCE SHEET EVENT

On 3 September 2007, the Board of director approved a sale and purchase agreement whereby the Company would acquire Titan TQSL Holding Company Limited, which owns 100% interest in QZ Shipyard (which is capable both of building and repairing ships) from Titan Oil and two associated companies of a director for a consideration of US$170 million to be satisfied in cash, convertible and non-redeemable preference shares and ordinary shares of the Company after approval of the independent shareholders of the Company of the sale and purchase agreement. This acquisition constitutes a discloseable transaction of the Company pursuant to the Listing Rules. Further details in relation to the acquisition are set out in the Company's announcement dated 3 September 2007.

CAPITAL STRUCTURE AND LIQUIDITY

The Group finances its operations largely through internally generated resources, term loans and trade finance facilities provided by banks in Hong Kong, Singapore and China. At 30 June 2007, the Group had cash and cash equivalents of HK$1,561 million (31 December 2006: HK$300 million) and pledged deposits of HK$168 million (31 December 2006: HK$73 million), comprised of an equivalent of HK$1,579 million denominated in US dollars, an equivalent of HK$14 million denominated in Singapore dollars, an equivalent of HK$130 million in Renminbi and HK$6 million in Hong Kong dollars.

At 30 June 2007, the Group had interest-bearing bank loans of HK$1,811 million (31 December 2006: HK$1,845 million), of which 71% were floating rate loans denominated in US dollars. HK$854 million of the Group's bank loans at 30 June 2007 had maturities within one year.

At 30 June 2007, the Group's banking and other facilities were secured or guaranteed by cash deposits of HK$168 million, deposits of HK$10 million held in a collateral account, vessels with an aggregate net carrying value of HK$2,218 million, prepaid land/seabed lease payments with an aggregate net carrying value of HK$139 million, oil storage facilities with carrying value of HK$232 million, construction in progress with a net carrying value of HK$76 million, inventories with carrying value of HK$380 million, personal guarantees executed by a director of the Company, corporate guarantees executed by the Company, a corporate guarantee executed by a subsidiary of Titan Oil Pte. Ltd. ("Titan Oil").

At 30 June 2007, the fixed rate guaranteed senior notes (the "Notes") of HK$3,129 million (31 December 2006: HK$3,124 million) were secured by shares of certain subsidiaries.

At 30 June 2007, the Group had current assets of HK$5,008 million (31 December 2006: HK$2,851 million). The Group's current ratio increased from 1.24 at 31 December 2006 to 1.71 at 30 June 2007. At 30 June 2007, the Group had total assets of HK$9,983 million (31 December 2006: HK$8,947 million), total bank loans of HK$1,811 million (31 December 2006: HK$1,845 million), finance lease payables of HK$0.1 million (31 December 2006: HK$138 million), the Notes of HK$3,129 million (31 December 2006: HK$3,124 million) and the convertible, redeemable preference shares of HK$233 million (31 December 2006: Nil). The gearing of the Group, calculated as the total bank loans, finance lease payables and the Notes to total assets, was 0.49 at 30 June 2007 (31 December 2006: 0.57).

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

EMPLOYEES

As at 30 June 2007, the Group had approximately 177 employees in Singapore, Hong Kong and Mainland China, and approximately 536 officers and crew on board of the Group's fleet and floating storage units. Remuneration packages including basic salaries, bonuses and benefits in kind are structured by reference to market terms and individual merit and are reviewed on an annual basis based on performance appraisals. Share options are also available for grant to certain employees and directors of the Group.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at 30 June 2007, the interests and short positions of the Directors and chief executives of the Company or their respective associates have the following interests in the shares, underlying shares of the Company or any associated corporations (within the meaning of the Securities and Future Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and which were required to be entered into the register required to be kept under Section 352 of the SFO were as follows:

(i) Long positions in Shares

Name	Capacity	Total number of Shares	Approximate % shareholding
Mr. Tsoi Tin Chun	Interest of a controlled corporation	2,758,180,202 (Note 1)	50.89

(ii) Short positions in Shares

Name	Capacity	Total number of Shares	Approximate % shareholding
Mr. Tsoi Tin Chun	Interest of a controlled corporation	438,836,815 (Note 1)	8.10

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

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

Name	Capacity	Total number of underlying Shares (options)	Approximate % of shareholding
Mr. Barry Cheung Chun Yuen	Beneficial owner	20,000,000 (Note 2)	0.37

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

(iv) Interest in associated corporations

Name	Capacity	Associated corporation	Interest in associated corporation	Approximate % shareholding
Mr. Tsoi Tin Chun	Interest of corporation controlled by director	Sea Venture Holdings Pte Ltd.	1 share (Long position) (Note (a))	100
Mr. Tsoi Tin Chun	Interest of corporation controlled by director	Fujian Shishi Titan Sailor Administer Co. Ltd.	RMB20,000,000* (Long position) (Note (b))	100

* Amount of capital contribution

Note (a): Mr. Tsoi is deemed to be interested in the shares of Sea Venture Holdings Pte. Ltd ("Sea Venture") which is held by SV Global Pte. Ltd ("SV Global") as a result of his shareholding in Titan Oil, the ultimate holding company of SV Global. SV Global's issued share capital is beneficially and wholly owned by Titan Oil. Mr. Tsoi is also a director of SV Global and Sea Venture.

Note (b): Mr. Tsoi is deemed to be interested in the shares of Fujian Shishi Titan Sailor Administer Co. ("Fujian Shishi"), as a result of his shareholding in Titan Oil, the holding company of Fujian Shishi. Mr. Tsoi is also a director of Fujian Shishi.

Save as disclosed above, based on the register required to be kept under section 352 of the SFO, as at 30 June 2007, none of the Directors or chief executives of the Company had any interests and/or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code and which were required to be entered into the register required to be kept under section 352 of the SFO.

SHARE OPTION SCHEME

Movements in the share options during the six months ended 30 June 2007 under the share option scheme adopted by the Company on 31 May 2002 were as follows:

Name or category of participant	Number of shares issuable under options granted: At 1 January 2007	Granted during the period	Lapsed during the period	Exercised during the period	At 30 June 2007	Date of grant of share options*	Exercise period	Exercise price** HK$
Directors								
Mr Cheung Chun Yuen Barry	10,000,000	—	—	—	10,000,000	21 September 2005	9 July 2006 to 8 July 2008	0.68
	10,000,000	—	—	—	10,000,000	21 September 2005	21 September 2007 to 20 September 2009	0.68
Mr Ib Fruergaard	2,500,000	—	(2,500,000)	—	—	20 February 2006	20 February 2007 to 19 February 2012	0.72
	2,500,000	—	(2,500,000)	—	—	20 February 2006	20 February 2008 to 19 February 2013	0.72
	25,000,000	—	(5,000,000)	—	20,000,000			
Other employees								
In aggregate	121,340,000	—	(10,200,000)	(24,920,000)	86,220,000	25 June 2004	25 June 2006 to 25 June 2008	0.45
	22,600,000	—	(3,900,000)	(200,000)	18,500,000	20 February 2006	20 February 2007 to 19 February 2012	0.72
	22,600,000	—	(3,900,000)	—	18,700,000	20 February 2006	20 February 2008 to 19 February 2013	0.72
	—	1,250,000	—	—	1,250,000	24 April 2007	24 April 2008 to 23 April 2013	0.70
	—	1,250,000	—	—	1,250,000	24 April 2007	24 April 2009 to 23 April 2014	0.70
	166,540,000	2,500,000	(18,000,000)	(25,120,000)	125,920,000			
Others								
In aggregate	32,800,000	—	—	(3,200,000)	29,600,000	25 June 2004	25 June 2006 to 25 June 2008	0.45
	224,340,000	2,500,000	(23,000,000)	(28,320,000)	175,520,000			

* Options granted on 25 June 2004 were vested to grantees immediately on the date of grant. The closing price of the Company's shares was HK$0.43 on 24 June 2004. Options granted on 21 September 2005 are vested to the grantee in two tranches. 50% of such options will be vested on 9 July 2006 with an exercise period from 9 July 2006 to 8 July 2008, the remaining 50% will be vested on 21 September 2007 with an exercise period from 21 September 2007 to 20 September 2009. Options granted on 20 February 2006 are also vested to grantees in two tranches. 50% of such options will be vested on 20 February 2007 with an exercise period from 20 February 2007 to 19 February 2012, the remaining 50% will be vested on 20 February 2008 with an exercise period from 20 February 2008 to 19 February 2013. The closing price of the Company's shares was HK$0.68 on 20 September 2005 and was HK$0.72 on 17 February 2006. Options granted on 24 April 2007 are vested to grantees in two tranches. 50% of such options will be vested on 24 April 2008 with exercised period from 24 April 2008 to 23 April 2013, the remaining 50% will be vested on 24 April 2009 with exercised period from 24 April 2009 to 23 April 2014. The closing price of the Company's shares was HK$0.70 on 23 April 2007.

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 30 June 2007, so far as is known to the Directors and the chief executives of the Company, the following persons (other than a director or chief executive of the Company) who have interests or short positions in the shares and underlying shares which were required to be recorded in the register to be kept by the Company pursuant to Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules were as follows:

(i) Long positions in Shares

Name	Capacity	Number of Shares	% shareholding
Great Logistics	Beneficial owner	2,758,180,202 (Note 1 above)	50.89
Titan Oil	Interest of a controlled corporation	2,758,180,202 (Note 3)	50.89
Ms. Tsoi Yuk Yi	Interest of spouse	2,758,180,202 (Note 4)	50.89
Saturn Petrochemical Holdings Limited	Beneficial owner	1,384,212,621	25.54
Warburg Pincus & Co.	Interest of a controlled corporation	1,384,212,621	25.54
Warburg Pincus IX, LLC	Interest of a controlled corporation	1,384,212,621	25.54
Warburg Pincus Partners LLC	Interest of a controlled corporation	1,384,212,621	25.54
Warburg Pincus Private Equity IX, L.P.	Interest of a controlled corporation	1,384,212,621	25.54
HSBC Trustee (C.I.) Limited	Trustee	556,423,009	10.27
Nederlandse Financierings-Maatschapplj Voor Ontwikkelingslanden N.V.	Holding Shares as security	356,971,112	6.59
The State of the Netherlands	Interest of a controlled corporation	356,971,112 (Note 5)	6.59
Ms. Tse Lai Hing	Beneficial owner	280,000,000	5.17
Mr. Tse Yin Tuen	Interest of spouse	280,000,000 (Note 6)	5.17

(ii) Short position in Shares

Name	Capacity	Number of Shares	% shareholding
Great Logistics	Beneficial owner	438,836,815 (Note 1 above)	8.10
Titan Oil	Interest of a controlled corporation	438,836,815 (Note 3)	8.10
Ms. Tsoi Yuk Yi	Interest of spouse	438,836,815 (Note 4)	8.10

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

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

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

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

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

CORPORATE GOVERNANCE

The Group is committed to maintaining a high standard of corporate governance to enhance long term shareholder value. The Company has complied throughout the period with all the code provisions as set out in the Code on Corporate Governance Practices in Appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

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

AUDIT COMMITTEE

The audit committee was comprised of three independent non-executive directors. On 18 June 2007, Mr. Abraham Shek Lai Him, JP, an Independent Non-executive Director was appointed as member of the Audit Committee to replace the late Mr. Wong Kong Hon, OBE JP. The other members of the Audit Committee are Mr. John William Crawford, JP and Miss Maria Tam Wai Chu, JP.

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

REVIEW OF INTERNAL CONTROL SYSTEMS AND PROCEDURES

The Company has engaged an independent consultant to undertake the internal audit function and an internal audit program for the years 2007 to 2009 has been proposed. Initial work on the program started in early 2007 to review the financial management area and was completed according to schedule. A meeting was held by the audit committee members with management and the consultant during the period to review the internal audit reports on findings, recommendations and management responses on the areas of process receipts, process payments, managed cash positions and cash flow forecasting. Management has already started to implement improvements to strengthen internal controls according to the recommendations and target dates for implementation were scheduled. The next audit area identified on a priority bases will be in respect of trading management and is expected to be completed before the end of the year.

THE BOARD

During the period, Mr. Wong Kong Hon, OBE, JP, an Independent Non-executive Director of the Company, resigned due to personal reasons, Mr. Cheong Soo Kiong, a Non-executive Director of the Company, resigned due to retirement and Mr. Ib Fruergaard was re-designated from the post of Executive Director to Non-executive Director.