Titan Petrochemicals Group Limited

Stock Code: 1192

Annual Report 2008

About Titan Petrochemicals Group

Titan Petrochemicals Group Limited, listed on the Hong Kong Stock Exchange (Stock Code: 1192), is a unique provider of oil logistic and marine services in the Asia Pacific region, in particular, in China. The Group has onshore and offshore storage facilities, and operates a rapidly expanding multi-functional ship-repair and shipbuilding yard, which will be the largest in Asia.

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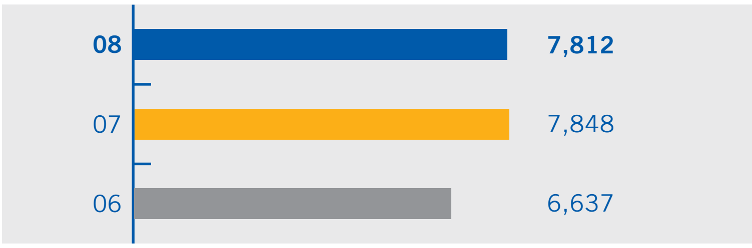
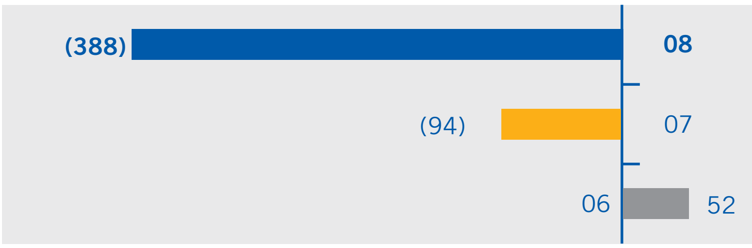
FINANCIAL HIGHLIGHTS

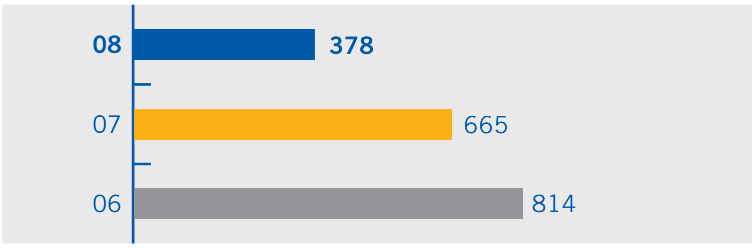
Revenue — continuing operations
HK$ Million



Profit/(loss) for the year — continuing operations
HK$ Million



EBITDA — continuing operations
HK$ Million



- Rationalization of asset base by cessation of oil trading business
- Long and short term liability reduced HK$346 million and HK$1,918 million respectively over the prior year
- Positive EBITDA on continuing operations
- Focus on core businesses in Storage and Shipyard which provide more stable income streams and lower risk

Financial Highlights

HK$ Million	2008	2007
Revenue	**11,093**	17,004
— continuing operations	**7,812**	7,848
— discontinued operation	**3,281**	9,156
Gross Profit/(loss)	**(484)**	457
Loss for the year — continuing operations	**(388)**	(94)
Profit/(loss) for the year — discontinued operation	**(1,217)**	63
Loss for the year attributable to Ordinary Equity Holders of the Parent	**(1,601)**	(29)
Loss Per Share (HK cents)		
Basic	**(24.72)**	(0.60)
Diluted	**(24.39)**	N/A
Equity Attributable to Equity Holders of the Parent	**2,149**	3,570
Cash and Cash Equivalents — continuing operations	**351**	1,514
Current Ratio	**1.03**	1.37
Gearing Ratio	**0.51**	0.49

* Above figures include both continuing operations and discontinued operation, oil trading, except otherwise stated.

CHAIRMAN'S STATEMENT

"We have stayed firmly on course with our business strategy, prudently pushing ahead in our core business and focusing our efforts in the carefully phased development of our floating storage operations in Singapore-Malaysia, the China storage projects and the Titan Quanzhou Shipyard."

TSOI Tin Chun
Chairman

The financial tsunami that swept across the world in 2008 has caused major upheavals in global financial markets, damaging business confidence in almost every industry, particularly the oil and logistics sectors in which Titan was involved. In the past six months, we have witnessed the slump in global oil prices, the disappearance of bank liquidity/financing and the demise of many long-established businesses locally and overseas. What this translated into for the Group's customers, business partners and our companies was a sharp and sudden plunge in new and recurring business, which pushed Titan's results for the year into a net loss position of HK$1,605 million of which HK$1,217 million arose from the discontinued oil trading operation.

In the midst of such adverse economic conditions during the year, Titan took decisive action to improve liquidity and better manage our cash resources by closing down our oil trading business, making extensive reductions of overhead expenses (by headcount reductions and other administrative expenses) and the disposal of five single-hulled VLCCs (very large crude carriers) and a coastal tanker. While these actions inevitably resulted in net book value losses on the disposal of vessels of HK$417 million, goodwill write-off and impairment of HK$224 million on the oil trading and oil transportation businesses and a HK$13 million impairment loss of the remaining shipping vessels held by the Group, all these items as I explained in last August, are non-cash in nature and have helped clean up our balance sheet.

Amidst all this turmoil, we have stayed firmly on course with our business strategy, prudently pushing ahead in our core business and focusing our efforts in the carefully phased development of our floating storage operations in Singapore-Malaysia, the China storage projects and the Titan Quanzhou Shipyard. We also achieved what we set out to do by bringing in K Line as a strategic partner in the ship repair business.

In our efforts to manage our debt position in the deteriorating credit markets, the Group also made a US$43 million (HK$339 million) book gain by taking the strategic opportunity available to repurchase and cancel senior notes with a principal amount of US$66.82 million (HK$521 million) in 2008. Subsequent to the year end, the Group continued to reduce its debt level by further repurchasing senior notes with a principal amount of US$17.82 million (HK$139 million), for a gain of US$12 million (HK$94 million). The outstanding principal amount of the senior notes following such cancellations has been reduced from US$400 million (HK$3,120 million) to US$315 million (HK$2,460 million).

In line with the Group's strategy to focus on stability, it enters 2009 with a less volatile balance sheet and more predictable income streams. The Group has taken and will continue to exercise stringent liability management measures to control the debt level as reflected by the reduction in liabilities during 2008. These initiatives have given us confidence to face the challenging year ahead of us.

Results

The Group's revenue for the year decreased to HK$11,093 million, a drop of 34.8% over 2007 with the cessation of the oil trading business in Singapore as part of the strategy developed during 2008. The Group's continuing operations recorded revenue of HK$7,812 million which is a 0.5% down from 2007.

The loss before tax on continuing operations was HK$391 million compared to a loss of HK$82 million in the previous year. The Group's continuing operations recorded a positive EBITDA of HK$378 million (2007: HK$665 million). This result took into account the loss on disposal of six vessels of HK$417 million (2007: gain of HK$262 million), and gains from repurchase of senior notes of HK$339 million in 2008 (2007: Nil).

The discontinued oil trading operation, recorded a loss after tax of HK$1,217 million in 2008 as compared to a profit after tax of HK$63 million in 2007. This contributed significantly to the Group net loss of HK$1,605 million for 2008, compared to the loss of HK$31 million for 2007.

The Board has decided not to declare a dividend for the year.

Financial Resources

The Group's cash position, including discontinued operation, was HK$594 million at 31 December 2008 compared to HK$2,111 million at the end of 2007. The cash was mainly utilised in the continued operation investments in the construction of the projects in China, repayment of loans and redemption of senior notes and in the wind down of operations in the oil trading business. The Group's gearing remains relatively stable at 0.51, compared to 0.49 at the end of 2007.

Business Review

Shipyard

Total revenues for the Titan Quanzhou Shipyard for 2008 were HK$574 million, an increase of 403.7% over last year and segment EBITDA was HK$82 million, rising 341.7% compared to 2007.

Titan Quanzhou Shipyard is a unique multifunctional facility that when fully operational will be one of the largest ship repair, offshore engineering and specialized ship building yards in Asia. Work commenced on four dry docks during the year and the yard is expected to be ready to commence float repair operations in mid 2009.

A partnership with K Line of Japan was formed in August 2008 which is a milestone for our ship repair business with agreements covering K Line's purchase of US$25 million (HK$195 million) of notes and appointment of Titan Quanzhou Shipyard as its primary ship repair provider in China.

The yard's ship building operations, which began in September 2007, delivered four vessels in 2008, and is expected to deliver six ships in 2009. We were pleased to obtain ISO9001 certification during the year, which has affirmed our continuing efforts to improve all aspects of production and delivery. In addition, we have also established the necessary operational procedures and HR management systems in preparation for the impending launch of the new ship repair business.

Storage

In 2008, revenues from the Group's storage operations increased 155.0% to HK$540 million and segment EBITDA increased by 48.1% to HK$329 million.

Revenues came mainly from the floating storage operations (FSU) in Malaysian waters near Singapore, which have always provided a steady stream of income to the Group, together with growing contributions from the first phases of the Nansha and Fujian terminals at our onshore facilities in China.

FSU revenues increased 145.9% to HK$484 million, and segment EBITDA rose 40.8% to HK$293 million. FSU capacity was reduced by 13% when we returned two vessels to the transportation business to capture more favorable freight rates in the second quarter, but this status was reversed in the last quarter with the drop in shipping demand worldwide. By the year end, we had restored our FSU capacity back to one million tons.

At our onshore facilities in China, we are pleased that our goal to increase utilisation has made satisfactory progress. The utilisation rate for the 410,000 cubic meter Nansha Terminal Phase I, increased to 65% in the second half of the year. Average utilisation for the year at our Nansha terminal was 59% compared to 43% in the previous year, and our Phase I Fujian chemical storage also improved from 22% to 43%. Overall, revenues from the China terminals were higher at HK$56 million compared to HK$15 million in 2007. Segment EBITDA was HK$36 million compared to HK$14 million in the prior year.

Nansha Phase II development has now completed its oil storage section comprising 180,000 cubic meters at the end of December 2008, raising the terminal's total oil storage capacity to 590,000 cubic meters. The 125,300 cubic-meter chemical storage facility is due for completion this April and will start operations in May 2009.

Phase I of the Yangshan Petrochemical Terminal near Shanghai, which consists of 420,000 cubic meters of oil storage, finished construction at the end of 2008 and became operational, receiving its first shipment in December.

Supply Chain (Distribution)

Revenues, excluding the discontinued oil trading business, in 2008 declined by 13.1% to HK$5,464 million and the segment loss before interest expenses, tax, depreciation and amortisation increased 134.8% to HK$11 million.

Transportation

Revenues from transportation in 2008 were HK$1,234 million, a decrease of only 0.2% compared to 2007 while segment EBITDA for the year decreased by 35.4% to HK$184 million.

The fall in revenues was the result of a significant decline in freight rates during the second half caused by the global economic conditions which led to a drop in oil demand and rise in excess tonnage available. For example in 2008, on the Middle East — Far East route, average World Scale rates fell to WS78 in December compared to WS202 for June. Revenues were also lower due to our continuing asset management program which reduced fleet capacity substantially.

Before the slump in asset prices, we took the opportunity to sell four VLCCs and a coastal tanker and thereby providing the Group with additional cash flow during the course of the year. We sold a fifth VLCC in December 2008 and in total, the cash consideration for all vessel disposals during the year was HK$1,295 million.

As previously mentioned, we also deployed two VLCCs as Floating Storage Units (FSU) to maximize our returns in a stronger storage market by the end of the second half of 2008. As a result, our total fleet capacity decreased from 2.13 million dwt at the end of 2007 to 1.162 million dwt at the end of 2008.

Outlook

Shipyard

In 2009, the yard is scheduled to start building ten more vessels, launch eight and deliver six ships.

Our key focus this year, is to continue construction of the ship repair facilities, which include four major dry-docks, ten jetties (along our 3.6 km coastline), 30 cranes and six major workshops, with the objective to commence float repair operations in mid 2009, and complete all other facilities by the middle of next year.

Storage

Storage demand in the Singapore and Malaysia region is expected to remain healthy and we are confident that our FSU business, which will increase to six VLCCs before the end of the first half of this year, can make a meaningful contribution for 2009.

Construction of the 100,000 dwt jetty at the Fujian Terminal will be completed by the end of 2009. Together with the chemical storage facilities in Nansha Phase II, the Group's China Terminals have 145% additional capacity compared with mid 2008. Utilisation for all three terminals continued to improve so far in the first few months of 2009 and our goal is to keep up the momentum we worked hard to build up last year in pushing for even higher utilisation and more term leases. The current lower global oil prices and contango market is beneficial to the storage business and its development. Furthermore, we believe the superiority of our terminal facilities and the quality of our services will give us a competitive advantage in the medium term and in the long run.

We will also continue to diversify from our single-hulled vessels and maintain our strategy to optimise usage of our vessels by the flexible deployment between our floating storage and transportation operations.

Summary

In spite of the bleak economic landscape and near-term outlook, I believe that the investments we have made in China have solid growth prospects. The increased focus of the Group will continue to be on less volatile businesses such as our ship repair and onshore storage operations. Currently, Titan has a total storage capacity of 1.1 million cubic meters and this capacity will be gradually expanded to match growth in the market demand. This will in turn improve the quality of our earnings and position Titan for future growth and stability when the markets recover eventually.

Tsoi Tin Chun
Chairman & Chief Executive

Hong Kong, 24 April 2009

DIRECTORS

Mr. TSOI Tin Chun
Chairman of the Board and Chief Executive

Mr. Patrick WONG Siu Hung
Executive Director and President, Corporate Office

Mr. Tsoi, aged 46, founder of Titan Petrochemicals Group Limited (listed on the Hong Kong Stock Exchange as HK1192), has been the Group's Chairman since its inception in May 2002. In January 2008 he also assumed the post of Chief Executive.

From the early 1980s until the Group's emergence, Mr. Tsoi, a native of Fujian, has been involved in the storage, transportation and distribution of oil products in China. This period marked the beginning of China's economic transformation and the transition from exporting to importing oil. It was also a time when Mr. Tsoi's innovative concept of "integrated oil logistics" began to take shape. To realize this concept Mr. Tsoi moved to Hong Kong and later to Singapore where, in 1996, he established Titan Oil Pte Ltd, a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Through the gradual development of the oil supply, transportation, storage and distribution businesses, the Company succeeded in establishing an integrated oil logistics platform to provide customers one-stop service.

In 2005, the Group was awarded the "Global Trader Programme Status" by the Singapore Government and in the following year Titan Oil Pte Ltd was named one of the Top 100 Enterprises in Singapore.

While fully engaged in the international market Mr. Tsoi has, nevertheless, been most concerned about economic developments in China. He has brought back to China his successful experience in international marketing as well as management practices developed in Singapore. Under his leadership, the Group, while developing its business in Singapore, also actively invested in oil logistics facilities and a shipyard in China. The Group is now building large modern petrochemical terminals in strategic locations at key coastal areas of China, namely, Nansha in Guangdong; Quanzhou in Fujian and Yangshan at Shanghai. It is also developing a first-class, international multifunctional shipyard as well as offshore engineering projects at Quanzhou, Fujian. All these undertakings are listed as key projects by the respective provincial and municipal governments.

Mr. Tsoi firmly believes that entrepreneurs and enterprises have a responsibility to "contribute to society" where they operate. Thus, in June 2006, Titan Oil Pte Ltd initiated construction on the Titan Maritime Institute at Shishi in Fujian. This institute will be developed into a first-class comprehensive and full-time higher vocational educational establishment. By September 2009 this school will be operational, providing sustained human resources support for the Chinese and international marine industry. In its first phase, 500 students will be enrolled for vocational training courses related to the maritime and ship repair industries.

Mr. Tsoi, a Singaporean, is married and has five children.

Mr. Wong, aged 53, has been an Executive Director of the Company since May 2008. He is also the President, Corporate Office, responsible for strategic and operational leadership for all of Titan's business and operations. Mr. Wong has more than 28 years of working experience in banking, finance, commodity trading and project development. He has held several key positions in the Titan Group from 2002 to 2005, and previously worked at the senior management level at major international banks including Societe Generale in Singapore and at commodity trading firms such as Louis Dreyfus where he was chief executive officer of its China operations before rejoining Titan as President. Mr. Wong is an Associate Member of the Chartered Institute of Bankers, United Kingdom and holds a master degree in Applied Finance from Macquarie University, Australia.

Ms. Maria TAM Wai Chu, *GBS, JP*

Independent Non-executive Director

Ms. Tam, aged 63, has served as an Independent Non-executive Director of the Company since August 2004. She is a barrister and a Deputy to the National People's Congress of the People's Republic of China. She is a member of the Committee for the Basic Law of the Hong Kong SAR under the Standing Committee of the National People's Congress. She is also a member of the Task Group on Constitutional Development of the Commission on Strategic Development. Ms. Tam currently serves as an independent non-executive director of Wing On Company International Limited, Minmetals Land Limited, Sinopec Kantons Holdings Limited, Guangnan (Holdings) Limited, Tong Ren Tang Technologies Co. Ltd., Sa Sa International Holdings Limited and Nine Dragons Paper (Holdings) Limited. She was a non-executive director of eSun Holdings Limited from 2000 to 2008. Ms. Tam was educated at the University of London and is a member of Gray's Inn, London.

Mr. Abraham SHEK Lai Him, *SBS, JP*

Independent Non-executive Director

Mr. Shek, aged 63, has been an Independent Non-executive Director of the Company since February 2006. He graduated from the University of Sydney with a Bachelor of Arts degree. Mr. Shek is a member of the Legislative Council for the HKSAR and a vice chairman of Independent Police Complaints Council. He is also an independent non-executive director and audit committee member of NWS Holdings Limited, Midas International Holdings Limited, Paliburg Holdings Limited, Lifestyle International Holdings Limited, Chuang's Consortium International Limited, ITC Corporation Limited, Country Garden Holdings Company Limited and SJM Holdings Limited. He also sits in the board of Eagle Asset Management (CP) Limited and Regal Portfolio Management Limited which is the manager of Champion Real Estate Investment Trust and Regal Real Estate Investment Trust (the units of which are listed in Hong Kong), respectively as an independent non-executive director as well as an audit committee member. He serves as independent non-executive director to Hop Hing Group Holdings Limited, Hsin Chong Construction Group Limited, MTR Corporation Limited and Chuang's China Investments Limited. Mr. Shek is also a director of The Hong Kong Mortgage Corporation Limited. He was an independent non-executive director of See Corporation Limited from 2005 to 2008. From 1987 to 2000, Mr. Shek was the Chief Executive of Land Development Corporation, and was also Commercial Director and a member of Managing Board of Kowloon-Canton Railway Corporation from 1984 to 1987 and 2004 to 2007, respectively.

Mr. John William CRAWFORD, *JP*

Independent Non-executive Director

Mr. Crawford, aged 66, has been an Independent Non-executive Director of the Company since February 2006 and is also the chairman of the audit committee. He was a founding partner of Ernst & Young, Hong Kong and vice chairman of the firm until his retirement in 1997. During his 25 years in public accounting, he was also the chairman of the audit division and was active in a number of large private and public company takeover and/or restructuring exercises. Mr. Crawford has been involved in various community service areas such as being a founding member of UNICEF Hong Kong Committee and the Hong Kong Institute of Directors. In 1997, Mr. Crawford was appointed a Justice of the Peace in Hong Kong. He is a member and was a governor for many years of the Canadian International School of Hong Kong and continues to be active in the promotion of pre-university education. Mr. Crawford is an independent non-executive director and chairman of the audit committees of e-KONG Group Limited and Regal Portfolio Management Limited which is the manager of Regal Real Estate Investment Trust (the units of which are listed in Hong Kong). He is also an independent non-executive director of Elixir Gaming Technologies, Inc., a company listed on the America Stock Exchange. Mr. Crawford was an independent non-executive director and chairman of the audit committee of Sunday Communications Limited prior to his resignation in December 2006.

SENIOR MANAGEMENT

Mr. Allen TU Chung To

Chief Financial Officer

Mr. Tu, aged 47, has over 20 years experience in the finance, accounting and auditing fields. He joined the Group in June 2002 as the Group Financial Controller and Company Secretary. He has been appointed as Chief Financial Officer since December 2008. Prior to joining Titan, he was project financial manager with Noble Group, from 2001 to 2002. Before that, he was a senior audit manager with Ernst & Young, focusing in initial public offering exercises. Mr. Tu is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. He holds a Bachelor's Degree in Commerce from the University of Toronto.

Mr. Jeremy TAN Kok Liann

Head, Human Resources

Mr. Tan, aged 35, re-joined Titan in October 2007 as Head, Human Resources. He was previously the HR Director at Titan. Prior to re-joining, he was the Asean HR head for Mercer HR Consulting where he was responsible for HR functions covering Singapore, Malaysia, Thailand, Indonesia and the Philippines. Previously, he held HR manager positions at Network for Electronic Transfers (NETS), MediaCorp and United Overseas Bank (UOB), and worked as a HR consultant with Ernst & Young and PricewaterhouseCoopers.

Mr. Tan has a Graduate Diploma in HR Management from Singapore Institute of Management (SIM), a Graduate Diploma in Marketing from the Chartered Institute of Marketing (CIM), United Kingdom and a Bachelor of Accountancy from Nanyang Technological University (NTU). He is also a non-practising Certified Public Accountant (CPA) in Singapore.

Mr. TAN Mong Seng

Senior Consultant, Shipyard

Mr. Tan, aged 58, has worked in the marine industry for more than 30 years (particularly in the areas of shiprepair, shipbuilding and offshore engineering). Since his appointment in April 2007 as Senior Consultant for Titan, he has been helping to steer the overall business strategy of Titan Quanzhou Shipyard Limited (TQSL), as well as providing expertise and direction to the shipyard's layout-design and development.

Mr. Tan joined Sembawang Shipyard Ltd, Singapore in 1976, and rapidly moved up the management ranks during his career there. In 1987 he was appointed managing director and, in 1994, president of Sembawang Shipyard Group. In 1996 he became president of Sembawang Engineering & Construction Group, responsible for the Group's on-shore and offshore engineering and construction activities.

Mr. Tan subsequently joined Singapore Technologies Marine Ltd in 1998, and was appointed president (Commercial Business) in 1999. After leaving Singapore Technologies in 2004, he started his own consultancy business.

Mr. Tan graduated from Glasgow University in United Kingdom with 1st Class Honours in Naval Architecture. In 1993 he attended the Advanced Management Programme in Harvard Business School, USA.

Mr. ZHANG Haiquan

General Manager, Shipbuilding

Mr. Zhang, aged 39, is responsible for the shipbuilding operations and business at Titan Quanzhou Shipyard, since his appointment as General Manager, Shipbuilding in June 2008. He is well-versed in modern shipbuilding technology and work processes, equipped with deep industry knowledge, practical and management experience in safety, quality, design, procurement, project management, workshop fabrication and overall technology standards process control.

Prior to Titan, Mr. Zhang worked for 17 years at Dalian Shipbuilding Industry Co, holding various positions including Chief Processing Engineer of the Research Institute's Engineering faculty, Deputy Head of the Manufacture Supervision Division in the Production Dept, Project Manager - Product Oil Tanker and Deputy Project Manager - FPSO (Floating Production Offshore).

Mr. Zhang graduated with a Bachelor's degree in Shipbuilding Engineering from Dalian University of Technology in 1991.

Mr. CHEN Hai Yong

General Manager, Shiprepair

Mr. Chen, aged 43, joined Titan Quanzhou Shipyard in February 2006 and is now serving as General Manager overseeing the development and of the shiprepair business. He was previously senior project manager at SembCorp Marine's Jurong shipyard in Singapore, where he supervised a wide range of operational processes from shiprepair, shipbuilding, commissioning, offshore engineering conversion and various construction projects from 1999 to 2005.

Prior to SembCorp, Mr. Chen was Manager at the Wuhan marine machinery plant of China Shipbuilding Industry Corporation, and worked there for ten years. A graduate of Wuhan Institute of Marine Traffics Engineering in China, Mr. Chen has broad experience in management and coordination of shiprepair and conversion operations, which includes managing the conversion of the world's largest FPSO for Petrobras.

Mr. LI Xixin

Finance Director, Shipyard

Mr. Li, aged 43, has been Finance Director of Titan Quanzhou Shipyard since April 2008. He has more than 20 years working experience in shipyard operations and finance. Previous positions Mr. Li held include deputy finance head of Dalian New Shipbuilding Heavy Industry, head of finance of Dalian Marine Propeller Plant, finance manager of Dalian Cosco Shipping, and deputy general manager - finance of the Cosco Shipyard Group.

Mr. Li is a graduate of Tianjin University with a Degree in Engineering, and completed postgraduate studies at Dongbei University of Finance and Economics and Shanghai National Accounting Institute.

Mr. Karl SANDERS

President and CEO, China Terminals

Mr. Sanders, aged 51, has been President and CEO, China Terminals since September 2008. Before joining Titan, he worked for the last 28 years in the oil logistics and terminal operations industry, with hands-on experience in business development and operations management in both China and Europe. Mr. Sanders spent the last decade in China developing petrochemical storage facilities for multinational companies including Stolt Nielsen Terminals, where he was Asia Pacific director from 2004 to 2008, as well as LBC and Westerlund.

Before going to China, he held various senior positions in the European operations of Oiltanking Terminals, the second largest independent oil storage provider globally, where he last served as general manager and managing director.

Mr. LIU Hui Jun

Deputy Managing Director — Guangdong, Guangzhou Nansha Petrochemicals Development

Mr. Liu, aged 55, joined the Group in February 2007 responsible for the daily administration of all businesses and handling government relations in the Guangdong region. Before joining Titan, he was vice-president at Guangzhou Nansha Assets Management Investment Co. for five years. Prior to this, he was general manager of The Ministry of Water Resources (HK) Investment Co., from 1996 to 2002, and vice director of Zhuhai City West Construction Committee from 1992 to 1996, and vice head of the Survey and Design Institute of Water Conservancy and Hydropower in Anhui since 1986.

Mr. Liu is a graduate of the Beijing Normal University, where he majored in economics.

Mr. Saad TAYYAB

Head, Shipping

Mr. Saad aged 49, has served in the Group's shipping division since March 2005. He was previously consulting in Singapore from 2001 to 2005, where he was responsible for the inspection of third party vessels on behalf of companies like Shell, ExxonMobil and ChevronTexaco. He supervised insurance surveys including P&I with respect to client claims and disputes, and was pioneer for establishing and providing training to shore-based establishments like Vopak terminals in Singapore and other leading brands in the oil and chemical industries.

He was also senior auditor and conducted various technical audits for major clients.

From 1999 to 2001 Mr. Saad was involved in operation and chartering of crude and product tankers, based in Greece. Prior to this, he had over 15 years of sailing experience on oil and chemical tankers with major companies based in the United Kingdom, Greece and Hong Kong. He has Master Class I from Australia, and is currently doing his MBA.

Mr. WANG Wei

General Manager, FSU (Floating Storage Units)

Mr. Wang Wei, aged 44, joined the Group's FSU operations in 2001. He has 17 years of extensive experience in the fuel oil trading industry. He was previously with Sinochem in Beijing, where he was responsible for the trading of fuel oils. Prior to that, he acted as a trader for Mitsui & Co. Ltd in China, trading oil products.

Mr. Wang graduated with a Bachelor's Degree in Science from Peking University in 1986.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EVENTS OF THE YEAR

Mar
Shanghai Futures Exchange designates Titan Nansha Petrochemicals Storage Terminal as its physical delivery point for fuel oil.

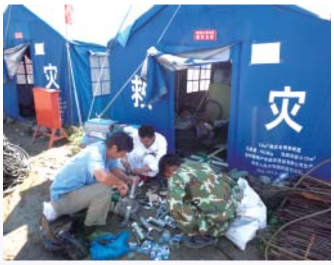
April
Wins prestigious KOCH award in shipping for vetting performance 2004–2007.

May
PLATTS designates Titan CHIOS Floating Storage Unit as its physical delivery point for fuel oil in Singapore.

May–June
Sells two single-hulled VLCCs Titan Leo and Titan Venus, together with a coastal tanker Neptra Premier for a total consideration of US$63.7 million.

May–June
Titan Quanzhou Shipyard delivers two 7,000-dwt double-hulled vessels certificated by Lloyd's Register in May and June, indicating that the product quality of the shipyard has gained international classifications recognition.

May–June
Group and staff collectively raise and donate S$7,000 and RMB1 million to the Myanmar Cyclone disaster relief and China's Sichuan earthquake respectively. The Group also sends two staff volunteer teams to give assistance to the Sichuan disaster relief work.



June
Group announces restructure of business to focus on storage and shipyard operations and scale down supply chain activities.

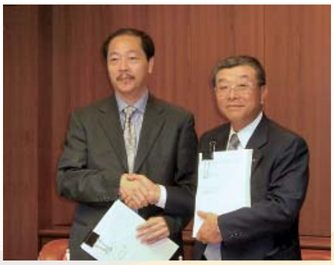
August
Sells two more single-hulled VLCCs Titan Aries and Titan Pisces, for a total consideration of US$78.30 million.

November
Sells one single-hulled VLCC Titan Neptune for US$24 million.

November–December
Titan Quanzhou Shipyard delivers its third and fourth new-built vessels for the year, both 7,000-dwt double-hulled tankers.

December
Nansha Petrochemical Terminal successfully completes and commissions 180,000 cubic meters of oil storage as part of its Phase II development.

August
Kawasaki Kisen Kaisha Ltd ("K Line") of Japan signs contract with Titan to invest US$25 million in Quanzhou Shipyard for a 5% stake. K Line also agrees that the shipyard will be its primary ship repair partner in China. These investments confirm that Quanzhou Shipyard has gained the recognition of internationally renowned ship owners.



November–December
Fujian Terminal and Nansha Terminal each receive their ISO9001, ISO14001, and OHSAS18001 certification in November and December, respectively.

December
Yangshan Petrochemical Terminal completes construction of Phase I development comprised of 420,000 cubic meters of oil storage. The Terminal starts operations and receives its first domestic vessel, one of China's largest oil product tankers, the 110,000 dwt "Feng Lin Wan".

Management Discussion and Analysis:

OPERATIONS REVIEW

During the year, Titan took further steps to restructure the Group's businesses, giving greater focus to its growing storage and shipyard businesses, while scaling down the supply chain activities and disposing of our single-hulled vessels. The remaining inventory of oil was sold off in the second half and the planned exit from the Group's oil trading business was completed.

Shipyard

Total revenues for the Titan Quanzhou Shipyard for the year were HK$574 million and segment EBITDA was HK$82 million compared to HK$114 million and HK$18 million respectively, in the previous year.

The shipbuilding operations delivered four vessels during the year, all of which were 7000 deadweight ton (dwt) dual purpose bunker-transportation tankers. It also started the construction on eight vessels and launched six during the year, and plans to start building ten ships, launch eight and deliver six in 2009.

The Group signed agreements in August 2008 with Kawasaki Kisen Kaisha ("K Line") of Japan, one of the world's largest ship-owners, for K Line to purchase US$25 million (approximately HK$195 million) of notes, which, prior to March 31, 2013, are exchangeable for up to a 5% share in Titan Shipyard Holdings Limited, which holds Titan Quanzhou Shipyard. Additionally, K Line appointed Titan Quanzhou Shipyard as its primary ship repair partner in China and will provide a specified volume of ship repair business in the future. In return, Titan Quanzhou Shipyard will make available the needed ship repair capacity to meet K Line's demand. This agreement is for an initial term of ten years and, thereafter, will be renewed automatically for successive five year terms.

The existing facilities, which are currently devoted entirely to ship building, comprise 180m x 48m and 275m x 48m slipways, a workshop and two gantry cranes, one of 250 tons and the other of 160 tons.

During 2008, the Group continued development of its ship repair facilities, which include construction of four dry docks. The yard is planning to start float repair operations at the jetty in mid-2009. Thereafter, the yard's repair facilities will be expanded gradually and full completion is expected by the middle of 2010.

When fully complete with four dry docks, ten jetties, 30 cranes and six large-scale workshops, Titan Quanzhou Shipyard will be able to carry out ship repairs on vessels with maximum capacities of upto 300,000 dwt. In terms of annual repair capacity, the

Titan Quanzhou Shipyard is a unique multifunctional facility will be one of the largest ship repair, offshore engineering and specialized ship building yards in Asia when fully operational in mid-2010, benefiting from an ideal location on busy shipping lanes off the Taiwan Straits.

Shipyard will then be able to handle up to 250 vessels a year totaling one million dwt in capacity, which is equivalent to Singapore's Jurong Shipyard. Its 3,600 meters of berthing will exceed that of any yards currently operating in Singapore or Mainland China, and will permit the docking of the latest generation container ships up to 397 meters.

In addition to state-of-the-art equipment, strong international management and systems underpin the shipyard's operations. The yard is run by qualified professionals with international experience. A modern project management model encompasses the entire production life cycle, from engineering through to commissioning. A strong quality assurance system has been put in place, and the yard successfully obtained ISO9001 certification from Lloyd's Shipping Register during the year.

Dry-Docks

Number	Dimensions (meter)
1	380 x 80
2	420 x 68
3	280 x 46
4	280 x 46

Slipways

Number	Dimensions (meter)
1	180 x 48
2	275 x 48

Storage

In 2008, revenues from the Group's storage operations increased 155.0% to HK$540 million and segment EBITDA rose by 48.1% to HK$329 million. Revenues came mainly from the Group's floating storage operations and growing contributions from the China terminals in Nansha and Fujian.

Floating Storage Units (FSU)

The Group's re-deployment of two VLCCs (very large crude carriers) back for transportation (shipping) to capture rising freight rates in the second quarter resulted in a 13% reduction in the average FSU capacity for 2008 compared to 2007. Despite this capacity reduction, there was an increase in FSU revenues from HK$197 million to HK$484 million and operations remained profitable with FSU segment EBITDA at HK$293 million, up from HK$208 million the previous year, thanks to a steady FSU market and significant operational efficiency improvements made during the year.

Before the end of 2008 when freight rates took a deep plunge, Titan restored the FSU capacity back to one million cubic meters to take advantage of the strong storage demand in the market.

At the end of 2008, the total number of FSU in operation was four, which include two VLCCs being leased out on a long term basis. Since the Group's exit from the trading businesses, the FSU capacity has become wholly utilised by external customers.

During the year, Platts designated *Titan Chios* as an approved delivery point for inclusion into Platts Singapore Fuel Oil Assessments. This helps Titan to secure more business from international oil traders engaged in physical trading, blending and delivery operations in Asia.

Titan Scorpio is one of the VLCCs deployed for floating storage operations (FSU). FSU have advantage over onshore storage in that lessees can blend fuel oil stocks more easily. These require heating and the process also requires easy berthing access well provided by FSU.

China Terminals

Revenues from Titan's China terminals increased to HK$56 million from HK$15 million and segment EBITDA has risen 157.9% to HK$36 million for the year. Our marketing efforts to boost utilisation from the second quarter of 2008 have continued to produce satisfactory progress with the 410,000 cubic meter Phase I of the Nansha Petrochemical Terminal recording a six-month average utilisation of 65% for the second half compared to 53% in the first half of 2008. Average utilisation for the year 2008 at Nansha facility was 59% compared to 43% in 2007.

Nansha Phase II: Like Phase I, the facilities have been built to international standards and its advanced equipment, such as the Honeywell DCS system, ensures efficient and safe operations.

Likewise, the chemical storage facility in Fujian has seen improvements in utilisation, with the average annual utilisation rate for 2008 rising to 43% from 22% in 2007. Since the start of 2009, business has surged in volume and monthly utilisation has reached record levels of 70-90% in the first two months.

The Group's development of 305,300 cubic meters in capacity in Nansha Phase II made significant strides during the year with the completion of the oil storage section comprising 180,000 cubic meters by the end of December. This has increased the facility's total oil storage capacity to 590,000 cubic meters. Already utilisation for Nansha in February 2009 has risen rapidly to 90% from 50% in the previous month, based on the expanded fuel oil capacity.

The 125,300 cubic-meter chemical storage facility constructed as part of the Phase II project is almost complete, and operations are expected to commence in the second quarter of 2009.

In March 2008, the Shanghai Futures Exchange designated 50,000 cubic meters of the Nansha terminal as a physical delivery storage facility for the settlement of its fuel oil futures contracts. This has been operating smoothly with the volume of physical deliveries increasing steadily. Another 100,000 cubic meters have been approved by the Shanghai Futures Exchange in the first quarter of 2009, thereby bringing the total to 150,000 cubic meters of fuel oil tanks as physical delivery terminals. This achievement is already bringing greater recognition of the Group's storage facilities

China Storage Projects Profile

	Nansha, Guangdong	Quanzhou, Fujian	Yangshan, Shanghai
Project Size	1,800,000 m^3	1,490,000 m^3	2,370,000 m^3
Phase I	410,000 m^3 completed	90,000 m^3 completed	420,000 m^3 completed
Phase II	180,000 m^3 completed 125,000 m^3 Q2 2009	600,000 m^3 by 2010	600,000 m^3 by 2010
Phase III	240,000 m^3 by 2010 845,000 m^3 by 2011	800,000 m^3 by end 2011	1.35 million m^3 by 2011
Number of Berths	20	8	16
Maximum Berth Capacity	120,000 dwt	300,000 dwt	300,000 dwt
Products	Fuel Oil, Chemicals, Petroleum Products	Crude Oil, Fuel Oil, Chemicals, Petroleum Products	Fuel Oil, Chemicals, Petroleum Products

All terminals in the Group's portfolio have deepwater access and excellent communications links. In addition, the facilities have bonded zone status for customs purposes, allowing international cargo to avoid incremental duty and excise tax. This facilitates the international transfer, delivery, purchase and transit of cargos.

among Chinese and international customers, which is helping to stimulate and increase direct utilisation of the terminal.

Construction on the Group's Phase I Yangshan Petrochemical Terminal near Shanghai, consisting of storage for 260,000 cubic meters of fuel oil, 100,000 cubic meters of diesel and 60,000 cubic meters of gasoline, was also completed by the end of the year. This facility, which now offers a total of 420,000 cubic meters of storage capacity,

Project Finance

Debt funding for the Group's China projects are based on project financing arrangements.

For the Nansha terminal, a RMB380 million facility for Phase I and a RMB570 million facility for Phase II have been arranged.

For the Fujian terminal, a RMB150 million credit facility for Phase I and another RMB430 million for Phase II have been arranged.

For the shipyard, the Group has obtained bank loans of RMB180 million for the now completed stage of the yard.

received its first ship in December 2008 and is now fully operational. Utilisation has been progressively rising with increasingly more uptake by customers during the first three months of 2009.

Distribution

The Group restructured its business at the end of June to scale down our supply chain. In so doing, we have fully divested the oil trading business before the year end, while continuing our distribution bunkering operations in Singapore and Hong Kong.

Revenues for the distribution business excluding the discontinued oil trading operation in 2008 decreased 13.1% to HK$5,464 million compared to the previous year. This resulted in a segment loss before interest expenses, tax, depreciation and amortisation, excluding the discontinued oil trading operation, of HK$11 million.

Titan ceased its bunkering operations in Malaysia and scaled down activities in Singapore with the restructure in 2008, and thereafter focused on serving the Group's fleet of vessels only. Currently, Titan operates four vessels with a total capacity of 10,200 dwt in Hong Kong.

Transportation

Revenues from transportation in 2008 were HK$1,234 million, representing a minor decrease only compared to the HK$1,237 million for the last year. Segment EBITDA decreased by 35.4% to HK$184 million. This was caused by several global events during the year including high volatility of oil prices, followed by the global financial turmoil in the second half of 2008, thereby creating a plunge of oil demand and a glut of tonnage capacity. This has put tremendous pressure on freight rates, with the average Worldscale (WS) rates for the Middle East — Far East route falling from WS202 in June 2008 to only WS78 in December 2008, which resulted

The Group's transportation team won the prestigious KOCH award in April 2008 for vetting performance 2004–2007, beating 500 competitors from the world's best shipping team. Titan came out number one amongst 12 other companies that were given awards, including BP, Shell, Cheveron-Texaco and others.

in profit margins deteriorating significantly for the Group in the second half.

In addition, Titan's transportation fleet capacity was reduced from 2.14 million dwt at the beginning of the year to 1.162 million dwt at the end of 2008. This was a result of our continuing asset management program, where we sold five VLCCs, and one coastal tanker (all single-hulled vessels) for a total consideration of HK$1,295 million. Although this led to an aggregate net book loss of HK$417 million, the disposals of the vessels were very timely and hence, prices achieved from the sales were extremely attractive in view of the drastic drop in asset prices before the end of the year.

Furthermore, we also deployed two additional vessels as FSU to take advantage of the stronger storage market during the second half. By the end of 2008, our transportation fleet were comprised of two leased VLCCs, and nine owned vessels, which include a VLCC and eight coastal tankers.

Even in adverse market conditions, Titan's transportation operations performed consistently well and maintained VLCC utilisation rates above 92% for 2008. Our product tankers also kept utilisation rates over 96% despite suffering similarly from poorer markets due to sluggish demand for product oil in the second half of the year.

STAKEHOLDER RELATIONS

Investors & Shareholders

In 2008, Titan conducted media and analyst briefings, as well as investor meetings and conference calls during announcements of annual and interim earnings, to explain the results and provide updates on the Company's direction and developments.

In addition to such briefings and meetings, stakeholders are updated on key business developments, Company news and milestones through media releases, announcements, email alerts and letters to shareholders.

To enhance further understanding of Titan's Shipyard business plan and operations, senior executives led analysts and investors on a group visit to Titan Quanzhou Shipyard in China last May. Management also attended target investor conferences held overseas to meet with institutional investors through one on one meetings.

Through the Group corporate website (www.petrotitan.com) available in English, traditional and simplified Chinese, Titan's annual and interim reports, announcements, media releases and other information are easily accessible to investors.

For Titan, the Annual General Meeting is an opportunity for face-to-face communication between the Board and shareholders, providing a time for Board members to address questions raised.

Employees

As at 31 December 2008, the Group's total employee count was over 972 with approximately 849 employees working in Mainland China and around 123 based in Singapore and Hong Kong.

Remuneration packages, including basic salaries, bonuses and benefits-in-kind are structured by reference to market terms and individual merit and are reviewed annually based on objective performance appraisals.

Despite the difficult operating conditions and business restructuring, which resulted inevitably in headcount reduction and personnel changes, Titan remained committed to staff development during the year, and continued to provide training in key sections of its businesses.

In the existing adverse business environment, internal communications become even more essential and the Group uses the Titan Staff Intranet to help employees keep abreast of news and developments in different business divisions and locations.

Community Support

The Sichuan earthquake disaster on May 12, 2008, with its devastating loss of lives and property, has stirred worldwide attention and outpourings of sympathy. In response to this tragedy, Titan, together with staff, raised funds and made donations amounting to approximately RMB1 million to support rescue and relief efforts in Sichuan.

Moreover, the Company sent a 10-men team of staff volunteers, including electricians, welders and various skilled workers from the Group's operations in China to give on-the-ground assistance to the relief work needed in the disaster zone. Another team of five volunteers also provided essential support in Hui'an County in Fujian to help in the production of anti-seismic prefabs for the stricken areas.

In addition to the Sichuan earthquake, Titan gave financial aid to various causes including the relief fund for victims of Cyclone Nargis in Myanmar, the Singapore Children's Society, and the YMCA of Hong Kong, donating the equivalent total of over HK$217,000 in 2008.

FINANCIAL REVIEW

Financial Results

The Group's total turnover for the year decreased 34.8% to HK$11,093 million with the cessation of the oil trading business as part of the Group's strategy. The Group's continuing operations were down 0.5% to HK$7,812 million. The discontinued operation, oil trading dropped 64.2% to HK$3,281 million. The loss before tax on continuing operations was HK$391 million compared to a loss of HK$82 million in the previous year. The Group's continuing operations continue to record a positive earnings before interest expenses, tax, depreciation and amortisation (EBITDA) of HK$378 million (2007: HK$665 million). This included an exceptional net loss of HK$417 million which was recorded from the disposal of vessels (a gain of HK$262 million in 2007) and gains from the repurchases and cancellation of senior notes amounted to HK$339 million. Finance costs for the Group reflected a slight increase from HK$482 million to HK$485 million. With the inclusion of the discontinued operation, the loss before tax for the year of the Group increased to HK$1,608 million. The loss for the year attributable to ordinary equity holders of the parent in previous year of HK$29 million increased to HK$1,601 million this year.

Shipbuilding

The shipbuilding business recorded turnover of HK$574 million in 2008 as compared to HK$114 million in 2007 and the segment EBITDA was HK$82 million in 2008 while in 2007 was HK$18 million. The shipbuilding business, acquired during 2007, accounted for 5.2% of Group's revenues in 2008.

Transportation

This business turnover slightly dropped to HK$1,234 million in 2008 from HK$1,237 million recorded in 2007. Due to the significant decline in freight rates during the second half caused by the global conditions, the segment EBITDA from the oil transportation business decreased by 35.4% from HK$285 million to HK$184 million. The transportation business accounted for 11.1% of Group's revenues.

Off Shore Oil Storage

The off shore oil storage business recorded turnover of HK$484 million in 2008, as compared to HK$197 million for 2007. The storage demand in the Singapore and Malaysia region has been strong and the segment EBITDA increased by 40.8% to HK$293 million as compared to HK$208 million in 2007. The off shore oil storage business accounted for 4.3% of Group's revenues.

On Shore Oil Storage

The on shore oil storage business recorded turnover of HK$56 million in 2008, as compared to HK$15 million for 2007. The EBITDA of this segment was HK$36 million as compared to HK$14 million for the prior year. The on shore oil storage business accounted for 0.5% of Group's revenues.

Supply and Distribution

The contribution of this business, excluding discontinued operation of oil trading, to the Group's turnover and the segment loss before interest expenses, tax, depreciation and amortisation (LBITDA) decreased by 13.1% to HK$5,464 million and increased by 134.8% to HK$11 million, respectively, as compared to HK$6,286 million and HK$5 million for 2007. The business accounted for 49.3% of Group's revenues.

The contribution of the discontinued operation of oil trading, to the Group's turnover decreased by 64.2% to HK$3,281 million as compared to HK$9,156 million in 2007 and the segment LBITDA in 2008 was HK$1,186 million as compared to the segment EBITDA in 2007 of HK$107 million. The business accounted for 29.6% of Group's revenues.

Liquidity, Financial Resources, Charges On Assets And Gearing

The Group finances its operations largely through internally generated resources, term loans and trade finance facilities provided by banks in Hong Kong, Singapore and Mainland China. As at 31 December 2008,

a) The Group had:

- Cash and bank balances of HK$351 million (2007: HK$1,514 million), pledged deposits and restricted cash of HK$230 million (2007: HK$597 million). These were comprised of:
  - — an equivalent of HK$303 million (2007: HK$1,213 million) denominated in US dollars
  - — an equivalent of HK$12 million (2007: HK$11 million) denominated in Singapore dollars
  - — an equivalent of HK$262 million (2007: HK$874 million) denominated in RMB
  - — HK$4 million (2007: HK$13 million) in Hong Kong dollars
- Interest-bearing bank loans of HK$1,781 million (2007: HK$3,060 million), of which HK$227 million (2007: HK$1,698 million) were floating rate loans denominated in US dollars. HK$625 million of the Group's bank loans at 31 December 2008 had maturities within one year.

b) The Group's banking and other facilities were secured or guaranteed by:

- Cash deposits of HK$178 million (2007: HK$597 million)
- Deposit held in a collateral account which was released in the current year (2007: HK$14 million)
- Vessels with an aggregate net carrying value of HK$928 million (2007: HK$1,626 million)
- Prepaid land/seabed lease payments with an aggregate net carrying value of HK$901 million (2007: HK$372 million)
- Oil storage facilities with an aggregate net carrying value of HK$539 million (2007: HK$490 million)
- Construction in progress with an aggregate value of HK$145 million (2007: HK$151 million)
- Inventories with a carrying value of HK$872 million as at 31 December 2007 and no such pledges as at 31 December 2008
- Several pieces of land owned by related companies
- Personal guarantees executed by a director of the Company
- Corporate guarantees executed by the Company
- Corporate guarantee executed by a related company

c) **The fixed rate guaranteed senior notes of HK$2,622 million (2007: HK$3,135 million) were secured by shares of certain subsidiaries.**

d) **The Group had:**

- Current assets of HK$2,189 million (2007: HK$5,531 million). Total assets of HK$8,999 million (2007: HK$12,775 million)

- Total bank loans of HK$1,781 million (2007: HK$3,060 million)

- Finance lease payables of HK$1 million (2007: HK$1 million)

- Fixed rate guaranteed senior notes of HK$2,622 million (2007: HK$3,135 million)

- Convertible preferred shares as non-current liability to the extent of the liability portion of HK$573 million (2007: HK$502 million)

- Notes payable of HK$195 million (2007: Nil)

The Group's current ratio was 1.03 (2007: 1.37). The gearing of the Group, calculated as the total bank loans, finance lease payables, fixed rate guaranteed senior notes and notes payable to total assets, has increased to 0.51 (2007: 0.49).

e) **The Group operates in Hong Kong, Singapore and Mainland China. As its business contracts are mostly settled in US dollars and its reporting currency is Hong Kong dollars, the directors consider that the Group has no significant exposure to foreign exchange, except for currency translation risks on the net assets in foreign operations, in particular in Mainland China. During the year, the Group terminated its interest rate swap contract and, as a result of the discontinued operation, oil trading, the Group has not entered into any oil price swap contracts. The Group did not use any financial instruments for speculative purposes.**

Contingent Liabilities

At 31 December 2008, the banking facilities granted to certain subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of HK$306 million (2007: HK$2,674 million).

At 31 December 2008, no guarantee were outstanding by the Company to suppliers in connection with the oil trading business and, therefore, there was no utilised amount. At 31 December 2007, HK$172 million guarantee was utilised by a subsidiary of the Company.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining good corporate governance to effectively oversee/guide operations and to enhance long term shareholder value, with an emphasis on having a quality board, transparency, independence and accountability. The Board acknowledges the proven importance and benefits of promoting and maintaining high standards of corporate governance.

Compliance with the Corporate Governance Code

The Company has applied the principles and complied with code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31 December 2008, except for the deviations set out below:

Code provision A.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Following the senior management realignments announced in January 2008, Mr. Tsoi Tin Chun, Chairman of the Board, also took up the role of the Group's Chief Executive. More details are provided in the section headed "Chairman and Chief Executive" below.

Pursuant to code provision E.1.2 of the CG Code, the Chairman of the Board should attend the annual general meeting of the Company. Due to business meeting commitments overseas, Mr. Tsoi Tin Chun was unable to attend the annual general meeting of the Company held on 5 June 2008. Mr. Barry Cheung Chun Yuen, *JP*, the former Deputy Chairman of the Board, chaired the annual general meeting in accordance with the provisions of the Company's bye-laws.

The key corporate governance practices adopted by the Group are summarized below.

The Board

The Board of Directors (the "Board"), led by the Chairman, is collectively responsible for the management of the business and affairs of the Group with the overall objective of protecting and enhancing shareholder value. It is also responsible for the formulation of the Group's overall strategies and policies, setting of corporate values and management targets and operational initiatives, monitoring and evaluating Group performance, and the approval of annual budgets, business plans, major capital expenditures, major investments and material acquisitions and disposals of assets.

As at 31 December 2008, the Board was comprised of five directors, including two executive directors and three independent non-executive directors. Biographical details of the directors and their respective roles in the Group are set out in the "Directors" section of this Annual Report.

In determining the independence of directors, the Board follows the independence guidelines set out in the Listing Rules. The Board has received from each independent non-executive director a written confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and considers each of them to be independent.

Non-executive directors, including independent non-executive directors, are appointed for a period of two years. In addition, all directors are subject to re-election by shareholders at the annual general meeting at least every three years on a prescribed rotational basis. According to the bye-laws of the Company, directors appointed to fill casual vacancies shall hold office only until the next following annual general meeting and can be eligible for re-appointment at that time.

The Company has arranged insurance coverage for director and officer liabilities including cover for senior management of the Company and directors and officers of subsidiaries.

Chairman and Chief Executive

The Chairman is responsible for providing leadership to and overseeing the functioning of the Board to ensure that it acts in the best interests of the Group. With the support of executive directors and the company secretary, the Chairman seeks to ensure that all directors are properly briefed on issues arising at board meetings and receive adequate and reliable information in a timely manner. The Chairman also actively encourages directors to be fully engaged in Board affairs and make contributions to the Board in the fulfillment of its responsibilities.

The Chief Executive role, supported by the executive directors and senior management team, is responsible for the day-to-day management and operations of the Group, attending to the formulation and successful implementation of Group policies and assuming full accountability to the Board for all Group operations and performance. He maintains an ongoing dialogue with all directors, directly or through his support team, to keep them fully informed of major business developments and issues and the adoption/execution of Group strategies, policies and objectives by the various business units. He is also responsible for building and maintaining an effective executive team to support him in this role.

During the year, the Board announced senior management realignments to create a smaller/tighter senior management structure for the Group to take advantage of growth opportunities, and support its more focused operations in the Asia Pacific region. To strengthen operational management, Mr. Tsoi Tin Chun, Chairman of the Board, also took up the functions/responsibilities of the Chief Executive. He is now responsible for and assumes full accountability to the Board for all Group's operations and performance. Although the role of Chairman and Chief Executive are performed by the same person, President of the Corporate Office, who provides strategic and operational leadership for the Group, together with the senior management team, assist the Chairman in managing the Group's day-to-day operations. The Board will periodically review the effectiveness of this arrangement and take any appropriate action should circumstance require.

Board Meetings

The Board meets at least four times a year and has formal procedures to include matters to be referred to it for consideration and decisions. Between scheduled meetings, senior management provides information to the directors on the activities of and developments in the businesses of the Group. As and when deemed necessary, additional Board meetings may be convened. In addition, any director may request the company secretary to arrange for independent professional advice to assist the directors to effectively discharge their duties.

Notice of at least 14 days is served for regular Board meetings. During 2008, five full Board meetings were held at which the individual attendance records of the directors were as follows:

	Attended/Eligible to Attend
Executive directors	
Mr. Tsoi Tin Chun — *Chairman & Chief Executive*	2/5
Mr. Patrick Wong Siu Hung *(note 1)*	2/2
Mr. Philip Chu Yan Jy *(note 2)*	2/2
Mr. Barry Cheung Chun Yuen *(note 3)*	3/3
Non-executive director	
Mr. Ib Fruergaard *(note 4)*	5/5
Independent non-executive directors	
Mr. John William Crawford	5/5
Ms. Maria Tam Wai Chu	4/5
Mr. Abraham Shek Lai Him	5/5

Notes:

(1) Appointed on 7 May 2008

(2) Appointed on 7 May 2008 and resigned on 1 December 2008

(3) Resigned on 24 June 2008

(4) Resigned on 1 December 2008

Nomination of Directors

The Company does not have a separate nomination committee. The Board regularly reviews its structure, size and composition and, when deemed necessary, the Chairman, assisted by the executive directors, identifies suitable candidates for consideration by the Board. The appointment of a new director is a collective decision of the Board after taking into consideration the expertise, experience, integrity and commitment of that appointee to the Group.

Directors' Responsibility for Preparing Financial Statements

The Directors acknowledge their responsibility for preparing financial statements which give a true and fair view of the state of affairs of the Company and its subsidiaries.

The statement of the auditors with respect to their reporting responsibilities on the financial statements of the Group is set out in the independent auditors' report on pages 45 to 46 of this Annual Report.

Audit Committee

The Audit Committee comprises three independent non-executive directors, namely Mr. John William Crawford (Chairman), Ms. Maria Tam Wai Chu and Mr. Abraham Shek Lai Him.

The Audit Committee has specific written terms of reference, including amongst other duties the following key responsibilities:

- make recommendations to the Board on the appointment and, if necessary, the replacement/resignation of the external auditors and assess their independence, performance and fee levels;

- review the completeness, accuracy and fairness of the Company's interim and annual financial statements and reports;

- ensure compliance with the applicable accounting standards and legal and regulatory requirements on financial reporting and disclosures;
- oversee the effectiveness of financial reporting systems; and
- ensure ongoing assessments of the Group's internal control systems over financial, operational, compliance and broad risk management processes.

During the year, four Audit Committee meetings were held and the individual attendance records were as follows:

	Attended/Eligible to Attend
Mr. John William Crawford — *Chairman*	4/4
Ms. Maria Tam Wai Chu	3/4
Mr. Abraham Shek Lai Him	4/4

Financial Statements

The Audit Committee met and held discussions with the Chief Financial Officer and other senior management on the Company's interim and annual financial reports, and discussed the audit approach and significant audit and accounting issues with the Group's principal external auditors, Ernst & Young ("E&Y"), including the financial impact of the adoption of applicable new/revised accounting standards.

External Auditors

The Audit Committee reviewed and confirmed the external auditors' independence and objectivity, together with the scope of audit services and fees in connection therewith. The Committee also made recommendations to the Board for the re-appointment of E&Y as the Group's principal external auditors. The Group has not employed any staff from E&Y who were formerly involved in the Group's statutory audit.

During the year ended 31 December 2008, the audit fees paid/payable to E&Y amounted to approximately HK$5,200,000 and the fees paid/payable to them for non-audit services amounted to approximately HK$1,300,000 which was comprised of taxation services fees of HK$900,000 and interim results review fees of HK$400,000.

Review of Risk Management and Internal Control Systems

As more fully described in the Internal Control Environment section, the Audit Committee assisted the Board in meeting its responsibilities for ensuring and overseeing effective systems of internal control. During the year, the Group continued to carry out its internal audit program through independent consultants approved by the Audit Committee.

Internal Control Environment

System and Procedures

The Board acknowledges its responsibility to ensure that sound and effective internal control systems are maintained, which include comprehensive systems for reporting information to the division heads of each business unit and the executive directors. The internal control systems are designed to:

- achieve the Group's business objectives of attaining optimal performance and safeguarding assets against unauthorised use or disposition;
- ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use and for publication; and

- ensure compliance with the relevant legislation and regulations.

The Board has ensured that management developed and exercised effective internal control systems and procedures suitable for the various businesses in which the Group has been engaged. In this regard, key areas covered have included the following:

- Having a distinct organization structure in place with defined lines of authority and control responsibilities.

- Development of comprehensive accounting systems to provide financial and by segment performance indicators to management and the relevant financial information for reporting and disclosure purposes.

- Preparation of annual budgets by the management of each business unit which are subject to review and approval by the executive directors. Such budgets are compared with actual results and reviewed on a monthly basis. The Executive Committee reviews the monthly management reports, key operating statistics and performance analyses of each business unit, and variances against budgets are analyzed/explained and appropriate action taken.

- Guidelines and procedures were established for the approval and control of expenditures. Both operating and capital expenditures are subject to an overall budget monitoring and approval process. More specific controls and approvals, prior to commitment by the appropriate executives, are required for material expenditures and acquisitions, and any unbudgeted items.

The Board recognizes the need to continue to make improvements and/or upgrades thereon. Various initiatives were undertaken during the year, including but not limited to the following:

- In June 2008, the Company announced the restructuring of the Group's business to focus on its shipyard and storage businesses and divesture of the oil trading business to minimize risk exposure arising from the increasing market volatility.

- During the year, the Group has adopted and implemented SAP applications to Singapore and Hong Kong operations and to the shipyard operations in the PRC to enhance operating processes and financial reporting.

- The Company engaged an external consultant to undertake the internal audit function and an internal audit program from 2008 to 2010 was proposed and accepted. Audit areas were identified on a priority risk basis, with an emphasis on the new shipyard operations and oil storage businesses in the PRC. The audit review on the Quanzhou shipyard was completed in the first quarter of 2009. The audit review on the oil storage business units in Nansha, Fujian and Yangshan will commence in the second quarter of 2009. Thereafter, the transportation/shipping business units and finance/human resource functions will be reviewed.

- The Audit Committee and management together with the external consultant discussed and reviewed the internal audit report on findings, recommendations and management responses on the audit review covering areas of revenue recognition, purchasing and payments process and control, inventory management and cash and bank management for the shipyard operations. There were a number of control weaknesses highlighted in the internal audit report which are deemed to have arisen for a number of reasons including the start-up nature of the project, the focus of management on other Group matters such as the winding down of the oil trading and other issues arising from the world economic turnmoil. Management have recognized the need to address the matters raised and have already started to implement improvements to strengthen internal controls based on the recommendations and are scheduled to be completed by the end of the third quarter of 2009.

Annual Assessment

The Board together with the Audit Committee reviewed the effectiveness of the Group's systems of internal control over financial, operational, compliance issues, and broad-based risk management processes.

No suspected frauds or irregularities, or suspected infringement of laws, rules and regulations came to the Committee's attention. As a result of its review efforts and the new initiatives taken to date, the Board is satisfied that the Group in 2008 complied with the code provisions on internal controls as set forth in the CG Code.

Remuneration Committee

The Remuneration Committee was established in accordance with the Listing Rules and currently comprises two independent non-executive directors and the Chairman of the Board, namely, Ms. Maria Tam Wai Chu (Chairman), Mr. Abraham Shek Lai Him and Mr. Tsoi Tin Chun.

The Committee has specific written terms of reference and its primary duties include:

- ongoing review of the Group's overall remuneration policies and structure;
- making recommendations to the Board on the administration of fair and transparent procedures for setting policies on the remuneration of directors and senior management of the Group;
- reviews of and determinations on the specific remuneration packages for executive directors and senior management; and
- reviews of and approvals on performance–based remuneration by reference to corporate goals.

The remuneration policies of the Group seek to attract, retain and motivate the best available talent as well as to align the interests of executives with achieving shareholder value and promoting sustained improvements in business performance. Remuneration packages include basic salaries, performance bonuses, share options and benefits-in-kind, which are structured by reference to market terms and individual merit, and are reviewed on an annual basis based on objective performance appraisals. Special incentive plans are also adopted for certain key operational staff. No directors or senior management are involved in determining their own remuneration.

The Remuneration Committee held one meeting for the 2008 year and the attendance record was as follows:

	Attended/Eligible to Attend
Ms. Maria Tam Wai Chu — *Chairman*	1/1
Mr. Abraham Shek Lai Him	1/1
Mr. Tsoi Tin Chun	0/1

During the meeting, the Committee discussed and reviewed with the Head of Human Resources the Group's overall compensation philosophy, the remuneration policies and structure and human capital issues, as well as the remuneration packages for executive directors and senior management and the annual fees to non-executive directors for 2009.

Details of the emoluments of each director of the Company for the year ended 31 December 2008 are set out on page 84 of this Annual Report.

Securities Transactions by Directors and Employees

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer contained in Appendix 10 to the Listing Rules ("Model Code") as the Company's code of conduct regarding director securities transactions and has set up relevant procedures to ensure compliance. Having made specific enquiries of the directors, all directors confirmed that they have complied with the required standards set out in the Model Code throughout the year. Furthermore, the Company also adopted corporate guidelines for securities transactions to regulate employee conduct on securities dealings.

Report of the Directors

The directors present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 18 to the financial statements. Except for the divesting of the oil trading business and commencement of building of ship repair facilities, there were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 47 to 139.

The directors do not recommend the payment of any dividend for the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements are restated/reclassified as appropriate, is set out on page 140. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE PREFERRED SHARES

Details of the movements in the Company's share capital, share options and convertible preferred shares during the year are set out in note 32, note 33 and note 35 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2008, the Company purchased its 8.5% guaranteed senior notes due 2012 in the aggregate principal amount of US$66,824,000. The guaranteed senior notes are listed on the Singapore Stock Exchange and further details are set out in note 30 to the financial statements.

Save as disclosed above, there were no purchases, sales or redemptions by the Company, or any of its subsidiaries, of the Company's listed securities during the year.

Report of the Directors

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2008, the Company's reserves available for distribution, calculated in accordance with the provision of the laws of Bermuda, amounted to approximately HK$105,491,000. Under the laws of Bermuda, the Company's share premium account of approximately HK$1,888,747,000 as at 31 December 2008 may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors

Mr. Tsoi Tin Chun	
Mr. Patrick Wong Siu Hung	(appointed on 7 May 2008)
Mr. Barry Cheung Chun Yuen	(resigned on 24 June 2008)
Mr. Philip Chu Yan Jy	(appointed on 7 May 2008 and resigned on 1 December 2008)

Non-executive director

Mr. Ib Fruergaard	(resigned on 1 December 2008)

Independent non-executive directors

Mr. John William Crawford
Mr. Abraham Shek Lai Him
Ms. Maria Tam Wai Chu

In accordance with the Company's bye-laws, Mr. Tsoi Tin Chun and Mr. John William Crawford will retire by rotation in the forthcoming annual general meeting and, being eligible, offer themselves for re-election. The non-executive directors (including independent non-executive directors) are appointed for a period of two years and are subject to retirement by rotation and re-election in accordance with the Company's bye-laws.

Report of the Directors

The Company has received from each of Mr. John William Crawford, Mr. Abraham Shek Lai Him and Ms. Maria Tam Wai Chu an annual confirmation of his or her independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and the Company considers such directors to be independent.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 10 to 14 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

Details of the directors' remuneration are set out in note 9 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 42 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

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

Report of the Directors

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

At 31 December 2008, the interests and short positions of the directors and the chief executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as set out below:

Long positions in ordinary shares of the Company:

Name of director	Capacity	Number of shares	Approximate % of shareholding
Mr. Tsoi Tin Chun	Interest of controlled corporations/ Interest of spouse	3,822,158,794 (Note 1)	59.04

Short positions in ordinary shares of the Company:

Name of director	Capacity	Number of shares	Approximate % of shareholding
Mr. Tsoi Tin Chun	Interest of controlled corporations	2,397,721,010 (Note 1)	37.04

Options outstanding under the share option scheme of the Company:

Name of director	Capacity	Number of underlying shares (options granted)	Approximate % of shareholding
Mr. Patrick Wong Siu Hung	Beneficial owner	20,000,000 (Note 2)	0.31

Report of the Directors

Interest in associated corporations:

Name of director	Capacity	Associated corporation	Interest in associated corporation	% interest in shareholding
Mr. Tsoi Tin Chun	Interest of corporation controlled by director	Sea Venture Holdings Pte Ltd.	1 share (Long positions) (Note 3)	100
Mr. Tsoi Tin Chun	Interest of corporation controlled by director	Fujian Shishi Titan Sailor Administer Co. Ltd.	US$30,000,000 (Capital contribution) (Note 4)	100

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

Note 2: Share options carrying rights to subscribe for ordinary shares of the Company were granted on 1 February 2008 pursuant to the share option scheme adopted by the Company on 31 May 2002.

Note 3: Mr. Tsoi is deemed to be interested in the share of Sea Venture Holdings Pte Ltd. ("Sea Venture") which 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 4: Mr. Tsoi is deemed to be interested in the shareholding of Fujian Shishi Titan Sailor Administer Co. Ltd. ("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, at 31 December 2008, none of the directors or the chief executive had registered any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above and in the share option scheme disclosures in note 33 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors to acquire such rights in any other body corporate.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2008, so far as is known to the directors and the chief executive of the Company, the following persons had interests or short positions in the shares and underlying shares of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Capacity	Number of shares and underlying shares	Approximate % of shareholding
Ms. Tsoi Yuk Yi	Interest of spouse/ Interest of a controlled corporation	3,822,158,794 (Note 5)	59.04
Titan Oil	Interest of a controlled corporation/ Beneficial owner	3,270,311,631 (Note 6)	50.52
Great Logistics	Beneficial owner	2,860,700,202 (Note 7)	44.19
Saturn Petrochemical Holdings Limited	Beneficial owner	857,795,031	13.25
Warburg Pincus & Co.	Interest of a controlled corporation	857,795,031 (Note 8)	13.25
Warburg Pincus IX, LLC	Interest of a controlled corporation	857,795,031 (Note 8)	13.25
Warburg Pincus Partners LLC	Interest of a controlled corporation	857,795,031 (Note 8)	13.25
Warburg Pincus Private Equity IX, L.P.	Interest of a controlled corporation	857,795,031 (Note 8)	13.25
HSBC Trustee (C.I.) Limited	Trustee	489,119,192	7.55
Titan Shipyard	Beneficial owner	426,796,127 (Note 5)	6.59
Nederlandse Financierings — Maatschappij Voor Ontwikkelingslanden N.V.	Holding shares as security	356,971,112	5.51 (Note 10)
The State of the Netherlands	Interest of a controlled corporation	356,971,112 (Note 9)	5.51 (Note 10)

Short positions:

Name	Capacity	Number of shares and underlying shares	Approximate % of shareholding
Great Logistics	Beneficial owner	2,397,721,010 (Note 7)	37.04
Titan Oil	Beneficial owner/ Interest of a controlled corporation	2,397,721,010 (Note 6)	37.04
Ms. Tsoi Yuk Yi	Interest of spouse	2,397,721,010 (Note 5)	37.04
Titan Shipyard	Beneficial owner/Security interest	975,411,883 (Note 5)	15.07

Note 5: Ms. Tsoi 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 is the spouse of Mr. Tsoi, she is deemed to be interested in the Company's shares held by Great Logistics and Titan Oil. As Titan Shipyard is beneficially and wholly owned by Mr. Tsoi, Ms. Tsoi is deemed to be interested in the shareholding interests of Titan Shipyard in the Company. Ms. Tsoi is also deemed to be interested in the shareholding interests of Vision Jade in the Company as a result of her shareholding in Vision Jade.

Note 6: 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 7: Mr. Tsoi is deemed to be interested in such ordinary shares held by Great Logistics as a result of his shareholding in Titan Oil, the ultimate holding company of Great Logistics. The issued share capital of Great Logistics is beneficially and wholly owned by Titan Oil, which in turn is owned as to 95% by Mr. Tsoi and as to 5% by Ms. Tsoi, the spouse of Mr. Tsoi. Mr. Tsoi is also a director of Titan Oil and Great Logistics.

Note 8: Pursuant to the SFO, as Warburg Pincus & Co., Warburg Pincus Partners LLC, Warburg Pincus IX, LLC and Warburg Pincus Private Equity IX, L.P. has 100% control over Saturn Petrochemical Holdings Limited, Warburg Pincus & Co., Warburg Pincus Partners LLC, Warburg Pincus IX, LLC and Warburg Pincus Private Equity IX, L.P. are deemed to be interested in the shareholding interest of Saturn Petrochemical Holdings Limited in the Company.

Note 9: The State of the Netherlands is interested in such ordinary shares through its shareholding in Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.

Note 10: Nederlandse Financierings — Maatschappij Voor Ontwikkelingslanden N.V. and The State of the Netherlands ceased to have interests in shares of the Company as per substantial shareholder notices filed with the Stock Exchange on 23 April 2009.

Save as disclosed above, at 31 December 2008, no person, other than the directors and the chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had an interest or short positions in the shares or underlying shares of the Company that was required to be recorded in the register required to be kept under Section 336 of the SFO.

Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

The Company is committed to maintaining good corporate governance to effectively oversee/guide operations and to enhance long term shareholder value, with an emphasis on having a quality board, transparency, independence and accountability. A detailed Corporate Governance Report is set out on pages 30 to 36 of the Annual Report.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling approximately HK$1,327,000.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules as the Company's code of conduct regarding director securities transactions. Having made specific enquiries of the directors, all directors confirmed that they have complied with the required standards set out in the Model Code throughout the year.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 46 to the financial statements.

AUDIT COMMITTEE

The Company has established an audit committee for the purposes of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The audit committee comprises three independent non-executive directors. The Group's financial statements for the year ended 31 December 2008 were reviewed by the audit committee, who are satisfied that such statements comply with the applicable accounting standards, the Listing Rules and other reporting requirements, and that adequate disclosures have been made.

AUDITORS

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

ON BEHALF OF THE BOARD

Tsoi Tin Chun
Chairman and Chief Executive

Hong Kong
24 April 2009

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of Titan Petrochemicals Group Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of Titan Petrochemicals Group Limited set out on pages 47 to 139, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated summary statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw attention to matters described in note 2.1 to the financial statements in relation to the Group's capital and other commitments for the new shipyard facilities which require additional financing that has yet to be obtained. This condition indicates the existence of a material uncertainty in relation to the going concern of the Group and the Company at the balance sheet date.

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
24 April 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CONTINUING OPERATIONS			
Revenue	6	**7,812,382**	7,848,490
Cost of sales		**(7,366,700)**	(7,561,481)
Gross profit		**445,682**	287,009
Other revenue	30	**416,337**	82,585
Fee and arrangement charges for consents from the senior notes holders in relation to the issuance of convertible preferred shares		**—**	(23,832)
General and administrative expenses		**(381,556)**	(266,102)
Finance costs	8	**(453,793)**	(432,901)
Share of profits of associates		**9,130**	9,019
Operating profit/(loss) from continuing operations		**35,800**	(344,222)
Gain/(loss) on disposal of vessels, net	14	**(416,618)**	262,423
Restructuring expenses		**(10,150)**	—
LOSS BEFORE TAX	7	**(390,968)**	(81,799)
Tax	11	**2,664**	(12,458)
Loss for the year from continuing operations		**(388,304)**	(94,257)
DISCONTINUED OPERATION			
Profit/(loss) for the year from discontinued operation, oil trading	5(a)	**(1,217,221)**	63,285
LOSS FOR THE YEAR		**(1,605,525)**	(30,972)
Attributable to:			
Equity holders of the parent	12, 34(a)	**(1,600,557)**	(29,104)
Minority interests		**(4,968)**	(1,868)
		(1,605,525)	(30,972)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Continuing operations			
Basic		**(HK5.92 cents)**	(HK1.89 cents)
Diluted		**(HK5.84 cents)**	N/A
Discontinued operation, oil trading			
Basic		**(HK18.80 cents)**	HK1.29 cents
Diluted		**(HK18.55 cents)**	N/A
Total			
Basic		**(HK24.72 cents)**	(HK0.60 cents)
Diluted		**(HK24.39 cents)**	N/A

Consolidated Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**4,287,826**	4,758,740
Prepaid land/seabed lease payments	15	**928,326**	881,296
Licences	16	**37,416**	39,933
Goodwill	17	**1,103,564**	1,018,116
Interests in associates	19	**264,724**	263,746
Deposits for construction in progress		**180,121**	268,215
Other deposits	21	**8,200**	14,166
Total non-current assets		**6,810,177**	7,244,212
CURRENT ASSETS			
Bunker oil		**33,782**	93,724
Inventories		**201,964**	1,124,511
Accounts receivable	22	**224,215**	1,158,427
Prepayments, deposits and other receivables	23	**602,976**	579,583
Contracts in progress	24	**514,992**	205,587
Derivative financial instruments	25	**—**	258,095
Pledged deposits and restricted cash	26	**230,363**	597,184
Cash and cash equivalents	26	**351,404**	1,513,620
		2,159,696	5,530,731
Assets of a disposal group classified as held for sale	5(b)	**29,119**	—
Total current assets		**2,188,815**	5,530,731
CURRENT LIABILITIES			
Interest-bearing bank and other loans	27	**624,539**	1,798,617
Accounts and bills payable	28	**353,869**	913,153
Other payables and accruals	28	**1,089,042**	868,726
Finance lease payables	29	**403**	424
Excess of progress billings over contract costs	24	**8,294**	21,833
Derivative financial instruments	25	**—**	408,527
Tax payable		**16,795**	26,274
		2,092,942	4,037,554
Liabilities of a disposal group classified as held for sale	5(b)	**27,000**	—
Total current liabilities		**2,119,942**	4,037,554
NET CURRENT ASSETS		**68,873**	1,493,177
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,879,050**	8,737,389

Consolidated Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT LIABILITIES			
Fixed rate guaranteed senior notes	30	**(2,621,813)**	(3,135,041)
Convertible preferred shares — liability portion	35	**(573,393)**	(501,622)
Notes payable	36	**(194,571)**	—
Interest-bearing bank and other loans	27	**(1,156,306)**	(1,261,209)
Finance lease payables	29	**(319)**	(722)
Deferred tax liabilities	31	**(157,367)**	(153,586)
Vessel deposit received		**(2,500)**	—
Total non-current liabilities		**(4,706,269)**	(5,052,180)
Net assets		**2,172,781**	3,685,209
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	32	**64,739**	64,737
Equity portion of convertible preferred shares	35	**75,559**	75,559
Reserves	34(a)	**2,596,470**	2,911,589
Reserves of a disposal group classified as held for sale	5(b)	**(1,105,575)**	—
		1,631,193	3,051,885
Contingently redeemable equity in a jointly-controlled entity	35	**517,837**	517,837
Minority interests		**23,751**	115,487
Total equity		**2,172,781**	3,685,209

Patrick Wong Siu Hung

Director

Tsoi Tin Chun

Director

Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Total equity at 1 January		**3,685,209**	2,151,905
Exchange differences on translation of the financial statements of foreign entities	34(a)	**108,204**	54,206
Changes in fair values of cash flow hedges	25, 34(a)	**5,812**	(14,246)
Net income recognised directly in equity		**114,016**	39,960
Loss for the year attributable to:			
Equity holders of the parent	34(a)	**(1,600,557)**	(29,104)
Minority interests		**(4,968)**	(1,868)
		(1,605,525)	(30,972)
Total income and expense for the year		**(1,491,509)**	8,988
Issue of ordinary shares, including share premium	32, 34(a)	**99**	928,864
Issue of convertible preferred shares	35	**—**	75,559
Issuance expenses	34(a)	**—**	(28,871)
Equity-settled share option arrangements	34(a)	**13,475**	3,374
Deferred tax credit to equity during the year	34(a)	**—**	13,195
Earn-out shares reserve	34(a)	**52,275**	—
Movements in minority interests:			
Acquisition of additional interest in a jointly-controlled entity		**(95,944)**	—
Acquisition of a subsidiary	37	**1,559**	—
Increase in contribution from minority shareholders to a subsidiary		**7,617**	14,358
		(86,768)	14,358
Contingently redeemable equity in a joint-controlled entity	35	**—**	517,837
Total equity at 31 December		**2,172,781**	3,685,209

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax from:			
Continuing operations		(390,968)	(81,799)
Discontinued operation, oil trading	5(a)	(1,217,257)	57,321
Adjustments for:			
(Gain)/Loss on disposal of vessels, net		416,618	(262,423)
Gain on repurchases of fixed rate guaranteed senior notes	30	(339,174)	—
Fee and arrangement charges for consents from the senior notes holders in relation to the issuance of convertible preferred shares		—	23,832
Depreciation	7	309,706	309,527
Write-off of/allowance for bad and doubtful debts	7	15,794	13,707
Amortisation of licences	7	2,517	2,595
Amortisation of prepaid land/seabed lease payments	7	3,061	2,110
Loss on disposal of items of property, plant and equipment	7	6,668	3,009
Net change in fair value of derivative instruments not qualifying as hedges	7	—	235,956
Impairment of goodwill	7	223,543	—
Share of profits of associates		(9,130)	(9,019)
Loss on disposal of an associate	19	4,465	—
Impairment of items of property, plant and equipment	7	12,713	—
Interest income	7	(25,718)	(48,777)
Finance costs	8	484,682	482,413
Equity-settled share option expenses	34(a)	13,475	3,374
		(489,005)	731,826
Decrease/(increase) in amounts due from associates		(200)	29,866
Decrease/(increase) in bunker oil		59,942	(852)
Decrease/(increase) in inventories		922,547	(309,732)
Decrease in accounts receivable		908,784	78,518
Increase in prepayments, deposits and other receivables		(8,156)	(50,530)
Increase in derivative financial instruments		(150,432)	—
Increase in contracts in progress		(309,405)	(2,676)
Increase/(decrease) in trust receipt loans		(872,165)	551,311
Increase/(decrease) in accounts and bills payable		(534,773)	519
Increase/(decrease) in other payables and accruals		198,936	(291,913)
Increase/(decrease) in excess of progress billings over contract costs		(13,539)	10,343
Cash generated from/(used in) operations		(287,466)	746,680
Interest received		14,614	40,050
Interest paid		(376,460)	(486,654)
Overseas profits tax paid		(2,920)	(13,545)
Net cash inflow/(outflow) from operating activities		(652,232)	286,531

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease/(increase) in a deposit held in a collateral account		**14,166**	(4,416)
Increase in time deposits with original maturity of more than three months		**(66,298)**	(32,836)
Additions to property, plant and equipment		**(1,006,198)**	(454,248)
Prepaid land/seabed lease additions		**(30,771)**	—
Deposits paid for acquisition of vessels		**(5,700)**	—
Deposits paid for construction in progress		**(173,409)**	(268,215)
Interest capitalised	8	**(48,387)**	(25,985)
Proceeds from disposals of property, plant and equipment		**5,875**	416
Net proceeds from disposals of vessels		**1,160,473**	1,137,037
Increase in contribution from minority shareholders to a subsidiary		**7,617**	14,358
Acquisition of a minority interest of a jointly-controlled entity		**(348,348)**	—
Capital contributions to associates		**—**	(35,100)
Acquisition of an associate		**—**	(6,108)
Dividend received from an associate		**3,412**	—
Disposal of an associate		**7,800**	—
Acquisition of subsidiaries	37	**(10,548)**	(435,288)
Net cash outflow from investing activities		**(490,316)**	(110,385)
CASH FLOWS FROM FINANCING ACTIVITIES			
Inception of new bank and other loans		**844,143**	1,311,288
Repayment of bank and other loans		**(1,250,959)**	(869,785)
Issue of notes payables		**194,571**	—
Repurchase of fixed rate guaranteed senior notes		**(163,395)**	—
Settlement for unwinding interest rate swap		**(15,011)**	—
Proceeds from issue of ordinary shares	32, 34(a)	**99**	290,683
Proceeds from issue of Titan Preferred Shares		**—**	287,702
Proceeds from issue of TGIL Preferred Shares		**—**	774,224
Fee and arrangement charges for the consents from the senior notes holders in relation to the issuance of convertible preferred shares		**—**	(23,832)
Share issue expenses		**—**	(28,871)
Capital element of finance lease rental payments		**(424)**	(137,211)
Increase in restricted cash	26	**(52,197)**	—
Net cash inflow/(outflow) from financing activities		**(443,173)**	1,604,198
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(1,585,721)**	1,780,344
Cash and cash equivalents at beginning of year		**2,077,968**	373,192
Effect of foreign exchange rate changes, net		**(49,518)**	(75,568)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**442,729**	2,077,968
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	**349,943**	694,224
Non-pledged time deposits with original maturity of less than three months when acquired	26	**1,461**	819,396
Bank balances pledged as security for bank facilities	26	**60,319**	3,934
Time deposits with original maturity of less than three months when acquired, pledged as security for bank facilities	26	**18,713**	560,414
Cash and bank balances attributable to discontinued operation	5(b)	**12,293**	—
		442,729	2,077,968

Balance Sheet

31 December 2008

	Notes	**2008 HK$'000**	2007 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	**6,388,489**	5,535,041
Other deposits	21	**—**	14,166
Total non-current assets		**6,388,489**	5,549,207
CURRENT ASSETS			
Due from subsidiaries	18	**—**	312,000
Prepayments, deposits and other receivables		**59,115**	1,542
Cash and cash equivalents	26	**46,662**	298,858
Total current assets		**105,777**	612,400
CURRENT LIABILITIES			
Other payables and accruals		**6,614**	25,879
Financial instruments	25	**8,549**	—
Derivative financial instruments	25	**—**	5,812
Total current liabilities		**15,163**	31,691
NET CURRENT ASSETS		**90,614**	580,709
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,479,103**	6,129,916
NON-CURRENT LIABILITIES			
Fixed rate guaranteed senior notes	30	**(2,621,813)**	(3,135,041)
Convertible preferred shares — liability portion	35	**(257,384)**	(226,879)
Due to subsidiaries	18	**(1,392,280)**	(636,598)
Total non-current liabilities		**(4,271,477)**	(3,998,518)
Net assets		**2,207,626**	2,131,398
EQUITY			
Issued capital	32	**64,739**	64,737
Equity portion of convertible preferred shares	35	**75,559**	75,559
Reserves	34(b)	**2,067,328**	1,991,102
Total equity		**2,207,626**	2,131,398

Patrick Wong Siu Hung
Director

Tsoi Tin Chun
Director

Notes to Financial Statements

31 December 2008

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 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 and provision of bunker refueling services;

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

(iii) shipbuilding and commencement of building of ship repair facilities.

The Group discontinued its oil trading operation during the year as reported in an announcement on 25 June 2008 and as detailed in Note 5.

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 ultimate holding company of the Group is Titan Oil Pte Ltd ("Titan Oil"), which was incorporated in Singapore.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), (which include all Hong Kong Financial Reporting Standards, 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 derivative financial instruments, which have been measured at fair values. The disposal group held for sale, representing the oil trading operations, is stated at the lower of its carrying amount and fair value less costs to sell as further explained in note 2.4. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

During the year ended 31 December 2008, the Group incurred a loss attributable to equity holders of the parent in the amount of HK$1,600,557,000 and at the balance sheet date had net current assets of HK$68,873,000 (2007: HK$1,493,177,000) and a total net asset value of HK$2,172,781,000 (2007: HK$3,685,209,000). In addition, the Group has HK$1,646,676,000 capital and other commitments solely for further development of the new shipyard facilities to be built in several stages which require additional financing that has yet to be obtained. These conditions raise uncertainty about the Group's ability to continue as a going concern. In order to improve the Group's financial position, liquidity and cash flows and to sustain the Group as a going concern, the directors of the Company have taken and/or are in the process of taking measures which include, but are not limited to, the following:

1) Restructured and discontinued the oil trading operation in Singapore which incurred a loss of HK$1,217,221,000 during the year.

2) Continuing to diversify from its single hulled vessels and maintain a strategy to optimise usage of the remaining vessels by the flexible deployment between the offshore storage and transportation operations.

2.1 BASIS OF PREPARATION (continued)

3) Taken measures to reduce financing costs through the repurchases of its 8.5% Senior Notes (Refer to note 46).

4) Taken various cost control measures to reduce the costs of operations and various general and administrative expenses.

5) Continuing to utilise existing and seek new non-recourse project financing and capital financing arrangements to finance the development of the Group's China projects. Subsequent to the balance sheet date, the Group is in the final stages of concluding a RMB650 million bank facility and is also in the advance stages of discussions with various financial institutions to obtain other financing for the development of the shipyard.

The directors of the Company consider that the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due and, accordingly, are satisfied that it is appropriate to prepare the financial statements on a going concern basis. The consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2008. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Acquisitions of subsidiaries are accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations 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. An acquisition of minority interests is 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 interpretations and amendments to HKFRSs for the first time for the current year's financial statements. Except for certain cases which give rise to new and revised accounting policies, the adoption of these new interpretations and amendments has had no significant effect on these financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures — Reclassification of Financial Assets*
HK(IFRIC)-Int 11	HKFRS 2 — *Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	HKAS 19 — *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Notes to Financial Statements

31 December 2008

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

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures — Reclassification of Financial Assets*

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held to maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) HK(IFRIC)-Int 11 HKFRS 2 — *Group and Treasury Share Transactions*

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. The interpretation has had no material impact on the financial position or results of operations of the Group.

(c) HK(IFRIC)-Int 12 *Service Concession Arrangements*

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for the obligations undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) HK(IFRIC)-Int 14 HKAS 19 — *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect 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.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
HKFRS 1 (Revised)	First-time Adoption of HKFRS[2]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*[1]
HKFRS 3 (Revised)	*Business Combinations*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments Disclosures — Improving Disclosures about Financial Instruments*[1]
HKFRS 8	*Operating Segments*[1]
HKAS 1 (Revised)	*Presentation of Financial Statements*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation*[1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[2]
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK (IFRIC) — Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments : Recognition and Measurement — Embedded Derivatives*[3]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[4]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*[1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*[5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*[2]
HK(IFRIC)-Int 18	*Transfers of Assets from Customers*[6]

Apart from the above, the HKICPA has also issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarify wording. Except for the amendment to HKFRS 5 which is effective for the annual periods beginning on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods ending on or after 30 June 2009
4 Effective for annual periods beginning on or after 1 July 2008
5 Effective for annual periods beginning on or after 1 October 2008
6 Effective for transfers of assets from customers received on or after 1 July 2009
* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

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 HKFRS 7, HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised), HKAS 27 (Revised) and HKAS 23 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

Notes to Financial Statements

31 December 2008

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 interests.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture 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 venturer parties, 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 the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

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

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in its 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. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interest in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the assets transferred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, 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 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. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. 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 combinations over the Group's interests in the net fair values of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisition 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. The Group performs its annual impairment test of goodwill as at 31 December. 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.

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

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.

Notes to Financial Statements

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is 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 an 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, but 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 an impairment loss is credited to the consolidated income statement in the period in which it arises.

Related parties

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

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

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

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

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

(f) 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 (d) or (e); or

(g) 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 HKFRSs, as further explained in the accounting policy for "Assets and liabilities of a disposal group 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 estimated useful lives used for this purpose are as follows:

Buildings	20 to 35 years
Leasehold improvements	The shorter of the lease terms and 6 years
Vessels	The shorter of the remaining age and 30 years
Oil storage facilities	20 to 50 years
Machinery	5 to 20 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 least at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the 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 shipyard, ship repairs, 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.

Assets and liabilities of a disposal group held for sale

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets and liabilities of a disposal group held for sale (continued)

Assets and liabilities of a disposal group 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 lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated income statement on the straight-line basis over the lease terms. 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 or valuation and subsequently amortised on the straight-line basis over the remaining lease terms.

Financial assets

Financial assets under the scope of HKAS 39 are classified as financial assets at fair value through profit or loss and 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 assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivatives is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives is not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the 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 regular way 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. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within periods generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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. Derivatives, 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. The net fair value gains or losses recognised in the consolidated income statement do not include any dividends or interest received on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

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 less any allowance for impairment. 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. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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 by adjusting the allowance account. 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

In relation to accounts and other 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 and significant changes in the technological, market, economic or legal environment that have an adverse effect on 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.

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

Financial liabilities including accounts and other payables, interest-bearing loans and other loans, notes payable and convertible preferred shares — liability portion 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. The related interest expense is recognised within "Finance costs" in the consolidated income statement.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial guarantee contracts

Financial guarantee contracts within the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less 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 of the best estimate of the expenditure required to settle the present obligation at the balance sheet date; 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

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 fair value of forward purchase and sale contracts and interest rate swap contracts are calculated by reference to current market values.

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.

Notes to Financial Statements

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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 values 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 a 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.

Convertible preferred shares

The component of convertible preferred shares that exhibits characteristics of a liability is recognised as a liability in the consolidated balance sheet, net of transaction costs. On issuance of the convertible preferred shares, the fair value of the liability portion is determined by using the current market interest rate to discount future expected cash flows, and this amount is classified as a non-current financial liability on the amortised cost until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the equity portion of the convertible preferred shares recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. The transaction costs are apportioned between the liability and equity portions of the convertible preferred shares based on the allocation of proceeds to the liability and equity portions when the instruments are first recognised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Notes payable

If the conversion options of notes exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the notes is measured at fair value and presented as part of notes payable. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component.

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, representing 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.

Inventories, representing supplies for ship building that are measured at the lower of cost and net realisable value.

Contracts in progress/excess of progress billings over contract costs

Voyage chartering and shipbuilding are accounted for in the consolidated balance sheet as all direct costs incurred plus recognised profits, less recognised losses and progress billings. Voyage chartering revenue and shipbuilding revenue comprise the invoiced amount while the direct costs incurred comprise bunker oil consumed and other overheads for voyage chartering, direct material costs and other overheads for shipbuilding.

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.

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 that are readily convertible into known amounts of cash, 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.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs discounted to their present values as appropriate.

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 amounts 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, associates and interests in joint ventures, 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 that 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, associates and interests in joint ventures, 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;

  (iii) from the lease of storage facilities, on the straight-line basis over the lease terms;

(c) from shipbuilding, on a percentage of completion basis, which is determined on the completion proportion method of each individual shipbuilding contract, as further explained in the accounting policy for "Contracts in progress/excess of progress billings over contract costs" above;

(d) 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; and

(e) dividend income, when the shareholders' right to receive payment has been established.

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").

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

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 33 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.

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 additional share dilution in the computation of earnings/(loss) 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.

Other employee benefits

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

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.

The employees of subsidiaries in Singapore are members of the Central Provident Fund (the "CPF") operated by the government of Singapore. These subsidiaries and the employees are required to contribute a certain percentage of their 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 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 separate 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates 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, jointly-controlled entities 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 and jointly-controlled entities 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 and jointly-controlled entities 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

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Depreciation of vessels (continued)

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

Impairment of assets (other than goodwill)

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgements 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 rate assumptions in the cash flow projections, could materially affect the net present values used in impairment tests.

Income tax

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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 judgements 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 tax losses carried forward, 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.

Impairment of goodwill

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

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Definite life non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of loans and receivables

The Group assesses at each balance sheet date whether there is any objective evidence that a loan/receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors including, inter alia, the probability of insolvency or significant financial difficulties of the debtors and default or significant delay in payments.

The Group maintains an allowance for the estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance.

Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of assets of similar nature and functions. It could change significantly as a result of technical innovation and competitor actions in response to severe industry cycles. Useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The Group will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

Net realisable value of inventories

Net realisable value of inventories is based on estimated selling prices less any estimated costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of changes in market conditions. The Group will reassess the estimations at each balance sheet date.

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. The Group has discontinued its oil trading operation in Singapore per the announcement on 25 June 2008 as detailed in Note 5. Summary details of the business segments included in continuing operations are as follows:

(i) supply of oil products and provision of bunker refueling services;

4. SEGMENT INFORMATION (continued)

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

(iii) shipbuilding.

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/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

	Supply of oil products and provision of bunker refueling services		Provision of logistic services: Oil transportation		Provision of logistic services: Oil storage: Off shore		Provision of logistic services: Oil storage: On shore		Shipbuilding		Continuing operations		Discontinued operation, oil trading		Eliminations		Consolidated	
	2008	2007*	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007*	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	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	5,464,388	6,286,292	1,233,882	1,236,516	483,603	196,659	56,186	15,006	574,323	114,017	7,812,382	7,848,490	3,280,562	9,155,828	—	—	11,092,944	17,004,318
Intersegment revenue	491,516	452,896	28,837	—	109,903	395,018	14,584	32,719	197,689	—	842,529	880,633	1,606,105	3,269,723	(2,448,634)	(4,150,356)	—	—
Total	5,955,904	6,739,188	1,262,719	1,236,516	593,506	591,677	70,770	47,725	772,012	114,017	8,654,911	8,729,123	4,886,667	12,425,551	(2,448,634)	(4,150,356)	11,092,944	17,004,318
Segment results	(19,883)	(41,109)	72,097	127,829	163,092	108,897	(1,791)	(3,193)	61,175	15,710	274,690	208,134	(1,190,139)	95,312	—	—	(915,449)	303,446
Adjust for: Unallocated items:																		
— Interest income and other revenue											379,962	128,340	3,771	11,521			383,733	139,861
— Other expenses											(174,189)	(256,814)	—	—			(174,189)	(256,814)
Share of profit of associates	6,819	6,782	—	—	—	—	2,311	2,237	—	—	9,130	9,019	—	—			9,130	9,019
											489,593	88,679	(1,186,368)	106,833			(696,775)	195,512
Add: Depreciation & amortisation:																		
— Attributable to segments	1,856	29,553	112,365	157,507	130,248	99,489	35,280	14,839	20,426	2,765	300,175	304,153	240	127			300,415	304,280
— Unallocated											14,869	9,952	—	—			14,869	9,952
Operating EBITDA/(LBITDA)	(11,208)	(4,774)	184,462	285,336	293,340	208,386	35,800	13,883	81,601	18,475	804,637	402,784	(1,186,128)	106,960			(381,491)	509,744
— Gain/(loss) on disposal of vessels, net											(416,618)	262,423	—	—			(416,618)	262,423
— Restructuring expenses											(10,150)	—	—	—			(10,150)	—
EBITDA/(LBITDA)											377,869	665,207	(1,186,128)	106,960			(808,259)	772,167
Depreciation & amortisation											(315,044)	(314,105)	(240)	(127)			(315,284)	(314,232)
Finance costs											(453,793)	(432,901)	(30,889)	(49,512)			(484,682)	(482,413)
Profit/(loss) before tax											(390,968)	(81,799)	(1,217,257)	57,321			(1,608,225)	(24,478)
Tax											2,664	(12,458)	36	5,964			2,700	(6,494)
Profit/(loss) after tax											(388,304)	(94,257)	(1,217,221)	63,285			(1,605,525)	(30,972)

* The comparatives are re-presented to separate the discontinued operation, oil trading. Explanations are detailed in Note 5.

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4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Supply of oil products and provision of bunker refueling services		Provision of logistic services: Oil transportation		Oil storage: Off shore		Oil storage: On shore		Shipbuilding		Continuing operations		Discontinued operation, oil trading		Consolidated	
	2008	2007*	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007*	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities																
Segments assets	137,522	2,995,576	703,374	1,915,467	827,685	1,461,157	2,724,460	1,938,275	3,575,703	2,160,619	7,968,744	10,471,094	29,119	—	7,997,863	10,471,094
Interests in associates	3,742	45,459	—	—	—	—	260,982	218,287	—	—	264,724	263,746	—	—	264,724	263,746
Unallocated assets											736,405	2,040,103	—	—	736,405	2,040,103
Total assets											8,969,873	12,774,943	29,119	—	8,998,992	12,774,943
Segments liabilities	83,603	1,370,539	88,060	26,270	53,054	17,790	245,323	85,951	784,022	464,946	1,254,062	1,965,496	27,000	—	1,281,062	1,965,496
Unallocated liabilities											5,545,149	7,124,238	—	—	5,545,149	7,124,238
Total liabilities											6,799,211	9,089,734	27,000	—	6,826,211	9,089,734
Other segment information																
Depreciation and amortisation	1,856	29,553	112,365	157,507	130,248	99,489	35,280	14,839	20,426	2,765	300,175	304,153	240	127	300,415	304,280
Unallocated depreciation and amortisation											14,869	9,952	—	—	14,869	9,952
											315,044	314,105	240	127	315,284	314,232
Capital expenditure	11,652	651	81,324	16,300	38,534	106,151	554,892	245,420	643,765	1,005,838	1,330,167	1,374,360	—	1,068	1,330,167	1,375,428
Unallocated capital expenditure											33,757	22,842	—	—	33,757	22,842
											1,363,924	1,397,202	—	1,068	1,363,924	1,398,270
Write-off of/allowance for bad and doubtful debts	1,454	4,278	2,436	9,312	—	493	—	—	—	—	3,890	14,083	2,685	(918)	6,575	13,165
Unallocated write-off of/ allowance for bad and doubtful debts											9,219	542	—	—	9,219	542
											13,109	14,625	2,685	(918)	15,794	13,707

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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 2008 and 2007.

	China		Other Asia Pacific Countries		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue						
Revenue from external customers	**2,366,373**	895,371	**8,726,571**	16,108,947	**11,092,944**	17,004,318
Attributable to the discontinued operation, oil trading	**—**	—	**(3,280,562)**	(9,155,828)	**(3,280,562)**	(9,155,828)
Revenue from continuing operations	**2,366,373**	895,371	**5,446,009**	6,953,119	**7,812,382**	7,848,490
Other segment information						
Segment assets	**6,856,732**	5,640,963	**808,277**	5,655,722	**7,665,009**	11,296,685
Unallocated assets					**1,333,983**	1,478,258
					8,998,992	12,774,943
Capital expenditure	**1,223,947**	1,254,553	**10,066**	127,417	**1,234,013**	1,381,970
Unallocated capital expenditure					**129,911**	16,300
					1,363,924	1,398,270
Write-off of/allowance for bad and doubtful debts	**9,231**	—	**6,563**	13,707	**15,794**	13,707

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5. DISCONTINUED OPERATION, OIL TRADING

On 25 June 2008, the Board of Directors resolved that the Group be restructured to focus more on its storage and shipyard operations, and discontinued its oil trading operation. As such, the Group has adopted Hong Kong Financial Reporting Standard No. 5 — Non-current Assets Held for Sale and Discontinued Operations.

As at 31 December 2008, the assets and liabilities related to the discontinued operation, oil trading, have been presented in the consolidated balance sheet as "Assets of a disposal group classified as held for sale" and "Liabilities of a disposal group classified as held for sale". The 2007 comparatives in the consolidated balance sheet have not been adjusted as the decision to dispose of the discontinued operation, oil trading, was made in the current financial year.

For the financial year ended 31 December 2008, the results are presented separately on the consolidated income statement as "Profit/(loss) for the year from discontinued operation, oil trading" and the comparatives in the 2007 consolidated income statement have been adjusted accordingly.

(a) Income statement disclosures

	Notes	**2008** **HK$'000**	2007 HK$'000
Revenue		**3,280,562**	9,155,828
Cost of sales		**(4,210,607)**	(8,986,232)
Gross profit/(loss)		**(930,045)**	169,596
Other revenue		**22,478**	21,287
General and administrative expenses*		**(278,801)**	(84,050)
Finance costs	8	**(30,889)**	(49,512)
Profit/(loss) before tax		**(1,217,257)**	57,321
Tax	11	**36**	5,964
Profit/(loss) for the year from discontinued operation, oil trading		**(1,217,221)**	63,285

* An impairment of goodwill arising from the discontinued operation, oil trading, of HK$217,640,000 (2007: Nil) (note 17) is included in general and administrative expenses.

5. DISCONTINUED OPERATION, OIL TRADING (continued)

(b) Balance sheet disclosures

	Notes	2008 HK$'000	2007 HK$'000
Assets of a disposal group classified as held for sale:			
Property, plant and equipment	14	**14**	—
Accounts receivable		**9,634**	—
Prepayments, deposits and other receivables		**7,178**	—
Cash and bank balances		**12,293**	—
		29,119	—
Liabilities of a disposal group classified as held for sale:			
Accounts and bills payable		**24,511**	—
Other payables and accruals		**2,413**	—
Deferred tax liabilities	31	**76**	—
		27,000	—
Net assets of a disposal group classified as held for sale		**2,119**	—
Reserves of a disposal group classified as held for sale			
Accumulated losses		**1,105,575**	—

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5. DISCONTINUED OPERATION, OIL TRADING (continued)

(c) Cash flow statement disclosures

	2008 HK$'000	2007 HK$'000
Net cash inflow/(outflow) from:		
Operating activities	**(304,257)**	86,861
Investing activities	**—**	(1,069)
Net increase/(decrease) in cash and cash equivalents	**(304,257)**	85,792
Cash and cash equivalents at beginning of year	**316,550**	230,758
Cash and cash equivalents at end of year	**12,293**	316,550

The following information is provided on the financial assets and financial liabilities of the discontinued operation as at the balance sheet date:

The aged analysis of the discontinued operation's accounts receivable based on the invoice date is provided in note 22 to the financial statements.

The maturity profile of the discontinued operation's financial liabilities as at the balance sheet date, based on contractual undiscounted payments, was as follows:

	Within one year HK$'000	Over one year HK$'000	Total HK$'000
Accounts payables	10,303	14,208	24,511
Other payables	2,413	—	2,413
	12,716	14,208	26,924

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6. 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, gross income from oil storage services and gross income from shipbuilding. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

	2008	2007
	HK$'000	HK$'000
Supply of oil products and provision of bunker refueling services	**5,464,388**	6,286,292
Provision of oil transportation services	**1,233,882**	1,236,516
Provision of oil storage services	**539,789**	211,665
Shipbuilding	**574,323**	114,017
Attributable to continuing operations	**7,812,382**	7,848,490
Attributable to discontinued operation, oil trading	**3,280,562**	9,155,828
	11,092,944	17,004,318

Notes to Financial Statements

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7. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting) the amounts as set out below. The disclosures presented in this note include those amounts charged/(credited) in respect of the discontinued operation.

	Notes	Group 2008 HK$'000	Group 2007 HK$'000
Cost of inventories sold		**9,431,165**	15,360,017
Cost of services rendered		**2,146,142**	1,187,696
Depreciation*	14	**309,706**	309,527
Amortisation of prepaid land/seabed lease payments	15	**3,061**	2,110
Amortisation of licences*	16	**2,517**	2,595
Minimum lease payments under operating leases:			
Vessels		**480,041**	403,957
Leasehold buildings		**17,104**	10,964
Employee benefit expenses			
(excluding directors' remuneration — note 9):			
Wages and salaries		**268,610**	270,282
Equity-settled share option expenses		**12,676**	2,688
Pension scheme contributions		**7,711**	6,782
		288,997	279,752
Auditors' remuneration		**5,214**	5,283
Loss on disposal of items of property, plant and equipment		**6,668**	3,009
Net change in fair value of derivative instruments not qualifying as hedges*		**—**	235,956
Foreign exchange differences, net		**(4,156)**	8,076
Write-off of/allowance for bad and doubtful debts	22	**15,794**	13,707
Bank interest income		**(25,718)**	(48,777)
Impairment of items of property, plant and equipment**	14	**12,713**	—
Impairment of goodwill**	17	**223,543**	—
Loss on disposal of associates		**4,465**	—

* These items are included in "Cost of sales" in the consolidated income statement. In the case of depreciation of vessels of HK$236,620,000 (2007: HK$289,052,000) is included in "Cost of sales". The disclosures presented in this note include those amounts charged/(credited) in respect of the discontinued operation.

** These items are included in "General and administrative expenses" in the consolidated income statement.

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8. FINANCE COSTS

	Group 2008 HK$'000	2007 HK$'000
Interest on:		
Bank loans wholly repayable within five years	**81,740**	84,166
Bank loans not wholly repayable within five years	**77,015**	59,301
Other loan	**1,009**	—
Trust receipt loans, secured	**28,941**	42,768
Finance lease payables	**58**	8,223
Fixed rate guaranteed senior notes	**263,383**	275,934
Notes payable	**2,637**	—
Dividends on convertible preferred shares		
Titan preferred shares (note 35)	**30,505**	14,736
Titan Group Investment Limited ("TGIL") preferred shares (note 35)	**41,266**	18,356
Other borrowing costs	**6,515**	4,914
Total interest expenses	**533,069**	508,398
Less: Interest capitalised	**(48,387)**	(25,985)
	484,682	482,413
Attributable to continuing operations	**453,793**	432,901
Attributable to discontinued operation, oil trading (note 5(a))	**30,889**	49,512
	484,682	482,413

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to 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 2008 HK$'000	2007 HK$'000
Fees	**993**	1,358
Other emoluments:		
Salaries, allowances and benefits in kind	**8,567**	4,200
Equity-settled share option expenses	**799**	687
Pension scheme contributions	**86**	12
	10,445	6,257

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9. DIRECTORS' REMUNERATION (continued)

During the prior year, two directors were granted share options in respect of their service to the Group under the share option scheme of the Company, further details of which are set out in note 33 to the financial statements. The fair value of such options, which has been recognised in the consolidated income statement over the vesting period, was determined as at the date of grant.

(a) Independent non-executive directors

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

	2008 HK$'000	2007 HK$'000
Mr. Abraham Shek Lai Him	230	331
Mr. John William Crawford	340	365
Ms. Maria Tam Wai Chu	240	340
Mr. Wong Kong Hon	—	115
	810	1,151

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

(b) Executive directors and non-executive directors

2008	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	—	—	—	—	—
Mr. Patrick Wong Siu Hung	—	3,590	799	44	4,433
Mr. Philip Chu Yan Jy	—	4,977	—	42	5,019
Mr. Tsoi Tin Chun	—	—	—	—	—
	—	8,567	799	86	9,452
Non-executive director					
Mr. Ib Fruergaard	183	—	—	—	183
	183	8,567	799	86	9,635

9. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors (continued)

2007	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	—	3,212	607	12	3,831
Mr. Ib Fruergaard	—	988	80	—	1,068
Mr. Tsoi Tin Chun	—	—	—	—	—
	—	4,200	687	12	4,899
Non-executive directors					
Mr. Cheong Soo Kiong	100	—	—	—	100
Mr. Ib Fruergaard	107	—	—	—	107
	207	4,200	687	12	5,106

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

The above executive directors' remuneration are in line with the compensation of key management personnel of the Group.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2007: one director), details of whose remuneration are disclosed in note 9 above. Details of the remuneration of the remaining three (2007: four) non-director, highest paid employees for the year are as follows:

	Group	
	2008 HK$'000	2007 HK$'000
Salaries, allowances and benefits in kind	**18,898**	28,076
Equity-settled share option expenses	**115**	806
Pension scheme contributions	**114**	202
	19,127	29,084

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10. FIVE HIGHEST PAID EMPLOYEES (continued)

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

	Number of employees	
	2008	2007
HK$3,000,001 to HK$4,000,000	**2**	1
HK$4,000,001 to HK$5,000,000	**—**	1
HK$5,000,001 to HK$6,000,000	**—**	1
HK$12,000,001 to HK$13,000,000	**1**	—
HK$16,000,001 to HK$17,000,000	**—**	1
	3	4

11. TAX

Taxes on profits have been calculated at the rates of tax prevailing in the jurisdictions where the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The prevailing tax rates in the jurisdictions where the subsidiaries are domiciled are as follows:

	2008	2007
Hong Kong	**16.5%**	17.5%
Singapore	**18.0%**	18.0%
Mainland China	**25.0%**	25.0%

Hong Kong

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits in Hong Kong during the year.

Singapore

With the Global Trader Program ("GTP") incentive awarded by the Inland Revenue Authority of Singapore, certain qualified income generated during the year from the oil trading business of the Group has been charged at a tax concessionary rate of 5% (2007: 10%).

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.

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11. TAX (continued)

Mainland China

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("PRC") which took effect on 1 January 2008. The PRC income tax rate thereby become unified to 25% for all enterprises. The State Council of the PRC passed an implementation guidance note ("Implementation Guidance") on 26 December 2007 which sets out details of how existing preferential income tax rates will be adjusted to the standard rate of 25%. According to the Implementation Guidance, certain subsidiaries of the Group in Mainland China which have not fully utilised their five-year tax holidays will be allowed to continue to enjoy full entitlement to reductions in income tax rates until expiry of the tax holidays, after which, the 25% standard rate will apply.

	Group	
	2008	2007
	HK$'000	HK$'000
Elsewhere		
Current — charge/(credit) for the year	**(2,309)**	11,832
Overprovision in prior years	**(4,248)**	(978)
Deferred taxation (note 31)	**3,857**	(4,360)
Total tax charge/(credit) for the year	**(2,700)**	6,494

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11. TAX (continued)

A reconciliation of the tax expense applicable to the loss 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	
	2008	2007
	HK$'000	HK$'000
Loss before tax	**(1,608,225)**	(24,478)
Tax at the applicable rates to loss in the countries concerned	**(265,357)**	(4,284)
Lower tax rates for specific provinces or local authority	**(24,008)**	(367)
Adjustments in respect of current tax of previous periods	**(4,248)**	(978)
Effect on opening deferred tax of decrease in tax rates	**(6)**	—
Income not subject to tax	**(1,902,540)**	(564,622)
Expenses not deductible for tax	**2,193,459**	576,745
Tax charge/(credit) at the Group's effective rate	**(2,700)**	6,494
Represented by:		
Tax charge/(credit) attributable to continuing operations	**(2,664)**	12,458
Tax credit attributable to discontinued operation, oil trading (note 5(a))	**(36)**	(5,964)
	(2,700)	6,494

The share of tax attributable to associates amounting to HK$2,948,000 (2007:HK$1,954,000) is included in "Share of profits of associates" on the face of the consolidated income statement.

12. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated loss attributable to equity holders of the parent for the year ended 31 December 2008 includes a profit of HK$4,567,000 (2007: loss of HK$14,727,000) which has been dealt with in the financial statements of the Company (note 34(b)).

13. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic loss per share is based on the total consolidated loss for the year attributable to ordinary equity holders of the parent of approximately HK$1,600,557,000 (2007: HK$29,104,000) represented by continuing operations loss of approximately HK$383,336,000 (2007: HK$92,389,000) and discontinued operation loss of approximately HK$1,217,221,000 (2007: profit of HK$63,285,000), and the weighted average of 6,473,829,476 (2007: 4,887,579,599) ordinary shares in issue during the year.

In the current year, the calculation of diluted loss per share is based on the total consolidated loss for the year attributable to ordinary equity holders of the parent of approximately HK$1,600,557,000, represented by continuing operations loss of approximately HK$383,336,000 and discontinued operation loss of approximately HK$1,217,221,000. The number of ordinary shares used in the calculation is the weighted average of 6,473,829,476 ordinary shares in issue during the year, as used in the basic loss per share calculation, plus the weighted average of 88,601,711 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares, which represented earn-out shares, into ordinary shares.

A diluted loss per share amount for the year ended 31 December 2007 was not disclosed, as the share options and the convertible preferred shares outstanding during that year had an anti-dilutive effect on the basic loss per share.

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14. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2008	Buildings HK$'000	Machinery HK$'000	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
At 31 December 2007 and at 1 January 2008								
Cost	122,292	153,181	16,084	3,657,758	652,430	116,698	752,260	5,470,703
Accumulated depreciation	(3,966)	(2,719)	(5,849)	(656,740)	(20,401)	(22,288)	—	(711,963)
Net carrying amount	118,326	150,462	10,235	3,001,018	632,029	94,410	752,260	4,758,740
At 1 January 2008, net of accumulated depreciation	118,326	150,462	10,235	3,001,018	632,029	94,410	752,260	4,758,740
Additions	122	76,547	946	102,977	180	48,449	1,102,531	1,331,752
Disposals	—	(2,329)	(1,000)	(1,550,397)	—	(35,220)	(687)	(1,589,633)
Acquisition of subsidiary (note 37)	—	—	465	—	—	936	—	1,401
Depreciation provided during the year	(8,368)	(14,531)	(3,085)	(234,278)	(22,613)	(26,831)	—	(309,706)
Transfers	213,663	4,541	—	—	—	45,314	(263,518)	—
Impairment	—	—	—	(12,713)	—	—	—	(12,713)
Reclassified as held for sale (discontinued operation) (note 5(b))	—	—	—	—	—	(14)	—	(14)
Exchange realignment	16,859	10,761	405	—	45,700	3,170	31,104	107,999
At 31 December 2008, net of accumulated depreciation	340,602	225,451	7,966	1,306,607	655,296	130,214	1,621,690	4,287,826
At 31 December 2008								
Cost	353,336	245,561	16,883	1,878,797	700,092	185,049	1,621,690	5,001,408
Accumulated depreciation	(12,734)	(20,110)	(8,917)	(572,190)	(44,796)	(54,835)	—	(713,582)
Net carrying amount	340,602	225,451	7,966	1,306,607	655,296	130,214	1,621,690	4,287,826

31 December 2007	Buildings HK$'000	Machinery HK$'000	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
At 31 December 2006 and at 1 January 2007								
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
At 1 January 2007, net of accumulated depreciation	—	—	12,665	4,036,714	159,145	58,509	730,677	4,997,710
Additions	—	91,593	6,283	115,898	8,843	38,028	193,603	454,248
Disposals	—	—	(6,350)	(885,450)	—	(878)	—	(892,678)
Acquisition of subsidiaries (note 37)	—	56,843	—	—	—	10,144	344,843	411,830
Depreciation provided during the year	(3,844)	(2,540)	(2,789)	(267,458)	(19,714)	(13,182)	—	(309,527)
Transfers	114,958	—	—	—	455,618	—	(570,576)	—
Exchange realignment	7,212	4,566	426	1,314	28,137	1,789	53,713	97,157
At 31 December 2007, net of accumulated depreciation	118,326	150,462	10,235	3,001,018	632,029	94,410	752,260	4,758,740
At 31 December 2007								
Cost	122,292	153,181	16,084	3,657,758	652,430	116,698	752,260	5,470,703
Accumulated depreciation	(3,966)	(2,719)	(5,849)	(656,740)	(20,401)	(22,288)	—	(711,963)
Net carrying amount	118,326	150,462	10,235	3,001,018	632,029	94,410	752,260	4,758,740

* On 15 April 2008, 1 August 2008, 13 August 2008 and 28 November 2008, the Group entered into separate agreements with independent third parties to dispose of 6 vessels for a total consideration of US$166,000,000 (equivalent to approximately HK$1,294,800,000). Upon completion of these transactions, the Group recorded a total loss on disposal of HK$416,618,000.

These disposals constituted discloseable transactions under the Listing Rules, and, therefore, further details are set out in Company circulars dated 6 May 2008, 26 August 2008, 2 September 2008 and 19 December 2008 respectively.

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

During the year, the residual values of the Group's vessels were reassessed with reference to a valuation by Ritchie & Bitsset (Far East) Pte. Ltd, independent professionally qualified valuers, and the depreciation charges on vessels for the year ended 31 December 2008 have been calculated taking into consideration the revised estimated residual values. This represented a change in accounting estimate and the depreciation charge for the year has been reduced by HK$2,835,000 (2007: HK$104,346,000) accordingly. The yearly effect of the depreciation charge on future periods is HK$2,835,000.

At 31 December 2008, the Group's vessels, oil storage facilities and construction in progress with carrying values of approximately HK$927,944,000 (2007: HK$1,625,759,000), HK$538,643,000 (2007: HK$489,509,000) and HK$145,294,000 (2007: HK$151,078,000), respectively, were pledged to secure certain banking facilities granted to the Group (note 27).

15. PREPAID LAND/SEABED LEASE PAYMENTS

	Group	
	2008	2007
	HK$'000	HK$'000
Carrying amount at 1 January	**881,296**	348,694
Additions	**30,771**	—
Acquisition of subsidiaries (note 37)	**—**	532,192
Amortisation provided during the year	**(3,061)**	(2,110)
Amortisation capitalised in construction in progress	**(15,663)**	—
Exchange realignments	**34,983**	2,520
Carrying amount at 31 December	**928,326**	881,296

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 2008 and 2007, the Group's land/seabed use rights of HK$901,487,000 (2007: HK$371,965,000) were pledged to secure certain banking facilities granted to the Group (note 27).

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16. LICENCES

Group

	HK$'000
31 December 2008	
Cost at 1 January 2008, net of accumulated amortisation	**39,933**
Amortisation provided during the year	**(2,517)**
At 31 December 2008	**37,416**
At 31 December 2008	
Cost	**51,935**
Accumulated amortisation	**(14,519)**
Net carrying amount	**37,416**
31 December 2007	
Cost at 1 January 2007, net of accumulated amortisation	42,528
Amortisation provided during the year	(2,595)
At 31 December 2007	39,933
At 31 December 2007	
Cost	51,935
Accumulated amortisation	(12,002)
Net carrying amount	39,933

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

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17. GOODWILL

Group

	HK$'000
31 December 2008	
Cost and net carrying amount at 1 January 2008	**1,018,116**
Impairment attributable to discontinued operation (note 5(a))	**(217,640)**
Impairment during the year attributable to oil transportation services	**(5,903)**
Increase from earn-out shares	**52,275**
Acquisition of minority shareholder's interest during the year (note 20)	**252,404**
Acquisition of a subsidiary (note 37)	**4,312**
At 31 December 2008	**1,103,564**
31 December 2007	
Cost and net carrying amount at 1 January 2007	483,205
Acquisition of subsidiaries (note 37)	534,911
At 31 December 2007	1,018,116

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Supply of oil products and provision of bunker refueling services		Provision of logistic services				Shipbuilding		Continuing operations		Discontinued operation, oil trading		Total	
			Oil transportation		On shore oil storage									
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Carrying amount of goodwill	**66,088**	61,776	**13,055**	18,958	**453,803**	201,399	**570,618**	518,343	**1,103,564**	800,476	**—**	217,640	**1,103,564**	1,018,116

According to the agreement for the acquisition of TQSL Holding and its subsidiary, QZ Shipyard ("Shipyard Group"), there are three tranches of earn-out shares to be issued in 2008, 2009 and 2010. When the Shipyard Group meets the target net profit before tax ("NPBT"), the Company will issue the maximum number of earn-out shares to Titan Oil or its nominees (note 42 (v)).

Tranche	Maximum number of earn-out shares in each tranche	Target NPBT
2008	88,601,711	US$7.5 million
2009	88,601,711	US$20 million
2010	177,203,422	US$50 million

If the target NPBT for any of 2008, 2009 or 2010 is not met, then the number of earn-out shares to be issued in the relevant tranche is to be reduced ratably by applying the formula of actual NPBT/ target NPBT. If no profit is made in any of the relevant financial years, then, no earn-out share will be issued in respect of that year.

17. GOODWILL (continued)

Group (continued)

In accordance with HKFRS 3, the earn-out shares are a contingent consideration and should be recorded as goodwill when achieving the target NPBT is probable. The target NPBT for 2008 has been achieved so the maximum number of earn-out shares at the market price at the acquisition date were recorded as an increase in goodwill with the corresponding credit being charged to the earn-out shares reserve.

There were no accumulated impairments as at 1 January 2007 and 1 January 2008.

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

- Oil supply cash-generating unit;
- On shore oil storage cash-generating unit;
- Oil transportation services cash-generating unit attributable to Neptune Associated Shipping Pte. Ltd. and its subsidiaries (the “NAS Group”); and
- Shipbuilding and ship repairs cash-generating unit.

Impairment testing of goodwill

Oil supply cash-generating unit

Except for the discontinued operation, oil trading, the recoverable amount of the remaining oil supply cash-generating unit has been determined based on a value in use calculation using cash flow projections beyond the five-year period based on financial budgets approved by senior management. The pre-tax discount rate applied to the cash flow projections was 14%.

On shore oil storage cash-generating unit

The recoverable amount of the on shore 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 on shore oil berthing and storage facilities are erected. The pre-tax discount rate applied to the cash flow projections was 9.5% and the cash flows beyond the five-year period were projected by using average growth rate of 3% for the on shore oil storage revenues.

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 beyond a five-year period. The discount rate applied to the cash flow projections was 8.5%.

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17. GOODWILL (continued)

Impairment testing of goodwill (continued)

Shipbuilding and ship repairs cash-generating unit

The recoverable amount of the shipbuilding and ship repairs 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 ten-year period. The pre-tax discount rate applied to the cash flow projections was 14% and the cash flows beyond the five-year period were projected by using average growth rates from 3% to 4% for shipbuilding and ship repairs revenue.

The key assumptions for all of the above cash flow projections are the budgeted gross margins which use the average gross margins achieved in the year immediately before the budgeted years, increases for expected market development, and the pre-tax discount rate of 9.5%–14%, which are before tax and reflect specific risks relating to the respective cash-generating units.

As at 31 December 2008, except for the discontinued operation, oil trading, and the oil transportation services provided by the NAS Group, no impairment provisions have been made against the goodwill arising from the acquisitions of the remaining oil supply businesses, and the on shore oil storage and shipbuilding/ship repairs businesses.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	**234,008**	175,508
Deemed investment cost*	**8,549**	—
Due from subsidiaries	**6,145,932**	5,671,533
	6,388,489	5,847,041
Portion of amounts due from subsidiaries classified as current assets	**—**	(312,000)
Non-current portion	**6,388,489**	5,535,041

The amounts due are unsecured, interest-free and have no fixed terms of repayment, expect in 2007 where the amounts due from subsidiaries of HK$312,000,000 were expected to be settled within the next twelve months from the balance sheet date.

* The deemed investment cost represented the fair value of financial guarantees provided by the Company to banks for loans granted to a subsidiary.

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18. 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
Titan Shipyard Holdings Limited	BVI	Ordinary US$1	100	Investment holding
Titan Petrochemicals (Fujian) Ltd.*#	Mainland China	US$60,000,000	100	Investment holding
Indirectly held				
Petro Titan Pte. Ltd. ("Petro Titan")	Singapore	Ordinary S$10,000,000	100	Oil trading business was discontinued
Titan Oriental Tiger Limited	Hong Kong	Ordinary HK$100	100	Dormant
Titan Oil (HK) Co. Limited	Hong Kong	Ordinary HK$2	100	Dormant

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18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
Titan Bunkering (HK) Limited	Hong Kong	Ordinary HK$1	100	Provision of bunker refueling services
Titan Bunkering Pte. Ltd.	Singapore/Malaysia	Ordinary S$13,825,000	100	Provision of bunker refueling services
Sino Ocean Development Limited	BVI	Ordinary US$1	100	Dormant
Sino Venus Pte. Ltd.	Singapore	Ordinary S$1,000,000	100	Provision of oil transportation services
Titan Chios Pte. Ltd.	Singapore/Malaysia	Ordinary S$2	100	Provision of floating storage services
Titan Leo Pte. Ltd.	Singapore	Ordinary S$1,000,000	100	Provision of oil transportation services
Titan Libra Pte. Ltd.	Singapore/Malaysia	Ordinary S$1,000,000	100	Provision of floating storage services
Estonia Capital Ltd.	BVI/Singapore	Ordinary US$1	100	Provision of oil transportation services
Titan Gemini Pte. Ltd.	Singapore/Malaysia	Ordinary S$1,000,000	100	Provision of floating storage services

18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
Titan 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 floating storage 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$2,900,000	100	Provision of ship management and agency services
Titan Mars Limited	BVI/Malaysia	Ordinary US$1,000	100	Dormant
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	Dormant

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18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
Titan Virgo Pte. Ltd.	Singapore	Ordinary S$1,000,000	100	Dormant
Titan Solar Pte Ltd	Singapore	Ordinary S$2	100	Dormant
Roswell Pacific Ltd.	BVI/Malaysia	Ordinary US$1	100	Provision of floating storage services
Wynham Pacific Ltd.	BVI/Malaysia	Ordinary US$1	100	Provision of floating storage services
Sewell Global Ltd.	BVI/Malaysia	Ordinary US$1	100	Provision of floating storage services
Brookfield Pacific Ltd.	BVI/Malaysia	Ordinary US$1	100	Provision of oil transportation services
Titus International Ltd.	BVI/Malaysia	Ordinary US$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/ South-East Asia	Ordinary S$60,000,000	100	Owning and chartering of vessels

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18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
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	Dormant
Petro Titan (H.K.) Limited	Hong Kong	Ordinary HK$3,000,000	100	Provision of financing services
Titan Resources Management Limited	BVI/Hong Kong	Ordinary US$1	100	Provision of consultancy services
Titan Resources Management (S) Pte. Ltd.	Singapore	Ordinary S$100,000	100	Provision of consultancy services
Titan Oil Finance Limited	BVI	Ordinary US$50,000	100	Dormant
Ascend Success Investments Limited	Hong Kong	Ordinary HK$1	100	Provision of financing services
泰山企業管理諮詢（上海）有限公司*#	Mainland China	US$1,000,000	100	Provision of consultancy services
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
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

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18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
嵊泗海鑫石油有限公司 (「海鑫」)*@	Mainland China	RMB50,000,000	100	Supply of oil products
Titan TQSL Holding Company Ltd. ("TQSL Holding")	BVI	Ordinary US$10,000	100	Investment holding
Titan Quanzhou Shipyard Co., Ltd. ("QZ Shipyard")*#	Mainland China	RMB600,000,000	100	Ship building and ship repair
廣州泰山石化有限公司*@	Mainland China	RMB50,000,000	100	Supply of oil products
Shenzhen Donger Petroleum & Chemicals Co., Ltd. ("SZ Donger") *@	Mainland China	RMB12,000,000	80	Supply of oil products
廣東泰山石化有限公司*#	Mainland China	US$10,000,000	100	Provision of management services

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

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

@ Registered as limited companies 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, results in particulars of excessive length.

On 28 February 2008, the Group entered into a purchase agreement to acquire the 80% equity interest in SZ Donger for a cash consideration of RMB9,600,000 (equivalent to approximately HK$10,550,000) from independent third parties. This acquisition was completed on the same date (note 37).

Shares of certain subsidiaries held by the Group were pledged against the fixed rate guaranteed senior notes (note 30) and to banks to secure banking facilities (note 27) granted to the Group.

19. INTERESTS IN ASSOCIATES

	Group	
	2008	2007
	HK$'000	HK$'000
Share of net assets	**229,269**	199,700
Goodwill on acquisition	**36,448**	36,448
	265,717	236,148
Due from/(to) associates	**(993)**	27,598
	264,724	263,746

The amounts due from/(to) associates are unsecured, interest-free, have no fixed terms of repayment and approximate to their fair values.

As at 31 December 2008, goodwill is attributable to the Group's 30% equity interests in both 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 its interests in the relevant associates and no impairment provision is deemed to be necessary. 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 pre-tax discount rate applied to the cash flow projections is 9.5% and the cash flows beyond the five-year period are projected by using the average growth rate of 3% for both terminal facilities and oil product storage revenues.

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19. INTERESTS IN ASSOCIATES (continued)

Particulars of the associates are as follows:

Name	Particulars of registered capital held	Business structure	Place of registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
福建中油油品倉儲有限公司	RMB46,000,000	Corporate	Mainland China	30	Oil product storage services
福建石獅中油油品銷售有限公司	RMB6,000,000	Corporate	Mainland China	30	Oil product sale services
嵊泗縣同盛石油有限公司	RMB5,000,000	Corporate	Mainland China	38	Oil product sale services
Yangshan Shen Gang International Oil Logistics Co., Ltd. ("Yangshan Shen Gang")	US$36,000,000	Corporate	Mainland China	37	Operation of oil berthing and storage facilities
Guangzhou Xiaohu Petrochemical Terminal Co., Ltd ("GZ Xiaohu")	RMB157,500,000	Corporate	Mainland China	30	Terminal facilities services

The above associates are not audited by Ernst & Young, Hong Kong or other member firms of the Ernst & Young global network.

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19. INTERESTS IN ASSOCIATES (continued)

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

	2008 HK$'000	2007 HK$'000
Assets	1,816,721	1,540,611
Liabilities	(1,131,417)	(983,934)
Revenue	326,824	751,516
Profit for the year	10,006	11,489

During the year, the Group disposed of Onsys Energy Sdn Bhd for a consideration of US$3,310,000 (approximately HK$25,818,000) which resulted in a loss on disposal of an associate of HK$4,465,000.

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20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

Particulars of the jointly-controlled entities are as follows:

Name	Issued share capital/registered capital	Place of registration and operations	Ownership interest	Percentage of voting power	Profit sharing[@]	Principal activities
Titan Group Investment Limited ("TGIL")	Ordinary US$400,800 and Preferred US$399,200	BVI/ Hong Kong	50.1	50.1	50.1	Investment holding
Guangzhou Nansha Titan Petrochemical Development Company Limited ("GZ Nansha")*#	US$72,000,000	Mainland China	50.1	50.1	50.1	Provision for oil berthing and storage facilities
Titan WP Storage Ltd.	Ordinary US$240,800	Bermuda	50.1	50.1	50.1	Investment holding
Titan Group Yangshan Investment Limited	Ordinary US$40	BVI	50.1	50.1	50.1	Investment holding
Sky Sharp Investments Limited ("Sky Sharp")	Ordinary US$16,000	BVI/ Hong Kong	50.1	50.1	50.1	Investment holding
Forever Fortune Holdings Limited ("Forever Fortune")	Ordinary HK$10,000 and Non-voting Deferred HK$10,000	Hong Kong	50.1	50.1	50.1	Investment holding
Fujian Titan Petrochemical Storage Development Co., Ltd. ("Fujian Titan")*#	US$40,000,000	Mainland China	50.1	50.1	50.1	Provision for oil berthing and storage facilities
Quanzhou Titan Petrochemical Terminal Development Co., Ltd. ("Quanzhou Titan")*#	US$40,000,000	Mainland China	50.1	50.1	50.1	Provision for oil berthing and storage facilities

All of the above investments in jointly-controlled entities are indirectly held by the Company.

* Not audited by Ernst & Young, Hong Kong or other member firms of the Ernst & Young global network.

\# Registered as a wholly foreign-owned enterprise under PRC law.

@ Pursuant to the liquidation order of preference requirements of TGIL preferred shares detailed in note 35 (b) to the financial statements, 100% of accumulated losses incurred by TGIL Group will be borne by the Group.

During the year, the Group acquired a further 30% equity interest in GZ Nansha from a minority shareholder through TGIL. As a result of this acquisition, the goodwill of the Group increased by HK$252,404,000.

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20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

The following table sets out the summarised financial information in respect of the Group's jointly-controlled entities:

	2008 HK$'000	2007 HK$'000
Share of jointly-controlled entities' assets and liabilities:		
Non-current assets	**2,572,600**	1,907,556
Non-current liabilities	**(1,324,456)**	(1,127,804)
Current assets	**512,349**	891,022
Current liabilities	**(382,073)**	(303,118)
Net assets	**1,378,420**	1,367,656
Share of jointly-controlled entities' results:		
Revenue	**70,771**	17,269
Cost of sales	**(50,309)**	(14,475)
Gross profit	**20,462**	2,794
Other revenue	**7,308**	20,762
Expenses	**(28,223)**	(15,328)
Finance costs	**(87,137)**	(34,859)
Share of results of associates	**1,718**	1,651
Loss before tax	**(85,872)**	(24,980)
Tax	**—**	(181)
Loss after tax	**(85,872)**	(25,161)

21. OTHER DEPOSITS

At 31 December 2008, the Group had a service deposit for chartering a vessel (HK$2,500,000) and deposits for certain fixed asset purchases (HK$5,700,000).

At 31 December 2007, the Group and the Company had a deposit held in a collateral account in respect of an interest rate swap agreement with a financial institution. The carrying amount of the deposit held in the collateral account approximated to its fair value. Further details of the swap agreement are set out in notes 25 to the financial statements. Such deposit was released during the current year.

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22. ACCOUNTS RECEIVABLE

	Group	
	2008	2007
	HK$'000	HK$'000
Accounts receivable	**239,586**	1,175,254
Impairment	**(15,371)**	(16,827)
	224,215	1,158,427

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	
	2008	2007
	HK$'000	HK$'000
1 to 3 months	**126,616**	1,097,385
4 to 6 months	**60,534**	17,223
7 to 12 months	**24,231**	36,930
Over 12 months	**12,834**	6,889
	224,215	1,158,427

Accounts receivable in a disposal group (note 5) include HK$33,000 which is aged within one to three months, HK$1,081,000 aged within seven to twelve months and HK$8,520,000 aged over 12 months. The HK$33,000 is neither past due nor impaired while the HK$9,601,000 is more than three months past due.

The movements in the provision for impairment of accounts receivable are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**16,827**	4,812
Impairment losses recognised (note 7)	**15,794**	13,707
Amounts written off as uncollectible	**(16,950)**	(1,692)
Provision for impairment of accounts receivable included in discontinued operation, oil trading	**(300)**	—
At 31 December	**15,371**	16,827

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22. ACCOUNTS RECEIVABLE (continued)

Included in the above balance is a provision for doubtful accounts for customers with an aggregate balances of HK$28,205,000 (2007: HK$23,716,000). The net accounts receivable in respect of these customers after impairment provisioning was HK$12,834,000 (2007: HK$6,889,000). These accounts relate to customers in default and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the accounts receivable that are not considered to be doubtful is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Neither past due nor impaired	**126,616**	1,097,385
Less than 3 months past due	**60,534**	17,223
More than 3 months past due	**24,231**	36,930
	211,381	1,151,538

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there has been no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The amount receivables from Titan Oil for sale of vessels was HK$95,211,000 (note 42(iv)).

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Prepayments for supplies in respect of the ship building operations in the aggregate amount of HK$242,232,000 (2007: Nil) are included in prepayments, deposits and other receivables.

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

	Group	
	2008	2007
	HK$'000	HK$'000
Contracts in progress		
Direct costs incurred plus recognised profits less recognised losses to date	**514,992**	205,587
Excess of progress billings over contract costs		
Direct costs incurred plus recognised profits less recognised losses to date	**4,459**	59,200
Less: Progress billings	**(12,753)**	(81,033)
	(8,294)	(21,833)

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25. FINANCIAL INSTRUMENTS

Group

	Assets		Liabilities	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Derivative financial instruments for hedging purposes:				
Foreign exchange futures	**—**	—	**—**	11,144
Oil price swap contracts	**—**	258,095	**—**	379,372
Forward sale and purchase contracts	**—**	—	**—**	12,199
Derivative financial instruments held as cash flow hedge:				
Interest rate swap agreement	**—**	—	**—**	5,812
	—	258,095	**—**	408,527

Company

	Assets		Liabilities	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Derivative financial instruments held as cash flow hedge:				
Interest rate swap agreement	**—**	—	**—**	5,812
Financial guarantee contracts	**—**	—	**8,549**	—

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

In the prior year, the Group had entered into various forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Changes in the fair values of non-hedging currency derivatives amounting to HK$11,144,000 were charged to the consolidated income statement during that year.

25. FINANCIAL INSTRUMENTS (continued)

At 31 December 2007, US$1,816,000 (approximately HK$14,166,000) (note 21) was deposited in a collateral account held with a financial institution in respect of an interest rate swap agreement. During the current year, such deposit was released upon unwinding of the interest rate swap arrangement.

Interest rate swap agreement — cash flow hedge

In the prior year, a restructured interest rate swap agreement was entered by the Group whereby the Group received interest at LIBOR and paid interest at the fixed rate of 4.55% on the notional amounts ranging from US$1,500,000 to US$154,095,000 for the period from 27 July 2007 to 18 September 2012.

The swap was used to hedge the exposure to variability in cash flows that were 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 had been assessed to be highly effective. The decrease in fair value of this cash flow hedge during the year ended 31 December 2007 of HK$14,246,000 has been included in the hedging reserve. In 2008, upon unwinding of the interest swap agreement, such hedging reserve has been recognised in the consolidated income statement in the current year.

Financial guarantee contracts

In 2008, the fair value of a financial guarantee contracts arising from financial guarantees granted by the Company to banks for loans to a subsidiary of the Group amounted to HK$8,549,000 (2007: Nil).

26. CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND RESTRICTED CASH

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**410,692**	698,158	**46,662**	6,228
Time deposits	**171,075**	1,412,646	**—**	292,630
	581,767	2,110,804	**46,662**	298,858
Less: Amounts pledged for bank facilities (note 27(iii)) and restricted cash:				
Bank balances	**(60,319)**	(3,934)	**—**	—
Time deposits	**(70,910)**	(560,414)	**—**	—
Time deposits with original maturities of more than three months	**(99,134)**	(32,836)	**—**	—
	(230,363)	(597,184)	**—**	—
Cash and cash equivalents	**351,404**	1,513,620	**46,662**	298,858

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$261,995,000 (2007: HK$874,287,000). 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.

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26. CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND RESTRICTED CASH (continued)

Cash at bank earns interest at floating rates based on daily bank deposit 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 bank balances and pledged deposits are deposited with creditworthy banks with no recent default histories. The carrying amounts of the cash and cash equivalents, the pledged deposits and restricted cash approximate to their fair values.

At the balance sheet date, the restricted cash amounted to HK$52,197,000 (2007: Nil) is held for the development of ship repair facilities.

27. INTEREST-BEARING BANK AND OTHER LOANS

	2008			2007		
Group	**Effective interest rate (%)**	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Trust receipt loans, secured	—	—	—	5.97–6.75	2008	872,165
Bank loans — secured	3.00–8.22	2009	245,565	5.10–8.93	2008	835,154
Bank loans — unsecured	4.86–7.47	2009	378,974	6.08–8.11	2008	91,298
			624,539			1,798,617
Non-current						
Bank loans — secured	3.00–7.83	2010-2015	1,016,502	6.12–7.83	2009–2015	1,221,315
Bank loans — unsecured	4.86–5.94	2010-2017	139,804	6.08	2009–2010	39,894
			1,156,306			1,261,209
			1,780,845			3,059,826

	Group 2008 HK$'000	2007 HK$'000
Trust receipt loans, secured	—	872,165
Bank loans repayable:		
Within one year	624,539	926,452
In the second year	218,917	260,888
In the third to fifth years, inclusive	441,621	520,424
Beyond five years	495,768	479,897
	1,780,845	2,187,661
	1,780,845	3,059,826

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

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

(i) the Group's vessels with a carrying value of HK$927,944,000 (2007: HK$1,625,759,000);

(ii) the Group's construction in progress of HK$145,294,000 (2007: HK$151,078,000);

(iii) the Group's bank balances and deposits of HK$178,166,000 (2007: HK$597,184,000);

(iv) the Group's deposit held in a collateral account 2007 of HK$14,166,000 which was released in 2008;

(v) the Group's prepaid land/seabed use rights with a carrying value of HK$901,487,000 (2007: HK$371,965,000);

(vi) the Group's oil storage facilities with a carrying value of HK$538,643,000 (2007: HK$489,509,000);

(vii) the Group's inventories with a carrying value of HK$872,165,000 in 2007 and no such pledge in 2008;

(viii) shares of certain subsidiaries;

(ix) several pieces of land owned by related companies (note 42 (vi));

(x) corporate guarantees executed by the Company;

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

(xii) a corporate guarantee executed by a related company (note 42(iii)).

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

	Carrying amounts		**Fair value**	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank loans — secured	**953,824**	924,032	**855,672**	866,795
Bank loans — unsecured	**139,803**	39,894	**135,292**	37,305
	1,093,627	963,926	**990,964**	904,100

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

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28. 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	
	2008	2007
	HK$'000	HK$'000
1 to 3 months	**260,985**	870,357
4 to 6 months	**67,827**	15,561
7 to 12 months	**15,408**	19,428
Over 12 months	**9,649**	7,807
	353,869	913,153
Other payables and accruals	**1,089,042**	868,726
	1,442,911	1,781,879

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.

Group

	Provision for product warranties	
	2008	2007
	HK$'000	HK$'000
At 1 January	**1,546**	—
Additional provision*	**2,254**	1,546
Amounts utilised during the year	**(2,283)**	—
Exchange realignment	**165**	—
At 31 December, classified as other payables and accruals	**1,682**	1,546

The Group provides one year warranties to its customers on vessels delivered, under which any vessel defaults are repaired. The amount of the provision for warranties is estimated based on the number of vessels delivered and past experience of the level of repairs. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

* The amount is included in "Cost of sales" in the consolidated income statement.

29. FINANCE LEASE PAYABLES

The Group leased a motor vehicle for administrative purposes in both the current and prior year. This lease is classified as a finance lease and has a remaining lease term of two years.

At 31 December 2008, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments 2008 HK$'000	Minimum lease payments 2007 HK$'000	Present value of minimum lease payments 2008 HK$'000	Present value of minimum lease payments 2007 HK$'000
Amounts payable:				
Within one year	**436**	482	**403**	424
In the second year	**327**	436	**319**	403
In the third to fifth years, inclusive	**—**	327	**—**	319
Total minimum finance lease payments	**763**	1,245	**722**	1,146
Future finance charges	**(41)**	(99)		
Total net finance lease payables	**722**	1,146		
Portion classified as current liabilities	**(403)**	(424)		
Non-current portion	**319**	722		

At 31 December 2008, the effective interest rate of the finance lease payables was 6.69% (2007: 6.69%) per annum.

30. 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 fixed rate guaranteed senior notes ("Senior Notes") (the "Subsidiary Guarantors"), and Deutsche Bank Trust Company Americas, as the trustee, the Company issued the Senior 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 Senior Notes are due on 18 March 2012 with a lump sum repayment, unless redeemed earlier pursuant to specified terms. The Senior 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 Senior Notes were utilised partially for purchases of vessels, further investments in oil storage facilities in Mainland China, repayment of bank loans and working capital for the Group.

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30. FIXED RATE GUARANTEED SENIOR NOTES (continued)

The obligations of the Company under the Senior Notes are guaranteed by the Subsidiary Guarantors and the pledge of shares of certain Subsidiary Guarantors. The list of subsidiaries comprising the Subsidiary Guarantors and the shares pledged are more fully described in the Company's announcement dated 11 March 2005 together with details of the principal terms of the Senior Notes.

At 31 December 2008, the effective interest rate on the Senior Notes was 9.27% (2007: 9.27%) per annum and the fair value of the Senior Notes was HK$610,712,000 after the repurchases during the year (2007: HK$2,745,600,000).

In 2008, the Company repurchased an aggregate principal amount of US$66,824,000 (approximate HK$521,227,200) in Senior Notes and recognised a gain on repurchase of HK$$339,174,000 which is included in "Other revenue" in the consolidated income statement. Subsequent to year end, the Company repurchased an aggregate principal amount of US$17,816,000 (approximately HK$138,964,800) in Senior Notes as further detailed in note 46.

31. 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 2007	4,319	54,431	58,750
Arising on acquisition of subsidiaries (note 37)	—	112,180	112,180
Deferred tax credited to equity during the year	—	(13,195)	(13,195)
Deferred tax credited to the consolidated income statement during the year (note 11)	(4,360)	—	(4,360)
Exchange realignments	211	—	211
At 31 December 2007 and 1 January 2008	170	153,416	153,586
Deferred tax credited to the consolidated income statement during the year (note 11)	3,857	—	3,857
Gross deferred tax liabilities recognised in the consolidated balance sheet at 31 December 2008	4,027	153,416	157,443
Represented by deferred tax liabilities attributable to:			
Continuing operations	3,951	153,416	157,367
Discontinued operation (note 5(b))	76	—	76
	4,027	153,416	157,443

At 31 December 2008, there were no significant unrecognised deferred tax liabilities (2007: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or jointly-controlled entities as the Group had 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.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable to withhold taxes on dividends distributed by those subsidiaries and jointly-controlled entities established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2008, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and jointly-controlled entities established in Mainland China.

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32. SHARE CAPITAL

Shares

	2008 HK$'000	2007 HK$'000
Authorised:		
9,445,000,000 ordinary shares of HK$0.01 each	**94,450**	94,450
555,000,000 convertible preferred shares of HK$0.01 each	**5,550**	5,550
Issued and fully paid:		
6,473,859,010 (2007: 6,473,639,010) ordinary shares of HK$0.01 each	**64,739**	64,737
555,000,000 (2007: 555,000,000) convertible preferred shares of HK$0.01 each	**5,550**	5,550

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

	Number of ordinary shares in issue	**Issued share capital HK$'000**
At 1 January 2007	4,864,900,202	48,649
Exercise of share options during the year	36,240,000	363
Issue of shares	1,572,498,808	15,725
At 31 December 2007 and 1 January 2008	6,473,639,010	64,737
Exercise of share options during the year	220,000	2
At 31 December 2008	6,473,859,010	64,739

In 2007, the Company issued 555,000,000 convertible preferred shares to Warburg Pincus.

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 33 to the financial statements.

33. SHARE OPTION SCHEME

A summary of the share option scheme of the Company (the "Scheme") is set out below.

Purpose	To provide incentives and rewards to eligible participants who contribute to the success of the operations of the Group.
Participants	(i) Full time employees and directors of the Company and its subsidiaries; and (ii) Any suppliers, consultants, agents and advisors of the Group.
Total number of ordinary shares available for issue and the percentage of the issued shares of the Company that it represents as at the date of approval of the financial statements	647,385,901 ordinary shares, representing 10% 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.

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33. SHARE OPTION SCHEME (continued)

The following share options under the Scheme were outstanding at the balance sheet date:

	Number of share options							
Name or category of participant	At 1 January 2008	Granted during the year	Lapsed during the year	Exercised during the year	At 31 December 2008	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$
Directors								
Mr. Patrick Wong Siu Hung	—	10,000,000	—	—	10,000,000	1 February 2008	1 February 2010 to 31 January 2015	0.45
	—	10,000,000	—	—	10,000,000	1 February 2008	1 February 2011 to 31 January 2016	0.45
Mr. Philip Chu Yan Jy***	—	1,500,000	(1,500,000)	—	—	1 February 2008	1 February 2010 to 31 January 2015	0.45
	—	1,500,000	(1,500,000)	—	—	1 February 2008	1 February 2011 to 31 January 2016	0.45
	—	23,000,000	(3,000,000)	—	20,000,000			
Other employees								
In aggregate	78,740,000	—	(78,520,000)	(220,000)	—	25 June 2004	25 June 2006 to 25 June 2008	0.45
	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
	18,050,000	—	(5,650,000)	—	12,400,000	20 February 2006	20 February 2007 to 19 February 2012	0.72
	18,050,000	—	(5,650,000)	—	12,400,000	20 February 2006	20 February 2008 to 19 February 2013	0.72
	1,250,000	—	(750,000)	—	500,000	24 April 2007	24 April 2008 to 23 April 2013	0.70
	1,250,000	—	(750,000)	—	500,000	24 April 2007	24 April 2009 to 23 April 2014	0.70
	—	68,500,000	(21,250,000)	—	47,250,000	1 February 2008	1 February 2010 to 31 January 2015	0.45
	—	148,500,000	(34,130,000)	—	114,370,000	1 February 2008	1 February 2011 to 31 January 2016	0.45
	—	80,000,000	(12,880,000)	—	67,120,000	1 February 2008	1 February 2012 to 31 January 2017	0.45
	—	80,000,000	(14,980,000)	—	65,020,000	1 February 2008	1 February 2013 to 31 January 2018	0.45
	137,340,000	377,000,000	(184,560,000)	(220,000)	329,560,000			
Others								
In aggregate	29,600,000	—	(29,600,000)	—	—	25 June 2004	25 June 2006 to 25 June 2008	0.45
	29,600,000	—	(29,600,000)	—	—			
	166,940,000	400,000,000	(217,160,000)	(220,000)	349,560,000			

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33. SHARE OPTION SCHEME (continued)

* Options granted on 25 June 2004 were vested to grantees immediately on the date of grant. The closing price of the Company's shares on 24 June 2004 was HK$0.43.

Options granted on 21 September 2005 were vested to the grantees 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% were 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 on 20 September 2005 was HK$0.68.

Options granted on 20 February 2006 were 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% were 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 on 17 February 2006 was HK$0.72.

Options granted on 24 April 2007 were vested to grantees in two tranches. 50% of such options were vested on 24 April 2008 with an exercise period from 24 April 2008 to 23 April 2013 and the remaining 50% were vested on 24 April 2009 with an exercise period from 24 April 2009 to 23 April 2014. The closing price of the Company's shares on 23 April 2007 was HK$0.70.

Options granted on 1 February 2008 are vested to grantees in four tranches. 20% of such options will be vested on 1 February 2010 with an exercise period from 1 February 2010 to 31 January 2015; 40% of such options will be vested on 1 February 2011 with an exercise period from 1 February 2011 to 31 January 2016; 20% of such options will be vested on 1 February 2012 with an exercise period from 1 February 2012 to 31 January 2017 and 20% of such options will be vested on 1 February 2013 with an exercise period from 1 February 2013 to 31 January 2018. The closing price of the Company's shares on 31 January 2008 was HK$0.435.

** 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.

*** Mr. Philip Chu Yan Jy resigned as director on 1 December 2008.

**** These options were held by Mr. Barry Cheung Chun Yuen who ceased to be a director but remained as an employee of the Company.

The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$0.465.

The fair value of the share options granted during the year was assessed to be HK$65,072,000.

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:

	2008	2007
Dividend yield (%)	**1.28**	1.32
Expected volatility (%)	**41.49**	43.64
Risk-free interest rate (%)	**2.34**	4.08
Suboptimal exercise factor	**1.5**	1.5
Closing share price at the date of grant (HK$)	**0.44**	0.70
Exercise price (HK$)	**0.45**	0.70

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.

The fair value computed is inherently subjective and uncertain due to the assumptions made and the limitations of the model used.

At the balance sheet date, the Company had outstanding share options for the subscription of 349,560,000 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 349,560,000 additional ordinary shares of the Company and additional share capital of HK$3,495,600 and share premium of HK$163,052,400 (before issue expenses).

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34. 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	Earn-out shares reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2007		1,004,602	18,261	9,627	8,434	44,204	23,115	—	892,016	2,000.259
Issue of ordinary shares		896,658	—	—	—	—	—	—	—	896,658
Share issue expenses	35	(28,871)	—	—	—	—	—	—	—	(28,871)
Equity-settled share option arrangements		—	—	3,374	—	—	—	—	—	3,374
Release from share option reserve upon exercise of share options		143	—	(143)	—	—	—	—	—	—
Exchange realignment		—	—	—	—	—	54,206	—	—	54,206
Changes in fair values on cash flow hedges	25	—	—	—	(14,246)	—	—	—	—	(14,246)
Exercise of share options		16,118	—	—	—	—	—	—	—	16,118
Transfer to retained profits upon lapse of share options after vesting period		—	—	(1,393)	—	—	—	—	1,393	—
Deferred tax credit to equity		—	—	—	—	13,195	—	—	—	13,195
Loss for the year		—	—	—	—	—	—	—	(29,104)	(29,104)
At 31 December 2007 and 1 January 2008		1,888,650	18,261	11,465	(5,812)	57,399	77,321	—	864,305	2,911,589
Equity-settled share option arrangements		—	—	13,475	—	—	—	—	—	13,475
Reserve for discontinued operation, oil trading	5(b)	—	—	—	—	—	—	—	1,105,575	1,105,575
Exchange realignment		—	—	—	—	—	108,204	—	—	108,204
Unwinding interest rate swap arrangement classified as cash flow hedges	25	—	—	—	5,812	—	—	—	—	5,812
Exercise of share options		97	—	—	—	—	—	—	—	97
Transfer to retained profits upon lapse of share options after vesting period		—	—	(4,125)	—	—	—	—	4,125	—
Loss for the year		—	—	—	—	—	—	—	(1,600,557)	(1,600,557)
Issue of earn-out shares		—	—	—	—	—	—	52,275	—	52,275
At 31 December 2008		1,888,747	18,261	20,815	—	57,399	185,525	52,275	373,448	2,596,470

The contributed surplus 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.

34. RESERVES (continued)

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Hedging reserve HK$'000	Earn-out shares reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2007		1,004,602	60,916	9,627	8,434	—	49,217	1,132,796
Issue of ordinary shares		896,658	—	—	—	—	—	896,658
Share issue expenses	35	(28,871)	—	—	—	—	—	(28,871)
Equity-settled share option arrangements		—	—	3,374	—	—	—	3,374
Release from share option reserve upon exercise of share options		143	—	(143)	—	—	—	—
Transfer to retained profits upon lapse of share options after vesting period		—	—	(1,393)	—	—	1,393	—
Changes in fair values on cash flow hedges	25	—	—	—	(14,246)	—	—	(14,246)
Exercise of share options		16,118	—	—	—	—	—	16,118
Loss for the year	12	—	—	—	—	—	(14,727)	(14,727)
At 31 December 2007 and 1 January 2008		1,888,650	60,916	11,465	(5,812)	—	35,883	1,991,102
Unwinding interest rate swap arrangement classified as cash flow hedges	25	—	—	—	5,812	—	—	5,812
Equity-settled share option arrangements		—	—	13,475	—	—	—	13,475
Transfer to retained profits upon lapse of share options after vesting period		—	—	(4,125)	—	—	4,125	—
Exercise of share options		97	—	—	—	—	—	97
Issue of earn-out shares		—	—	—	—	52,275	—	52,275
Profit for the year	12	—	—	—	—	—	4,567	4,567
At 31 December 2008		1,888,747	60,916	20,815	—	52,275	44,575	2,067,328

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 lapse.

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35. CONVERTIBLE PREFERRED SHARES

	Group		Company	
	Equity portion HK$'000	Liability portion HK$'000	Equity portion HK$'000	Liability portion HK$'000
(a) Titan preferred shares				
Issued and fully paid	81,637	229,163	81,637	229,163
Less: Issuance expense	(6,078)	(17,020)	(6,078)	(17,020)
Add: Dividend on convertible preferred shares (classified as financial liabilities) (note 8)	—	14,736	—	14,736
At 31 December 2007	75,559	226,879	75,559	226,879
Add: Dividends on convertible preferred shares (classified as financial liabilities) (note 8)	—	30,505	—	30,505
At 31 December 2008	75,559	257,384	75,559	257,384
(b) TGIL preferred shares				
Issued and fully paid	521,700	258,300	—	—
Less: Issuance expense	(3,863)	(1,913)	—	—
Add: Dividends on convertible preferred shares (classified as financial liabilities) (note 8)	—	18,356	—	—
At 31 December 2007	517,837	274,743	—	—
Add: Dividend on convertible preferred shares (classified as financial liabilities) (note 8)	—	41,266	—	—
At 31 December 2008	517,837	316,009	—	—

35. CONVERTIBLE PREFERRED SHARES (continued)

(a) In 2007, the Company issued 555,000,000 Titan preferred shares at the stated value of HK$0.56 per share. The terms of the Titan preferred shares are as follows:

(i) Titan preferred shares rank in priority to any distributions in respect of any other class of shares to a fixed cumulative preferential dividend at a rate of 4.70% per annum on the subscription price of each Titan preferred share. Titan preferred shares do not confer any further rights to its holders to participate in the profits of the Group. On a distribution of assets or return of capital on liquidation of the Company or otherwise, a holder of the Titan preferred shares is entitled to receive an amount in preference to holders of the Company's ordinary shares equal to the greater of (a) the sum of the amount equal to the issue price of the Titan preferred shares and any accrued and unpaid dividends; or (b) the aggregate market price of the number of the Company's ordinary shares into which the Titan preferred shares can be converted, if they were converted on the date of the distribution of the assets of the Company, together with any accrued and unpaid dividends. Also, Titan preferred shares do not carry any voting rights in general meetings of the Company.

(ii) The holders of Titan preferred shares are entitled to convert their Titan preferred shares into ordinary shares of the Company at the conversion price of HK$0.56 per share, subject to adjustments, any time from the first anniversary of the date of completion of the issue (or such earlier date as may be approved by the board of directors of the Company) to the day prior to the date of redemption of Titan preferred shares.

(iii) Titan preferred shares are redeemable (1) at any time on or after the fifth anniversary of the date of issue at a price equal to 100% of their initial subscription price (if redeemed at the election of the holders) or 175% of their initial subscription price (if redeemed at the election of the Company) in each case together with any accrued and unpaid dividends; or (2) on the occurrence of a redemption event and at the election of the holders of the Titan preferred shares at a price equal to the higher of 175% of their initial subscription price or the aggregate market price of the number of the Company's shares into which those Titan preferred shares being redeemed can be converted, if they were converted on the date of the notice of redemption, together with any accrued and unpaid dividends provided that this redemption right cannot be exercised so long as any of the Senior Notes remain outstanding except in the case of change of a control redemption event, but only if a change of control triggering event (as defined in the Senior Notes) has occurred and the Company has complied with its obligations under the Senior Notes in respect of such an event.

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35. CONVERTIBLE PREFERRED SHARES (continued)

(a) (iii) The redemption events (the "Redemption Events") include:

(i) Titan Oil ceasing directly or indirectly through its subsidiaries or nominees to own 35% or more of the Company's ordinary shares;*

(ii) Titan Oil ceasing directly or indirectly through its subsidiaries or nominees to be the single largest shareholder of the Company (other than in circumstances where Warburg Pincus or its associates (as that term is defined in the Listing Rules) is or are together such single largest shareholder);*

(iii) the chairman of the Company, Mr. Tsoi Tin Chun, ceasing to be a controlling shareholder of Titan Oil (other than as a result of a temporary reduction of shareholding to facilitate a vendor top up placing by the Company);*

(iv) the Company ceasing directly or indirectly through its subsidiaries or nominees to be the single largest shareholder of TGIL (other than as a result of the exercise of TGIL's warrant);

(v) the occurrence of specified events which are related to the insolvency of the Company or the initiation of insolvency or liquidation proceedings by or against the Company or events of default under the Senior Notes occurring); and an equity instrument (the conversion right, i.e. the holder's right to call for shares of the issuer).

* Since those redemption events were related to the change of significant shareholding of the substantial shareholder in the Company, the substantial shareholder (Titan Oil and Mr. Tsoi) of the Company has signed a deed of undertaking pursuant to which the substantial shareholder (Titan Oil and Mr. Tsoi) has undertaken to indemnify the Company in respect of any loss to the Company (as defined in the deed of undertaking) arising from the exercise of the redemption right of the holders of the Titan preferred shares on the occurrence of the Redemption Event.

(iv) The holder of Titan preferred shares has certain protective veto rights over certain decisions of the Group.

(b) TGIL issued HK$780 million (US$100 million) TGIL preferred shares, the terms of which are as follows:

(i) TGIL preferred shares (apart from the special dividends that may become payable) rank in priority to any distributions in respect of any other class of shares for a fixed cumulative preferential dividend at a rate of 5.0% per annum on the initial subscription price of each TGIL preferred share. They also (until TGIL obtains a separate listing) participate in the ordinary dividends of TGIL on an as-converted basis.

On a distribution of assets or return of capital on liquidation of TGIL or otherwise, a holder of TGIL preferred shares is entitled to receive an amount equal to the greater of (1) the sum of the amount equal to the issue price of TGIL preferred shares and any accrued and unpaid dividends; or (2) the then aggregate market value (to be determined by an independent investment bank) of the number of the ordinary share of TGIL into which TGIL preferred shares can be converted, as if they were converted on the date of the distribution of the assets of TGIL (subject to a cap of HK$2,730 million) together with any accrued and unpaid dividends.

35. CONVERTIBLE PREFERRED SHARES (continued)

(b) (i) TGIL preferred shares carry voting rights in general meetings of TGIL on an as-converted basis.

(ii) The holders of TGIL preferred shares are entitled to convert TGIL preferred shares into TGIL's ordinary shares initially on a one-for-one basis at the initial conversion price (which will be the number that equals the aggregate subscription price of TGIL preferred shares divided by the number of TGIL preferred shares in issue immediately upon completion of issue), subject to adjustments, any time from the first anniversary of the date of completion of issue (unless the board of directors of the Company resolves to permit earlier conversion) until they are redeemed.

(iii) TGIL preferred shares are redeemable on the occurrence of a Redemption Event and at the election of the holders of TGIL preferred shares (provided that TGIL's warrant is not exercised) at a price equal to the higher of 175% of their initial subscription price or the market value (to be determined by an independent investment bank) of TGIL's ordinary shares into which those TGIL preferred shares being redeemed can be converted (subject to a cap of HK$2,730 million upon the full redemption of TGIL preferred shares), as if they were converted on the date of the notice of redemption, together with any accrued and unpaid dividends.

* Since those redemption events set out in note(35)(a)(iii) to the financial statements were related to the change of significant shareholding of the substantial shareholder in the Company, the substantial shareholder (Titan Oil and Mr. Tsoi) of the Company has signed a deed of undertaking pursuant to which the substantial shareholder (Titan Oil and Mr. Tsoi) has undertaken to indemnify TGIL in respect of any loss to TGIL (as defined in the deed of undertaking) arising from the exercise of the redemption right of the holders of the TGIL preferred shares on the occurrence of the Redemption Event.

The fair value of the liability portion of Titan Preferred Shares and TGIL Preferred Shares were estimated at the issuance date. The residual amount of Titan Preferred Shares of HK$75,559,000 and TGIL Preferred Shares of HK$517,837,000, were assigned as the equity portion and were included in shareholders' equity of the Company and contingently redeemable equity in a jointly-controlled entity, respectively.

36. NOTES PAYABLE

On 5 August 2008, the Group signed an agreement with Kawasaki Kisen Kaisha Ltd ("K Line") for K Line to purchase notes for US$25 million (approximately HK$195 million) (with an interest rate of 1% per annum). Prior to 31 March 2013, at the sole option of the Company, the notes are exchangeable for up to 5% of the issued share capital of one of its subsidiaries, TQSL Holding, which holds QZ Shipyard in Mainland China.

At maturity, the notes will be repaid in full in cash equal to the greater of (i) 110% of the principal amount plus all accrued but unpaid interests; and (ii) the fair market value of 5.5% of the issued share capital of TQSL Holding on a fully diluted basis (the "Applicable Redemption Amount"). The Group has the right to redeem the notes in full prior to maturity date at the Applicable Redemption Amount, while K Line shall have the right to early redeem at the Applicable Redemption Amount in the event of change of control.

Change of control means (i) the sale of all or substantially all the assets of Titan Shipyard Holdings Limited ("Shipyard Holdings"), TQSL Holding or QZ Shipyard to another person; (ii) any transaction resulting in voting rights of 50% or more of total voting rights of either Shipyard Holdings, TQSL Holding or QZ Shipyard being held other than, directly or indirectly, by the Company and Shipyard Holdings; or (iii) the adoption of a plan relating to the liquidation, winding up or dissolution of either Shipyard Holdings, TQSL Holding or QZ Shipyard.

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36. NOTES PAYABLE (continued)

QZ Shipyard and K Line also signed a strategic alliance agreement under which K Line will appoint QZ Shipyard as its primary ship repair partner in Mainland China and, accordingly, K Line agreed to provide the shipyard ship repair business. This agreement is for an initial term of ten years and thereafter can be renewed for successive five-year terms.

This transaction constituted a discloseable transaction of the Company pursuant to Chapter 14 of the Listing Rules and therefore, further details in relation to the transaction are set out in a Company's circular dated 26 August 2008.

The notes comprised a financial liability at amortised cost and embedded derivatives.

37. BUSINESS COMBINATIONS

As further detailed in note 18 to the financial statements, during the year, the Group acquired 80% equity interest in SZ Donger from independent third parties.

The fair values of the identifiable assets and liabilities of SZ Donger are analysed as follows:

	Notes	Fair value recognised on acquisition 2008 SZ Donger HK$'000	 2007 Total HK$'000
Net assets acquired:			
Property, plant and equipment	14	1,401	411,830
Prepaid land/seabed lease payments	15	—	532,192
Interests in associates		—	28,778
Inventories		—	31,345
Contracts in progress		—	182,615
Prepayments, deposits and other receivables		6,396	335,057
Cash and cash equivalents		2	72,143
Other payables and accruals		(2)	(509,899)
Amounts due to Group companies		—	(139,531)
Bank loans		—	(221,649)
Deferred tax liabilities	31	—	(112,180)
Minority interests		(1,559)	—
		6,238	610,701
Goodwill on acquisition	17	4,312	534,911
Total net assets acquired		10,550	1,145,612
Satisfied by:			
Cash		10,550	507,431
Fair value of ordinary shares issued		—	638,181
Total purchase consideration		10,550	1,145,612

37. BUSINESS COMBINATIONS (continued)

The fair values of the identifiable assets and liabilities of SZ Donger in the current year and of Shipyard group and 海鑫 acquired in the prior year, as at the dates of acquisition, do not differ materially from their respective carrying amounts except in respect of the balance of the prepaid land/seabed lease payments and plant and machinery of the Shipyard group with a fair value of approximately HK$944,022,000. The respective deferred tax liabilities amounted to approximately HK$112,180,000 immediately before the acquisition in the prior year.

The goodwill of HK$4,312,000 comprises the fair value of expected synergies arising from the acquisition of SZ Donger.

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

	2008	2007
	HK$'000	HK$'000
Cash consideration	**(10,550)**	(507,431)
Cash and cash equivalents acquired	**2**	72,143
Net outflow of cash and cash equivalents in respect of the acquisitions of subsidiaries	**(10,548)**	(435,288)

Since the acquisition, SZ Donger has not made a material contribution to the consolidated results for the year ended 31 December 2008. The Shipyard group and 海鑫 also did not make a material contribution to the consolidated results for the year ended 31 December 2007.

Had the acquisition of SZ Donger taken place at the beginning of the year, the revenue and the loss attributable to equity holders of the parent for the year would have been HK$11,092,944,000 and HK$1,600,722,000, respectively.

Had the acquisition of Shipyard group taken place at the beginning of the prior year, the revenue and the loss attributable to equity holders of the parent for the year would have been HK$17,151,933,000 and HK$52,114,000, respectively.

Had the acquisition of 海鑫 taken place at the beginning of the prior year, the revenue and the loss attributable to equity holders of the parent for the year would have been HK$17,004,318,000 and HK$29,104,000, respectively.

38. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

In the prior year, other payables of HK$139,531,000 were reclassified as amounts due to subsidiaries upon the Group's acquisition of the Shipyard group.

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39. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases a vessel and an office premises under operating lease arrangements, negotiated for five years and one year, respectively. The terms of the lease of the vessel generally also requires the leasee to pay a security deposit and provide for periodic rent adjustments according to prevailing market conditions.

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

	Group	
	2008	2007
	HK$'000	HK$'000
Vessel		
Within one year	**9,060**	2,160
In the second to fifth years, inclusive	**26,855**	7,734
	35,915	9,894
Office premises		
Within one year	**2,647**	—
	38,562	9,894

39. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases vessels and certain office premises 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	
	2008	2007
	HK$'000	HK$'000
Vessels		
Within one year	**201,330**	306,154
In the second to fifth years, inclusive	**87,716**	289,041
	289,046	595,195
Office premises		
Within one year	**11,335**	9,516
In the second to fifth years, inclusive	**5,559**	13,148
	16,894	22,664
	305,940	617,859

40. COMMITMENTS

	Group	
	2008	2007
	HK$'000	HK$'000
Capital contribution commitments for associates in Mainland China	**68,367**	70,889
Commitments for construction of oil berthing and storage facilities in jointly-controlled entities and associates in Mainland China	**306,096**	291,064
Commitment for shipbuilding and ship repairs facilities in Mainland China	**1,646,676**	327,675
	2,021,139	689,628

	Company	
	2008	2007
	HK$'000	HK$'000
Capital contribution commitments for a subsidiary in Mainland China	**234,000**	97,500

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41. CONTINGENT LIABILITIES

At 31 December 2008, guarantees aggregating HK$3,869,667,000 (2007: HK$6,163,190,000) had been given by the Company to banks in connection with banking facilities granted to subsidiaries. An amount of HK$305,662,000 (2007: HK$2,674,481,000) of the facilities had been utilised by subsidiaries of the Company.

At 31 December 2008, no guarantees (2007: HK$226,388,000) had been given by the Company to suppliers in connection with the oil trading businesses, hence no utilised amount. At 31 December 2007, HK$171,922,000 guarantee was 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 the balance sheet date.

42. RELATED PARTY TRANSACTIONS

As referred to elsewhere in these financial statements, the Group had the following material transactions with related parties during 2008 and 2007:

(i) Tenancy agreement with Titan Oil

In 2007, the Group entered into a tenancy agreement with Titan Oil for the lease of office premises for a term of three years commencing from 1 January 2008 until 31 December 2010. During the year, the Group paid a total amount of S$607,536 (approximately HK$3,358,000) (2007: S$212,660 (approximately HK$1,047,000)) to Titan Oil for the lease of the office premises, which is comparable to the prevailing market rental for similar properties.

(ii) Management and support services

During the year, the Group received HK$14,522,000 (2007: Nil) in management and support services income from one of the subsidiaries of Titan Oil.

As at 31 December 2008, the Group had an amount due from the above company of US$1,588,000 (approximately HK$12,383,000) (2007: Nil) which is unsecured, interest-free and has no fixed terms of repayment.

(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 jointly-controlled entity for RMB30,000,000 (approximately HK$34,238,000) (2007: RMB20,000,000 (approximately HK$21,277,000)) (note 27(xi)).

As at 31 December 2008, a guarantee was granted by one of the directors of the Company to a bank in connection with a bank loan for US$8,725,000 (approximately HK$68,055,000) granted to a subsidiary of the Company.

(iv) Build and sale of vessels

As at 31 December 2008, the shipbuilding subsidiary of the Group had net amount due to Titan Oil for HK$279,322,000 (HK$95,211,000 was included in accounts receivable and HK$374,533,000 was included in other payables and accruals) (2007: HK$330,448,000) relating to build and sale of vessels to Titan Oil. The amount is unsecured, interest free and has no fixed term of repayment. The sale of vessels to Titan Oil in current year was HK$565,333,000 (2007: HK$114,017,000).

42. RELATED PARTY TRANSACTIONS (continued)

(v) Issue of earn-out shares

As detailed in note 17 to the financial statements, according to the agreement of acquisition of TQSL Holding, earn-out shares will be issued when it is probable that TQSL Holding can meet the target net profit before tax ("NPBT"). As at 31 December 2008, it was determined that TQSL Holding is able to meet the first year target NPBT, and, therefore, the Company is obliged to issue the maximum of earn-out shares of 88,601,711 shares entitlement to Titan Oil or the nominees.

The earn-out shares are recorded at the market price at the acquisition date as the earn-out shares reserve and the amount will be transferred to share capital and share premium when the shares are eventually issued.

(vi) Land pledged as security

As at 31 December 2008, land owned by related companies was used to pledge security for a bank loan of RMB100,000,000 (equivalent to approximately HK$114,125,000) granted to a subsidiary of the Company.

43. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of the categories of financial instruments as at the balance sheet date are as follows:

Financial assets
Group

	Financial assets at fair value through profit or loss — held for trading		Loans and receivables		Total	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Due from associates	—	—	—	27,598	—	27,598
Other deposits	—	—	8,200	14,166	8,200	14,166
Accounts receivable	—	—	224,215	1,158,427	224,215	1,158,427
Financial assets included in prepayments, deposits and other receivables	—	—	602,976	579,583	602,976	579,583
Contracts in progress	—	—	514,992	205,587	514,992	205,587
Derivative financial instruments	—	258,095	—	—	—	258,095
Pledged deposits	—	—	230,363	597,184	230,363	597,184
Cash and cash equivalents	—	—	351,404	1,513,620	351,404	1,513,620
	—	258,095	1,932,150	4,096,165	1,932,150	4,354,260

Notes to Financial Statements

31 December 2008

43. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

Group

	Financial liabilities at fair value through profit or loss — held for trading		Financial liabilities at amortised cost		Total	
	2008	2007	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Due to associates	—	—	993	—	993	—
Accounts and bills payable	—	—	353,869	913,153	353,869	913,153
Financial liabilities included in other payables and accruals	—	—	1,089,042	868,726	1,089,042	868,726
Excess of progress billings over contract costs	—	—	8,294	21,833	8,294	21,833
Derivative financial instruments	—	408,527	—	—	—	408,527
Interest-bearing bank loans	—	—	1,780,845	3,059,826	1,780,845	3,059,826
Finance lease payables	—	—	722	1,146	722	1,146
Fixed rate guaranteed senior notes	—	—	2,621,813	3,135,041	2,621,813	3,135,041
Convertible preferred shares — liability portion	—	—	573,393	501,622	573,393	501,622
Other non-current liabilities	—	—	2,500	—	2,500	—
Notes payable	(11,765)	—	206,336	—	194,571	—
	(11,765)	408,527	6,637,807	8,501,347	6,626,042	8,909,874

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43. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets

Company

	Financial assets at fair value through profit or loss — held for trading		Loans and receivables		Total	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Due from subsidiaries	—	—	6,145,932	5,671,533	6,145,932	5,671,533
Other deposits	—	—	—	14,166	—	14,166
Financial assets included in prepayments, deposits and other receivables	—	—	59,115	1,542	59,115	1,542
Cash and cash equivalents	—	—	46,662	298,858	46,662	298,858
	—	—	6,251,709	5,986,099	6,251,709	5,986,099

Financial liabilities

Company

	Financial liabilities at fair value through profit or loss — held for trading		Financial liabilities at amortised cost		Total	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Financial liabilities included in other payables and accruals	—	—	6,614	25,879	6,614	25,879
Due to subsidiaries	—	—	1,392,280	636,598	1,392,280	636,598
Financial instruments	8,549	—	—	—	8,549	—
Derivative financial instruments	—	5,812	—	—	—	5,812
Fixed rate guaranteed senior notes	—	—	2,621,813	3,135,041	2,621,813	3,135,041
Convertible preferred shares — liability portion	—	—	257,385	226,879	257,385	226,879
	8,549	5,812	4,278,092	4,024,397	4,286,641	4,030,209

Notes to Financial Statements

31 December 2008

44. 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, notes payable, 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.

In the prior year, the Group also entered into derivative transactions, including oil price swap contracts and interest rate swap agreements. The purpose of entering into these derivative transactions was to manage the risks from fluctuations in commodity prices and interest rates arising from the Group's operations and its sources of finance. As a result of discontinued the operation of oil trading on 25 June 2008 and unwinding the interest rate swap arrangement during the current year, the Group ceased entering into any oil price swap contracts and interest rate swap agreement.

The Group is principally exposed to price risks, interest rate risks, credit risks, liquidity risks and foreign currency risks, and in the past used 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.

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.

Interest rate risk

The Group's treasury department continually monitors the positions and explores other ways to reduce interest costs.

The majority of the Group floating rate loans were hedged by an interest rate swap arrangement in the prior year. As a result of unwinding the interest rate swap arrangements in the current year, the following table demonstrates the sensitivity to a reasonably possible change in interest rates in the current year, with all other variables held constant, of the Group's loss before tax (through the impact on floating rate borrowings) and the Group's equity.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

	Increase/ (decrease) in basis points	Increase/ (decrease) in loss before tax HK$'000	Increase/ (decrease) in equity* HK$'000
2008			
Hong Kong dollar	85-170	43,253	—
Hong Kong dollar	(85-170)	(43,253)	—

* Excluding retained profits

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.

There are no significant concentrations of credit risk within the Group as the customer bases of the Group's accounts receivable are widely dispersed.

Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable are disclosed in note 22 to the financial statements.

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.

Notes to Financial Statements

31 December 2008

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risks (continued)

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on contracted undiscounted payments, is as follows:

Group

	Within one year		Over one year		Total	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Due to associates	**993**	—	**—**	—	**993**	—
Accounts and bills payable	**353,869**	913,153	**—**	—	**353,869**	913,153
Financial liabilities included in other payables and accruals	**1,089,042**	868,726	**—**	—	**1,089,042**	868,726
Excess of progress billings over contract costs	**8,294**	21,833	**—**	—	**8,294**	21,833
Derivative financial instruments	**—**	408,527	**—**	—	**—**	408,527
Interest-bearing bank loans	**624,539**	1,798,617	**1,156,306**	1,261,209	**1,780,845**	3,059,826
Finance lease payables	**403**	424	**319**	722	**722**	1,146
Fixed rate guaranteed senior notes	**—**	—	**2,598,773**	3,120,000	**2,598,773**	3,120,000
Convertible preferred shares — liability portion	**—**	—	**311,000**	311,000	**311,000**	311,000
Other non-current liabilities	**—**	—	**2,500**	—	**2,500**	—
Notes payable	**—**	—	**195,000**	—	**195,000**	—
	2,077,140	4,011,280	**4,263,898**	4,692,931	**6,341,038**	8,704,211

Company

	Within one year		Over one year		Total	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Financial liabilities included in other payables and Accruals	**6,614**	25,879	**—**	—	**6,614**	25,879
Due to subsidiaries	**—**	—	**1,392,280**	636,598	**1,392,280**	636,598
Financial instruments	**8,549**	—	**—**	—	**8,549**	—
Derivative financial instruments	**—**	5,812	**—**	—	**—**	5,812
Fixed rate guaranteed senior notes	**—**	—	**2,598,773**	3,120,000	**2,598,773**	3,120,000
Convertible preferred shares — liability portion	**—**	—	**311,000**	311,000	**311,000**	311,000
	15,163	31,691	**4,302,053**	4,067,598	**4,317,216**	4,099,289

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the United States dollar to RMB exchange rate, with all other variables held constant, of the Group's loss before tax due to changes in the fair values of monetary assets and liabilities.

	%	Increase/ (decrease) in loss before tax HK$'000
2008		
If United States dollar weakens against RMB	**8.82**	**68,945**
If United States dollar strengthens against RMB	**8.82**	**(68,945)**
2007		
If United States dollar weakens against RMB	5	12,857
If United States dollar strengthens against RMB	5	(12,857)

Capital management

The primary objective of the Group's capital management is to safeguard its ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 2007.

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44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is total debt divided by total assets. The gearing ratios as at the balance sheet dates were as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Interest-bearing bank loans	**1,780,845**	3,059,826
Finance lease payables	**722**	1,146
Fixed rate guaranteed senior notes	**2,621,813**	3,135,041
Notes payable	**194,571**	—
Total debt	**4,597,951**	6,196,013
Total assets	**8,998,992**	12,774,943
Gearing ratio	**51%**	49%

45. COMPARATIVE AMOUNTS

Certain comparative amounts in note 4 under the heading "Segment Information" have been reclassified to conform with the current year presentation. In the opinion of the Company's directors, such reclassifications provide a more appropriate presentation on the Group's business segments.

Notes to Financial Statements

31 December 2008

46. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Company repurchased 8.50% Senior Notes issued by it and listed on the Singapore Stock Exchange in the aggregate principal amount of US$17,816,000 (HK$138,964,800). Together with those Senior Notes repurchased in 2008, the Company has repurchased US$84,640,000 (HK$660,192,000) in total, of which US$75,580,000 (HK$589,524,000) and US$9,060,000 (HK$70,668,000) of the Senior Notes have been cancelled on 18 February 2009 and 20 February 2009, respectively. The gain from this Senior Notes repurchased was HK$93,667,000. The outstanding principal amount of the Senior Notes immediately following such cancellations has been reduced from US$400,000,000 (HK$3,120,000,000) to US$315,360,000 (HK$2,459,808,000).

Further details in respect of the above are included in the Company's announcement dated 20 February 2009.

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 April 2009.

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 published audited financial statements, is set out below.

	Year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE					
Continuing operations	**7,812,382**	7,848,490	6,637,088	4,864,392	3,493,565
Discontinued operation	**3,280,562**	9,155,828	4,822,892	5,599,258	—
	11,092,944	17,004,318	11,459,980	10,463,650	3,493,565
PROFIT/(LOSS) BEFORE TAX					
Continuing operations	**(390,968)**	(81,799)	62,778	297,614	404,994
Discontinued operation	**(1,217,257)**	57,321	47,711	8,890	(2,086)
	(1,608,225)	(24,478)	110,489	306,504	402,908
Tax					
Continuing operations	**2,664**	(12,458)	(10,748)	(550)	(2,450)
Discontinued operation	**36**	5,964	(3,229)	(2,924)	—
	2,700	(6,494)	(13,977)	(3,474)	(2,450)
PROFIT/(LOSS) FOR THE YEAR	**(1,605,525)**	(30,972)	96,512	303,030	400,458
Attributable to:					
Equity holders of the parent	**(1,600,557)**	(29,104)	100,333	303,030	400,458
Minority interests	**(4,968)**	(1,868)	(3,821)	—	—
	(1,605,525)	(30,972)	96,512	303,030	400,458

ASSETS, LIABILITIES AND MINORITY INTERESTS

	At 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**8,998,992**	12,774,943	8,947,036	7,602,229	3,010,125
TOTAL LIABILITIES	**(6,826,211)**	(9,089,734)	(6,795,131)	(5,716,467)	(1,380,779)
CONTINGENTLY REDEEMABLE EQUITY IN A JOINTLY-CONTROLLED ENTITY	**(517,837)**	(517,837)	—	—	—
MINORITY INTERESTS	**(23,751)**	(115,487)	(102,997)	(26,665)	—
	1,631,193	3,051,885	2,048,908	1,859,097	1,629,346

CORPORATE INFORMATION

Directors

Executive Directors

Tsoi Tin Chun, *Chairman & Chief Executive*
Patrick Wong Siu Hung

Independent Non-executive Directors

John William Crawford, *JP*
Abraham Shek Lai Him, *SBS, JP*
Maria Tam Wai Chu, *GBS, JP*

Audit Committee

John William Crawford, *JP, Committee Chairman*
Maria Tam Wai Chu, *GBS, JP*
Abraham Shek Lai Him, *SBS, JP*

Remuneration Committee

Maria Tam Wai Chu, *GBS, JP, Committee Chairman*
Abraham Shek Lai Him, *SBS, JP*
Tsoi Tin Chun

Company Secretary

Shirley Hui Wai Man

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Hong Kong

Principal Bankers

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Agricultural Bank of China
Bank of China
China CITIC Bank
China Construction Bank
China Merchants Bank
DBS Bank Ltd
Industrial Bank Co., Ltd
Industrial and Commercial Bank of China
ING Bank N.V.
Malayan Banking Berhad
Shenzhen Development Bank
United Overseas Bank Ltd

Auditors

Ernst & Young

Solicitors

Richards Butler
Rodyk & Davidson LLP
Haridass Ho & Partners
Skadden, Arps, Slate, Meagher & Flom LLP
TSMP Law Corporation
Conyers, Dill & Pearman
Raja, Darryl & Loh
Kennedys
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