THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should obtain independent professional advice.

If you have sold or transferred all your shares in Titan Petrochemicals Group Limited, you should at once hand this circular to the purchaser or transferee or the bank, licensed securities dealer or other agent through whom the sale was effected for transmission to the purchaser or transferee.

TITAN PETROCHEMICALS GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1192)

MAJOR AND CONNECTED TRANSACTION
PURCHASE OF 100% INTEREST IN THE SHIPYARD HOLDCO

Financial adviser to Titan

Merrill Lynch (Asia Pacific) Limited

Independent financial advisor to the Independent Board Committee and Titan Independent Shareholders

CIMB- GK Securities (HK) Limited

A letter from the board of directors of the Company is set out on pages 6 to 21 of this circular.

A notice convening a special general meeting of the Company to be held at Salon IV, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong, on 12 October 2007 at 11:00 a.m., is set out on pages S-1 to S-2 of this circular. If you are not able to attend the meeting of the Company, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the principal place of business of the Company at 4901 Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong as soon as possible and in any event not later than forty-eight (48) hours before the time appointed for holding the meeting of the Company. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting of the Company or any adjournment of it, if you so wish.

24 September 2007

CONTENTS

Page

"2008 NPBT"	means the audited consolidated net profit before taxation of the Shipyard Group for the year ending 31 December 2008;
"2009 NPBT"	means the audited consolidated net profit before taxation of the Shipyard Group for the year ending 31 December 2009;
"2010 NPBT"	means the audited consolidated net profit before taxation of the Shipyard Group for the year ending 31 December 2010;
"5 Day Average Closing Price"	means HK$0.606 being the average closing price per Titan Share for the five consecutive trading days ending on 3 September 2007, being the last day of dealing in the Titan Shares prior to the issue of the Announcement;
"30 Day Average Closing Price"	means HK$0.645 being the average closing price per Titan Share for the thirty consecutive trading days ending on 3 September 2007, being the last day of dealing in the Titan Shares prior to the issue of the Announcement;
"associates"	has the meaning ascribed to it in the Listing Rules;
"Board"	means the board of Directors;
"bunker"	means heavy fuel oil used to power the engines of a vessel;
"Business Day"	means any day (other than a Saturday, a Sunday or a public holiday or a day which a tropical cyclone warning No. 8 or above or a "black rainstorm warning signal" is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.), on which banks are open for general banking business in Hong Kong;
"Completion"	means completion of the Shipyard Purchase Agreement;
"connected person"	has the meaning ascribed to it in the Listing Rules;
"Consideration Shares"	means the Titan Shares to be issued to the Shipyard Vendors as a portion of the Consideration for, and pursuant to the acquisition of the Shipyard Holdco, being the Shipyard Ordinary Shares and the Shipyard Preferred Shares (under the Original Shipyard Purchase Agreement) or the Shipyard Ordinary Shares and the Earn-out Shares (under the Shipyard Purchase Agreement);
"controlling shareholder"	has the meaning ascribed to it in the Listing Rules;
"Director"	means a director of the Company;

"dwt"	means deadweight tonnes, a unit of a vessel's capacity for cargo, fuel oil, stores and crew, measured in metric tonnes of 1,000 kilograms;
"Earn-out Shares"	means up to 88,601,711 new Titan Ordinary Shares, 88,601,711 new Titan Ordinary Shares and 177,203,422 new Titan Ordinary Shares to be issued pursuant to the Shipyard Purchase Agreement after the 2008 NPBT, 2009 NPBT and 2010 NPBT can be ascertained;
"Enlarged Group"	means the Group and the Shipyard Group;
"Existing Ordinary Shares"	means the 5,427,440,202 Titan Ordinary Shares in issue as at the Latest Practicable Date;
"First Announcement"	means the announcement of the Company dated 3 September 2007, in respect of, among other things, the Shipyard Purchase Agreement;
"FSU"	means floating storage unit;
"FY2008"	means financial year ending 31 December 2008;
"FY2009"	means financial year ending 31 December 2009;
"FY2010"	means financial year ending 31 Decemebr 2010;
"Great Logistics"	means Great Logistics Holdings Limited, a company incorporated under the laws of the British Virgin Islands with limited liability, which holds approximately 50.8% of the total number of Titan Ordinary Shares in issue;
"HK$"	means Hong Kong dollar(s), the lawful currency of Hong Kong;
"Hong Kong"	means the Hong Kong Special Administrative Region of the People's Republic of China;
"Independent Board Committee"	means a board committee comprising only the independent non-executive Directors of the Company constituted to make recommendation to the Titan Independent Shareholders with respect to the acquisition contemplated under the Shipyard Purchase Agreement;
"Independent Financial Adviser"	means CIMB- GK Securities (HK) Limited;
"km"	means kilometers;

"Last Closing Price"	means HK$0.62 being the closing price per Titan Share on 3 September 2007, being the last day of dealing for the Titan Shares prior to the issue of the Announcement;
"Latest Practicable Date"	means 21 September 2007, being the latest practicable date for obtaining certain information contained in this circular;
"Listing Rules"	means the Rules Governing the Listing of Securities on the Stock Exchange;
"m" and "m^2"	means metres and square metres respectively;
"mmboe"	means million barrels of oil equivalent;
"Mr. Tsoi"	means Mr. Tsoi Tin Chun, a Director and chairman of the Company;
"NPBT"	in respect of the Shipyard Group, means the audited consolidated net profit before taxation in respect of the relevant financial year;
"NPBT Targets"	means US$7.5 million for FY2008, US$20.0 million for FY2009 and US$50.0 million for FY2010;
"Original Shipyard Purchase Agreement"	means the Shipyard Purchase Agreement dated 3 September 2007 between the Company and the Shipyard Vendors for the purchase and sale of the entire issued share capital of Shipyard Holdco, involving the satisfaction of part of the purchase price is to be satisfied by the issue of the Shipyard Ordinary Shares and the Shipyard Preferred Shares;
"PRC"	means the People's Republic of China;
"RMB"	means Renminbi, the lawful currency of the PRC;
"Second Announcement"	means the announcement of the Company dated 21 September 2007 in respect of, among other things, the amendments to the Original Shipyard Purchase Agreement;
"SFO"	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Shipyard Conversion Shares"	means the Titan Ordinary Shares which fall to be issued on conversion of the Shipyard Preferred Shares;
"Shipyard Group"	means Shipyard Holdco and its wholly-owned subsidiary Titan Quanzhou Shipyard;

"Shipyard Holdco"	means Titan TQSL Holding Company Ltd;
"Shipyard Ordinary Shares"	means the 1,046,198,808 Titan Ordinary Shares to be issued under the Shipyard Purchase Agreement;
"Shipyard Preferred Shares"	means the three classes of non-voting convertible preferred shares known as "Shipyard A Preferred Shares", "Shipyard B Preferred Shares" and "Shipyard C Preferred Shares", respectively to be issued by the Company as part of the Consideration Shares, which are convertible into Titan Ordinary Shares by reference to (i) the 2008 NPBT, in the case of the 88,601,711 Shipyard A Preferred Shares, (ii) the 2009 NPBT, in the case of the 88,601,711 Shipyard B Preferred Shares, and (iii) the 2010 NPBT in the case of the 177,203,422 Shipyard C Preferred Shares;
"Shipyard Purchase Agreement"	means the Original Shipyard Purchase Agreement as amended and restated in an agreement dated 21 September 2007 between the Company and the Shipyard Vendors whereby the Consideration Shares structure was altered to comprise the Shipyard Ordinary Shares and the Earn-out Shares;
"Shipyard Vendors"	means Titan Oil, Vision Jade Investments Limited and Titan Shipyard Investment Company Limited, all being associates of Mr. Tsoi;
"SGM"	means the special general meeting of the Company to be convened to consider and, if thought fit, approve, among other things, the Shipyard Purchase Agreement and transactions contemplated thereunder, notice of which is set out on pages S-1 to S-2 of this circular;
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited;
"tanker"	means a ship designed for the carriage of liquid cargoes in bulk with cargo space consisting of many tanks, Tankers carry a variety of products including crude oil, refined products, liquid chemicals and liquid gas;
"Titan" or the "Company"	means Titan Petrochemicals Group Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange;
"Titan Group" or the "Group"	means Titan and its subsidiaries;
"Titan Independent Shareholders"	means Titan Shareholders other than Mr. Tsoi and its associates;

"Titan Oil"	means Titan Oil Pte. Ltd., a company incorporated under the laws of Singapore with limited liability, which wholly owns Great Logistics and which is owned as to 95% by Mr. Tsoi, and as to 5% by his spouse, Ms. Tsoi Yuk Yi;
"Titan Ordinary Shares"	means the ordinary shares of the Company of HK$0.01 each;
"Titan Quanzhou Shipyard"	means Titan Quanzhou Shipyard Co., Ltd, a corporation organised and existing under the laws of the PRC;
"Titan Shares"	means shares of HK$0.01 each in the share capital of the Company which include as at Latest Practicable Date the Existing Ordinary Shares and 555 million convertible redeemable preferred shares which form part of the WP Securities;
"Titan Shareholders"	means holders of Titan Shares;
"TOPL Notes"	means the US$50 million 1.5% exchangeable notes due 2010 issued by Titan Oil;
"US$"	means United States dollar(s), the lawful currency of the United States;
"VLCC"	means very large crude carrier;
"WP Securities"	means the 555 million convertible redeemable preferred shares of HK$0.01 each issued by the Company on 22 June 2007 and the warrants to subscribe up to HK$195 million for Titan Ordinary Shares at the initial subscription price of HK$0.644 per Titan Ordinary Share (further particulars of which are set out in Titian's announcement dated 29 March 2007 and shareholders' circular dated 25 May 2007).

Unless otherwise specified in this circular, translations of RMB into HK$ and US$ into HK$ are made in this circular, for illustration only, at the rate of RMB1.00 to HK$1.03 and US$1.00 to HK$7.80, respectively. No representation is made that any amounts in RMB, US$ or HK$ could have been or could be converted at that rate, any other rate or at all.

TITAN PETROCHEMICALS GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1192)

Executive Directors
Mr. Tsoi Tin Chun
Mr. Barry Cheung Chun Yuen, *JP*

Non-executive Director
Mr. Ib Fruergaard

Independent Non-executive Director
Mr. John William Crawford, *JP*
Mr. Abraham Shek Lai Him, *JP*
Ms. Maria Tam Wai Chu, *JP*

Registered Office
Clarendon House
Church Street
Hamilton HM 11
Bermuda

Principal place of business
4901 Sun Hung Kai Centre
30 Harbour Road
Wanchai, Hong Kong

24 September 2007

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION
PURCHASE OF 100% INTEREST IN SHIPYARD HOLDCO

A. INTRODUCTION

The Company announced in the First Announcement on 3 September 2007 that it has entered into the Original Shipyard Purchase Agreement on Completion of which the Company will wholly-own the Shipyard Group, and thereby acquire shipbuilding and, in due course, ship repair and offshore engineering capabilities, to complement and support its integrated oil logistics business as part of the Company's previously announced strategy to diversify its earnings base.

The Company has subsequently announced in the Second Announcement that on 21 September 2007, the Company and the Shipyard Vendors have entered into the Shipyard Purchase Agreement to alter the structure for the issue of the Consideration Shares in a manner that does not affect the commercial substance of the transaction contemplated under the Original Shipyard Purchase Agreement but that removes any potential non-cash earnings accounting impact (whether positive or negative) under the original structure, for the benefit of the Company and the holders of Titan Shares.

An ordinary resolution will be proposed at the SGM to seek the approval by the Titan Independent Shareholders of the Shipyard Purchase Agreement. The consideration is to be satisfied as to approximately US$56.9 million (approximately HK$443.8 million) by cash payment and as to the balance of US$113.1 million (approximately HK$882.2 million) by the issue of the Consideration Shares, which comprises 1,046,198,808 Shipyard Ordinary Shares and 354,406,844 Earn-out Shares.

The Independent Board Committee has been constituted to make recommendation to the Titan Independent Shareholders in respect of the resolution to approve the Shipyard Purchase Agreement and the transactions contemplated thereunder. The Independent Financial Advisor has been appointed by the Company to advise the Independent Board Committee and the Titan Independent Shareholders as to whether the terms of the Shipyard Purchase Agreement, and the transactions contemplated thereunder are fair and reasonable so far as the Titan Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

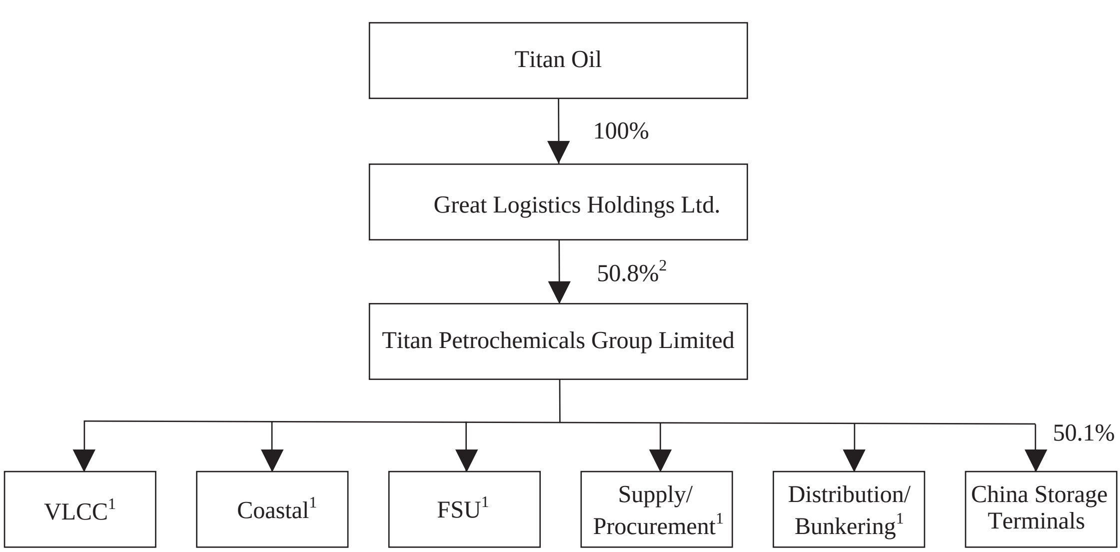
The purpose of this circular is to provide you with, among other things, (a) details of transactions contemplated under the Shipyard Purchase Agreement, (b) the recommendation from the Independent Board Committee in respect of the terms of the Shipyard Purchase Agreement and the transactions contemplated thereunder; (c) a letter of advice from the Independent Financial Advisor to the Independent Board Committee and the Titan Independent Shareholders in respect of the terms of the Shipyard Purchase Agreement and the transactions contemplated thereunder; and (d) a notice of SGM.

B. OVERVIEW OF TRANSACTIONS

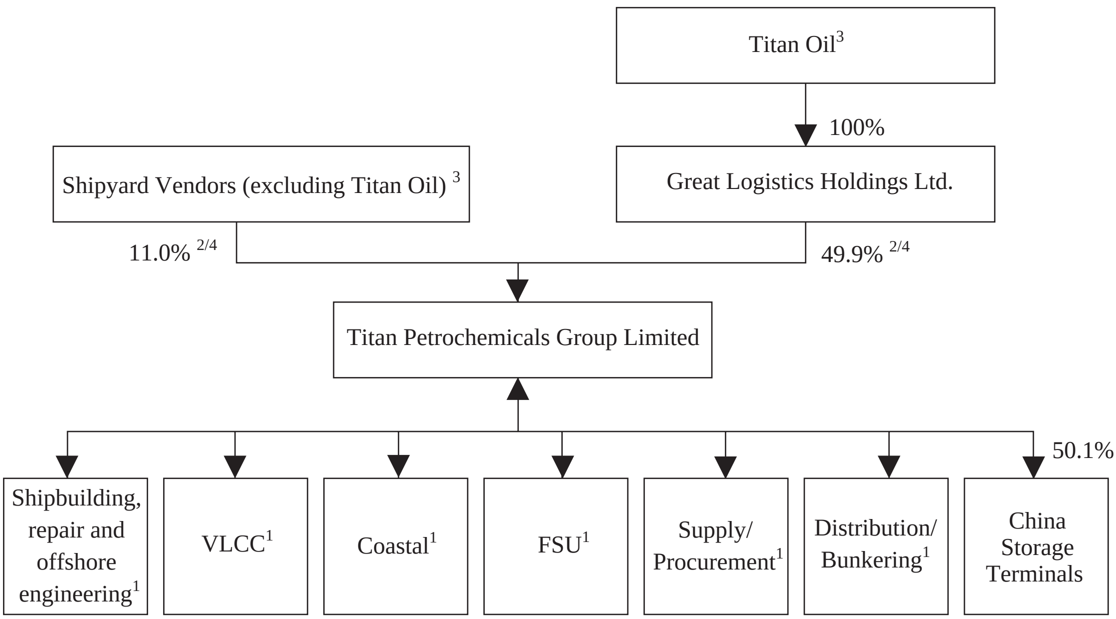
On Completion, the Company will wholly-own the Shipyard Group, and thereby acquire shipbuilding and, in due course, ship repair and offshore engineering capabilities, to complement and support its integrated oil logistics business in its efforts to diversify its earnings base.

The following diagrams show the effect of the transactions contemplated under the Shipyard Purchase Agreement.

Simplified existing group structure



Simplified group structure immediately after Completion of the Shipyard Purchase Agreement and upon issue of all Earn-out Shares assuming that all NPBT Targets are met or exceeded



Notes:

1. Unless otherwise specified the relevant operations are 100% owned.

2. As at the Latest Practicable Date, there are outstanding options to subscribe for 166,940,000 Titan Ordinary Shares. There are also in issue the WP Securities which if fully converted or exercised at the prevailing conversion/exercise price would result in an issue of 857,912,621 Titan Ordinary Shares. The diagrams above assume that none of the options or WP Securities are exercised/converted.

3. The Shipyard Vendors (including Titan Oil) are all associates of Mr. Tsoi.

4. This percentage represents the Titan Ordinary Shares which are to be held by the Shipyard Vendors assuming that the NPBT Targets are all met or exceeded and that Titan Oil nominates Great Logistics to take up its portion of the Consideration Shares.

C. BACKGROUND TO AND BENEFITS OF THE SHIPYARD PURCHASE AGREEMENT

In anticipation of the current attractive outlook for the global shipbuilding industry, and in particular the competitive advantages that a PRC-based shipyard with a modular strategy would have in such industry environment, Titan Oil established Titan Quanzhou Shipyard in early 2004. At the time of the ground breaking ceremony in September 2005, construction of Titan Quanzhou Shipyard to planned capacity levels was expected to take in aggregate approximately 4 years. The first phase of construction work was concluded in September 2006 and the second phase of work is currently underway, whilst Titan Quanzhou Shipyard is already actively building ships. It is estimated that Titan Quanzhou Shipyard will commence full operations in various phases from 2008 onwards and will achieve planned capacity levels by the end of 2009, in accordance with the original plan.

The Board, having taken into account a market study conducted by Drewry Shipping Consultants Ltd, considers that the Shipyard Purchase Agreement will benefit the Company for the following reasons:

Titan Quanzhou Shipyard Enjoys a Favourable and Robust Market Environment

A combination of industry drivers support the positive outlook for global demand for the various services offered by Titan Quanzhou Shipyard.

- **Growth in Global Seaborne Trade:** Since 1990, world seaborne trade has grown at an average rate of 3.8% per annum. At this rate of growth in global seaborne trade, further expansion in the shipping industry is likely to generate excess demand for current levels of shipyard services, and will subsequently offer opportunities for all companies active in the sector.

- **China's Need for New-built Vessels:** In recent years, China has been a key driver behind the growth in global seaborne trade due to its increasingly important role as the world's center for goods manufacturing and its need for raw materials such as crude oil and iron ore, capital goods and intermediate/semi-finished goods. Industry estimates show that China will require new shipping capacity of 5 million dwt annually between 2006 and 2010 and 7 million dwt annually between 2011 and 2015. The continuing increase of imports into China will create favourable conditions for domestic fleet expansion to meet the needs of the booming local market.

- **Ageing Global Fleet:** A large proportion of the world's shipping capacity is served by vessels built in the early 1980s, resulting in a global fleet with a relatively old age profile. As these vessels approach the end of their useful lives, shipbuilding demand is expected to increase, which would bring about a notable boost in global shipbuilding orders.

- **Impact of Regulatory Changes:** According to the International Maritime Organization's regulations, all single-hulled tankers are to be phased-out by 2010. In addition, the Maritime Port Authority of Singapore has implemented more stringent restrictions, specifying that unless shipowners have a planned renewal program for their single-hulled bunker tankers and these bunker tankers are endorsed as structurally safe by their classification societies, all such single-hull bunker tankers have to cease operation by 2008. At present there are over 200 bunker tankers operating in Singapore waters alone, of which 95% are single-hull and will accordingly be phased out during the period between 2008 and 2015.

- **Growth in Offshore Oil & Gas Activities:** Offshore oil supply currently accounts for 34% of global oil production and is expected to reach 40% of worldwide oil production in 2015. Given the increasing strategic importance of offshore exploration and production, tremendous opportunities arise in the offshore oil and gas industry. Daily offshore oil and gas production, currently standing at around 42.9 mmboe in 2006, is forecasted to expand to 53.5 mmboe in 2010. Over the next five years, some US$28 billion is likely to be spent on deepwater floating production systems, US$40 billion on drilling and completing subsea wells, and US$14 billion on flowlines and control lines, while subsea hardware and surface completed wells could account for a further US$10 billion. Consequently, a significant increase in demand for drilling platforms and supporting vessels such as tender rigs, jack-up rigs, semi-submersibles and drill ships, is expected.

Titan Quanzhou Shipyard is a Unique, World-class Multifunctional Shipyard

The design philosophy behind Titan Quanzhou Shipyard is based on the need for maximum flexibility and optimal use of its prime location; it has the following distinct features:

- **Modular and Flexible Business Model:** Titan Quanzhou Shipyard's facilities will be state-of-the-art, allowing an integration of ship building, repair and conversion capabilities unique to China. Titan Quanzhou Shipyard will be capable of docking and handling all types of ships, including the world's largest new generation vessels. The modular nature of construction allows the Company to allocate resources in the yard in accordance with demand patterns. The ship repair business is a relatively stable repeat business and counterbalances ship building and offshore which are more cyclical by nature.

- **Excellent Geographic Location:** Titan Quanzhou Shipyard is located in the Douwei area of Huian, Quanzhou, the southern part of Meizhou Bay's economic zone and features a 2.6 km natural deep water coastline and (on completion of planned reclamation) a land area of 1.1 million m^2. The location faces the Straits of Taiwan with a distance of 170 nautical miles from Taipei and 186 nautical miles from Kaohsiung. Distances to Shanghai and Hong Kong are 502 and 386 nautical miles, respectively. Except for one dry dock in Guangzhou, the remaining eight dry and floating docks with capacity over 100,000 dwt in China are located north of the Yangtze River and there are no large docks along the 900 nautical miles coastline between Shanghai and Guangzhou.

- **Superior Local Conditions:** Titan Quanzhou Shipyard is located in a sub-tropical zone, which boasts all-year-round favourable weather and humidity for ship repairing. Various islands provide a natural shelter for the vessels and the shipyard and the nearest main waterways are the Dazhuyu and Houyu waterways. Furthermore, the depth and tidal speeds of both are suitable for the types of ships to be potentially built and docked and VLCCs in ballast condition will be able to maneuver in and out of port with ease. Finally, the local government has allocated various anchorages to accommodate vessels for awaiting berths, after-built anchoring and ship-channeling purposes. Titan Quanzhou Shipyard's offshore engineering unit will enjoy a unique competitive advantage, as it will be sited at deep waters, reaching depths of up to 18 metres by the berth and 30 metres in the harbour, which are ideal for building and assembling offshore oil drilling platforms.

Timely Acquisition to Capture Titan Quanzhou Shipyard Upside, with Partial Value Protection in Place

The consideration payable under the Shipyard Purchase Agreement, which is determined primarily with reference to indicative valuations from Grant Sherman Appraisal Limited, an independent valuer, of the property interests and the machinery and equipment of the Shipyard Group based on the replacement costs of such assets, is expected to be lower than the consideration for an acquisition at a later stage when the facilities of Titan Quanzhou Shipyard are fully operational and profit-generating at levels in line with the NPBT Targets.

The Board believes that the Price/NPBT multiples implied by the consideration payable compare favourably to the Price/NPBT multiples implied by the respective traded market prices as at the Latest Practicable Date of companies which the Board considers broadly comparable to Titan Quanzhou Shipyard. The Board also notes that Titan Quanzhou Shipyard has, as at the Latest Practicable Date, secured various shipbuilding contracts and that its orderbook amounts to approximately US$210 million, thus providing additional comfort that Titan Quanzhou Shipyard will be able to achieve the levels of profitability implied by the NPBT Targets agreed between the Company and the Shipyard Vendors.

Moreover, the issuance of Earn-out Shares as part of the consideration provides the Company with a mechanism to retrospectively decrease the consideration payable if certain NPBT Targets will not have been met through an adjustment mechanism which rateably reduces the number of Earn-out Shares which fall to be issued on conversion, as set out in more detail in Section D of this circular.

Titan Quanzhou Shipyard Further Strengthens the Company's Position as an Integrated Oil Logistics Provider

Upon integration into the Company, Titan Quanzhou Shipyard will be able to extract further benefits from the other activities carried out by the Company:

- **Synergies with the Transportation Business:** Titan Quanzhou Shipyard's maiden orders were placed by the Company. The Shipyard Group, once injected, can better support the future growth of the Company's coastal fleet in accordance with the requirements of the Company's transportation unit as it seeks to secure greater market share.

- **Synergies with the Distribution and Storage Businesses:** The Company has access to, and relationships with, a large roster of shipping clients through its activities in the bunkering market and the onshore and offshore storage activities. Modest incremental benefits are expected from the ability to cross-sell repair services to bunkering customers and discharging customers of the Fujian-based storage assets.

Titan Quanzhou Shipyard Represents the Next Step Towards Reducing the Company's Previous Exposure to the Volatile VLCC Market

Following the acquisition of Titan Quanzhou Shipyard, the Company will further diversify its business profile, consistent with its growth strategy of transforming its business towards an integrated oil logistics model. As set out in more detail in the Company's announcement dated 28 March 2007, significant progress has been made over the past few years to achieve the Company's goal of becoming a leading fully integrated oil logistics provider in Asia:

- **Transportation:** Focus on the successful management of tanker fleets through selective vessel sales, the entering into of long-term chartering-out arrangements, and the conversion of VLCCs to dual purpose (storage and transportation) vessels. To date, 4 VLCCs have been converted, two of which have been leased on term contracts to major international firms and the other two are used by the Company to support its supply and bunkering operations. The fifth VLCC conversion is underway. Because of the capacity constraints of onshore storage facilities in Singapore, the strategic importance of offshore facilities in Singapore will continue to rise, and therefore, bring economic benefits to the Company.

- **Supply and Distribution:** Development of integrated oil procurement and bunkering businesses which utilise physical assets to successfully distribute oil products into Asian markets, particularly China, through its Supply and Procurement and Distribution and Bunkering activities.

- **On-Shore Storage Terminal Operations in the PRC:** Development of three strategically located on-shore storage terminals in the PRC by way of significant investments in large-scale, world-class oil and chemical storage facilities in three strategic locations on China's South & East coast. The recently completed transaction with Warburg Pincus secured sufficient funding to Titan Group Investment Limited to ensure that the build-out of the on-shore storage terminals in the PRC to planned capacity levels can be completed.

D. SHIPYARD PURCHASE AGREEMENT

The Company announced on 28 March 2007 that it had entered into a memorandum of understanding with Titan Oil in respect to the possible acquisition of Titan Quanzhou Shipyard.

On 3 September 2007, the Company and the Shipyard Vendors entered into the Original Shipyard Purchase Agreement pursuant to which, and subject to the fulfilment of certain conditions precedent described in greater detail below, the Shipyard Vendors have agreed to sell and the Company has agreed to purchase or procure its nominee to purchase the entire issued share capital of Shipyard Holdco (which wholly-owns Titan Quanzhou Shipyard). The consideration was to be satisfied as to approximately US$56.9 million (approximately HK$443.8 million) by cash payment and as to the balance of US$113.1 million (approximately HK$882.2 million) by the issue of the Consideration Shares, which comprised 1,046,198,808 Shipyard Ordinary Shares and 354,406,844 Shipyard Preferred Shares.

On 21 September 2007, the Company and the Shipyard Vendors entered into the Shipyard Purchase Agreement to alter the structure for the issue of the Consideration Shares in a manner that does not affect the commercial substance of the transaction contemplated under the Original Shipyard Purchase Agreement but that removes any potential non-cash earnings accounting impact (whether positive or negative) under the original structure, for the benefit of the Company and the holders of Titan Shares. The Shipyard Purchase Agreement which seeks to amend and restate the Original Shipyard Purchase Agreement so as to change the structure of the Consideration Shares to be issued as a portion of the Consideration for, and pursuant to, the Company's proposed acquisition of the entire issued share capital of Shipyard Holdco (which wholly-owns Titan Quanzhou Shipyard). The total consideration for the acquisition (assuming all NPBT Targets are met) remains US$170 million (approximately HK$1,326 million), which is to be satisfied as to approximately US$56.9 million (approximately HK$443.8 million) by cash payment and as to the balance of US$113.1 million (approximately HK$882.2 million) by the issue of the Consideration Shares at HK$0.63 per Consideration Share, which comprises the 1,046,198,808 Shipyard Ordinary Shares and 354,406,844 Earn-out Shares.

Conditions

Completion of the Shipyard Purchase Agreement is conditional upon, amongst other things, the following conditions being fulfilled (or waived by agreement of all parties) by 30 November 2007 or such later date as may be agreed between the parties in writing:

(a) the passing by the requisite majority of Titan Independent Shareholders in general meeting of all resolutions required to approve, among other things, the performance by the Company of the transactions contemplated under the Shipyard Purchase Agreement, including without limitation, the acquisition of the Shipyard Group and the issue of the Consideration Shares;

(b) the Listing Committee of the Stock Exchange having granted (either unconditionally or subject only to conditions to which the Company acting reasonably do not object) the listing of and permission to deal in the Consideration Shares;

(c) the requisite consents and (where applicable) waivers from holders of the TOPL Notes to the transactions contemplated under the Shipyard Purchase Agreement and all other third party consents and waivers (where applicable) that the Company or any of its subsidiaries or its holding company may require for the purposes of effecting the transactions contemplated under the Shipyard Purchase Agreement having been obtained; and

(d) the Company being satisfied that save for the outstanding amounts due under the existing vessel building contracts with Titan Oil there shall not be outstanding any amounts due to or from the Shipyard Vendors and their associates immediately after Completion.

If any of the conditions precedent set out above are not fulfilled or waived on or before 30 November 2007 (or such later date as the Shipyard Vendors and the Company may agree in writing), then the Shipyard Purchase Agreement shall lapse and be of no further effect and none of the parties thereto shall have any claim against or liability or obligation to the other parties under the Shipyard Purchase Agreement.

Completion

Subject to the conditions precedent to the Shipyard Purchase Agreement being fulfilled (or waived), completion of the Shipyard Purchase Agreement shall take place on the third Business Day next following the date of such fulfilment (or waiver) or such other date as the Shipyard Vendors and the Company may agree in writing.

Consideration

The US$170 million (approximately HK$1,326 million) consideration for the purchase of the Shipyard Group is to be satisfied on Completion as to approximately US$56.9 million (approximately HK$443.8 million) by cash payment and as to the balance of US$113.1 million (approximately HK$882.2 million) by the issuance of the Consideration Shares which comprise 1,046,198,808 Shipyard Ordinary Shares, and Earn-out Shares in three tranches of up to 88,601,711 new Titan Ordinary Shares, 88,601,711 new Titan Ordinary Shares and 177,203,422 new Titan Ordinary Shares on the seventh Business Day after receipt by the Company of the audited consolidated financial statements of the Shipyard Group for FY2008, FY2009 and FY2010, respectively. The Consideration Shares are to be issued to the Shipyard Vendors or their nominees.

The consideration has been determined after negotiations between a willing buyer and a willing seller by reference to the unaudited consolidated net asset value of the Shipyard Group as at 30 June 2007 after taking into account the indicative valuation by Grant Sherman Appraisal Limited as at that date of the property interests and plant and machinery of the Shipyard Group at RMB1,307 million (approximately HK$1,346 million) relative to the book value of such assets as at 30 June 2007 of RMB348.5 million (approximately HK$359.0 million) in aggregate. In addition, for the benefit of the Company and its shareholders as a whole, after arm's length negotiations between the Company and the Shipyard Vendors, they have agreed to an "earn-out" arrangement reflected in the way the Earn-out Shares are to be issued whereby the Shipyard Vendors will only receive Earn-out Shares upon specified NPBT Targets as described more particularly below being met or exceeded.

Earn-out Shares

There are to be three tranches of Earn-out Shares.

The number of Earn-out Shares that are to be issued will be calculated by reference to the relevant NPBT Target, so that the number of Earn-out Shares capable of issue would be reduced rateably if the 2008 NPBT, 2009 NPBT or 2010 NPBT falls short of the relevant

NPBT Target. However, if no profit is made in any of the relevant financial years, then no Earn-out Shares will be issued in respect of that year. The NPBT Targets relevant to the tranches of Earn-out Shares are as follows:

Maximum number of Earn-out Shares in each tranche	**NPBT Target**
88,601,711	US$7.5 million (approximately HK$58.5 million) for FY2008
88,601,711	US$20.0 million (approximately HK$156.0 million) for FY2009
177,203,422	US$50.0 million (approximately HK$390.0 million) for FY2010

If the NPBT Target for any of FY2008, FY2009 or FY2010 is not met, then the number of Earn-out Shares to be issued in the relevant tranche is to be reduced rateably (rounded down to the nearest whole number of Titan Ordinary Shares), by applying the following formula:

$$\frac{\text{Actual consolidated net profit before taxation of the Shipyard Group}}{\text{Target consolidated net profit before taxation of the Shipyard Group}}$$

The issue price per Consideration Share is HK$0.63. The issue price per Consideration Share has been determined after arm's length negotiations between the parties by reference to the market price for the Titan Ordinary Shares. It represents a 1.6% premium to the Last Closing Price, a 4.0% premium to the 5 Day Average Closing Price and a 2.3% discount to the 30 Day Average Closing Price.

If none of the NPBT Targets are achieved, then the number of Earn-out Shares will be rateably reduced. Based on the issue price of HK$0.63 per Consideration Share and the fact that would be issued, the consideration for the acquisition of the Shipyard Group would in the circumstances where the Shipyard Group does not record any NPBT in 2008, 2009 and 2010 be reduced by approximately US$28.6 million to approximately US$141.4 million (approximately HK$1,102.9 million). The Company will make further announcement(s) in accordance with Rule 14A.57 of the Listing Rules if any of the NPBT Targets is not met.

The Shipyard Vendors are all investment holding companies, wholly-owned by Mr. Tsoi and his wife. As at the Latest Practicable Date, Mr. Tsoi through Great Logistics owns 2,758,180,202 Titan Shares, representing approximately 50.8% of the Existing Ordinary Shares. Assuming no further acquisitions, disposals, issues or repurchases of Titan Shares, Mr. Tsoi through the Shipyard Vendors and Great Logistics will:

- (on Completion) hold a total of 3,804,379,010 Titan Ordinary Shares, which represent approximately 70.1% of the Existing Ordinary Shares and 58.8% of the Existing Ordinary Shares as enlarged by the issue of the Shipyard Ordinary Shares, and 354,406,844 Earn-out Shares; and

- (after all the NPBT Targets are met or exceeded) hold approximately 76.6% of the Existing Ordinary Shares and 60.9% of the Existing Ordinary Shares as enlarged by the issue of the Shipyard Ordinary Shares and the Earn-out Shares.

The issue of the Shipyard Ordinary Shares and Earn-out Shares will not result in a change of control of the Company. Further information on the dilution effects of the Consideration Shares is set out in the table in Section F.

The Consideration Shares (including the Earn-out Shares) are to be issued under a specific mandate to be sought from the Titan Independent Shareholders at a special general meeting to be convened for that purpose.

E. INFORMATION ON THE SHIPYARD GROUP

The Company is a fully integrated downstream oil logistics company, providing end-to-end transportation, storage, supply and distribution services on a single platform. the Company has its headquarters in Hong Kong and it currently operates in the PRC, Hong Kong, Singapore and Malaysia.

Shipyard Holdco is an investment holding company incorporated in July 2007 for the purpose of holding Titan Quanzhou Shipyard, and has engaged in no other business. It wholly-owns Titan Quanzhou Shipyard. Titan Quanzhou Shipyard was established in the PRC on 1 March 2004 as a sino-foreign joint venture limited liability company for a term of 50 years expiring on 28 February 2054. As at the Latest Practicable Date, it has registered capital of RMB270 million (approximately HK$278.1 million) (which has been fully paid up) and total investment amount of RMB800 million (approximately HK$824 million). Its approved scope of business is ship repair, the design and construction of specialty vessels or high performance vessels of less than 100,000 dwt and the manufacture, conversion and repair of offshore oil drilling equipment. Titan Oil initially held 40% equity interest in Titan Quanzhou Shipyard. Over the last two years, Mr. Tsoi consolidated his control over Titan Quanzhou Shipyard and the Shipyard Vendors came to own 100% of the Titan Quanzhou Shipyard, which became a wholly foreign owned enterprise in July 2007. To date the total investment made by Mr. Tsoi and his associates in the Shipyard Group (being the aggregate of contributions of registered capital and cost of acquisitions from independent third party shareholders) is approximately RMB279.7 million (approximately HK$288.1 million).

Titan Quanzhou Shipyard owns sites aggregating approximately 669,000 sq.m. and has been granted coastal area of 445,000 sq.m. for reclamation for ship repair facilities located at Zhen Feng Town, Hui An County, Quanzhou. It has been granted the right to use an adjacent 1,190.9 m of shallow water coast line and 1,425.5 m of deep water coast line for berthing and turning of vessels.

Titan Quanzhou Shipyard is a multi-functional shipyard with three main business units covering (i) ship repair, (ii) ship building and (iii) offshore engineering. The ship building unit's ground breaking ceremony took place on 27 September 2005 and the first ship was launched in August 2007 with its expected delivery in October 2007. The second ship has been launched in mid September 2007. The construction of the ship repair unit started in December 2006 and is expected to be completed by the end of 2009. The offshore engineering unit is anticipated to enter into service by the end of 2008. All three business units are expected to come on-stream in phases and become fully operational by the end of 2009.

The ship repair unit will be equipped with four large docks with a maximum length of 420m which could accommodate the world's largest container vessels of 397 m in length. As the only yard in the region (excluding Japan and Korea) capable of docking vessels of such size, Titan Quanzhou Shipyard is envisaged to become one of the largest ship repair yards in Asia.

According to a technical and market study conducted by Drewry Shipping Consultants Ltd, Titan Quanzhou Shipyard, as designed, will have the potential to repair up to 250 vessels per annum by 2011.

With a unique product portfolio spanning from high value-added bunker/transportation dual purpose tankers to other high performance vessels up to 100,000 dwt, the ship building unit has secured a strong order book amounting to approximately US$210 million for the coming years. There are a total of two multiple purpose dry docks and one slip way supported by building berths of 480 m in length, two large scale hull workshops, spraying & coating workshop, and auxiliary power supply facilities. Targeting at international market, the state-of-the-art equipments and facilities ensure that, upon full operations, Titan Quanzhou Shipyard will have an annual ship building capacity of 26 tankers.

Currently Titan Quanzhou Shipyard has subsisting vessel building contracts to build and deliver up to 22 vessels for Titan Oil and the Company respectively, as follows:

Description of Vessel	Customer	Contracted/ estimated delivery dates	Initial contract price
Eight 6,500 dwt bunker barges[1]	Titan Oil	Between 1 October 2007 to 30 June 2008	US$8.7 million per vessel
Four 9,000 dwt product tankers[1]	Titan Oil	Between 10 December 2008 to 9 April 2009	US$13 million per vessel

Description of Vessel	Customer	Contracted/ estimated delivery dates	Initial contract price
Ten 6,500 dwt bunker barges[2]	The Company	Between 31 December 2007 to 31 December 2008	US$8.67 million per vessel

Notes:

1. Principal terms for the time charter of two product barges and four product tankers to two independent third parties for terms ranging from 5 years to 7 years have been agreed, subject to contract. All twelve vessels contracted by Titan Oil are fully financed.

2. The vessel building contract to which these vessels relate was the subject of the Company's announcement dated 4 July 2006 and shareholders' circular dated 27 July 2006, respectively.

For the year ended 31 December 2005, the audited net profit attributable to Titan Quanzhou Shipyard, before and after taxation, was approximately RMB0.04 million (approximately HK$0.04 million).

For the year ended 31 December 2006, the audited net profit attributable to Titan Quanzhou Shipyard, before and after taxation, was approximately RMB3.31 million (approximately HK$3.41 million).

As at 30 June 2007, the audited net asset value of Titan Quanzhou Shipyard was approximately RMB283.07 million (approximately HK$291.56 million).

Shipyard Holdco has since its incorporation on 6 July 2007 carried on no business other than the acquisition of its interest in the Titan Quanzhou Shipyard. As at 31 July 2007, Shipyard Holdco has paid up share capital of US$10,000, its sole asset is its holding of the entire interest of Titan Quanzhou Shipyard and it has no liabilities.

Based on the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as set out in Appendix III of this circular, the unaudited pro forma consolidated net asset value of the Enlarged Group upon Completion is approximately HK$3,368.9 million.

Due to the nature of the transactions contemplated under the Shipyard Purchase Agreement, the Company does not expect to record any gain or loss immediately on Completion of the Shipyard Purchase Agreement. Further details of the financial effects on the Titan Group upon Completion are provided in Appendix III to this circular which contains certain pro forma financial information required by the Listing Rules.

Immediately after Completion, Shipyard Group companies will become wholly-owned subsidiaries of the Company.

F. EFFECT ON SHAREHOLDING

The following table illustrates the dilution effects of the issue of the Consideration Shares, the conversion and/or exercise of the WP Securities and outstanding options to subscribe for Titan Shares granted pursuant to the existing share option scheme of Titan.

	As at the Latest Practicable Date		On Completion and assuming no conversion or exercise of the WP Securities and no issue of Earn-out Shares		On Completion and issue of Earn-out Shares assuming all NPBT Targets are met or exceeded		On Completion and issue of Earn-out Shares assuming all NPBT Targets are met or exceeded and full conversion and exercise of the WP Securities and exercise of options[2]		On Completion and full conversion and exercise of the WP Securities and exercise of options the actual NPBTs being zero or less[2]	
	No. of Shares/ Preferred Shares/ Warrants	Voting rights (%)	No. of Shares/ Preferred Shares/ Warrants	Voting rights (%)	No. of Shares/ Preferred Shares/ Warrants	Voting rights (%)	No. of Shares/ Preferred Shares/ Warrants	Voting rights (%)	No. of Shares/ Preferred Shares/ Warrants	Voting rights (%)
Holders of Titan Ordinary Shares										
Mr. Tsoi and his associates	2,758,180,202	50.8%	3,804,379,010	58.8%	4,158,785,854	60.9%	4,158,785,854[2]	53.0%	3,804,379,010	50.7%
Shares held by other connected persons[3]	—	—	—	—	—	—	49,520,000	0.6%	49,520,000	0.7%
Warburg Pincus	—	—	—	—	—	—	857,795,031	10.9%	857,795,031	11.4%
Public Shareholders	2,669,260,000	49.2%	2,669,260,000	41.2%	2,669,260,000	39.1%	2,669,260,000	34.0%	2,669,260,000	35.6%
Other Exercised Options[3]	—	—	—	—	—	—	117,420,000	1.5%	117,420,000	1.6%
Total Titan Ordinary Shares	5,427,440,202	100.0%	6,473,639,010	100%	6,828,045,854	100.0%	7,852,780,855	100.0%	7,498,374,041	100.0%
Warburg Pincus ((WP Securities)	857,795,031		857,795,031		857,795,031		—		—	
Existing Outstanding Options (Connected Persons)[3]	49,520,000		49,520,000		49,520,000		—		—	
Existing Outstanding Options (Others)[3]	117,420,000		117,420,000		117,420,000		—		—	
Total Shares (Fully Diluted)	6,452,175,233		7,498,374,041		7,852,780,885		7,852,780,885		7,498,374,041	

Notes:

1. The table assumes no change of the share capital structure of the Company, the number of Titan Shares in issue and the holdings of or interests in Titan Shares of the parties identified above between the Latest Practicable Date and Completion.

2. The table assumes the conversion and/or exercise of the WP Securities and options at their initial conversion/ exercise price.

3. As at the Latest Practicable Date, there are outstanding options to subscribe for up to 166,940,000 Titan Ordinary Shares which have been granted under the Company's existing share option scheme, 50,000,000 of which have been granted to directors of Titan Group companies.

G. LISTING RULES IMPLICATIONS

The purchase of the Shipyard Holdco under the Shipyard Purchase Agreement from the Shipyard Vendors (being associates of Mr. Tsoi, the controlling shareholder and a Director of the Company) is a connected transaction of the Company. As the relevant percentage ratios in respect of the acquisition exceed 25% but are less than 100%, the proposed acquisition constitutes a major transaction of the Company.

Accordingly, the Listing Rules require the acquisition pursuant to the Shipyard Purchase Agreement (including the issue of the Consideration Shares) to be subject to the approval of Titan Independent Shareholders. Mr. Tsoi and his associates will abstain from voting on the resolution to approve the Shipyard Purchase Agreement which will be taken by poll.

Application will be made to the Stock Exchange for the listing of and permission to deal in the Consideration Shares (including the Earn-out Shares).

H. SGM

A notice convening the SGM to be held at 11:00 a.m. on Friday, 12 October 2007 at Salon IV, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong is set out on pages S-1 to S-2 of this circular for the purpose of considering and, if thought fit, passing the resolutions set out therein.

Enclosed is a form of proxy for use at the SGM. If you are not able to attend the SGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Company's principal place of business at 4901 Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof, should you so desire.

I. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to Rule 13.39(4) of the Listing Rules, the votes of Titan Independent Shareholders must be taken on poll.

Pursuant to bye-law 66 of the Company's bye-laws, a resolution put to the vote at a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(a) by the chairman of such meeting; or

(b) by at least three members present in person (or in the case of a member being a corporation by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or

(c) by a member or members present in person (or in the case of a member being a corporation by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or

(d) by a member or members present in person (or in the case of a member being a corporation by its duly authorized representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

J. FURTHER INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

K. RECOMMENDATION

The Directors (excluding the independent non-executive Directors) consider that the terms of the Shipyard Purchase Agreement (including the consideration and the terms on which the Consideration Shares are to be issued) are on normal commercial terms, fair and reasonable and in the interest of the Company and Titan Shareholders as a whole.

The Independent Board Committee, having taken into account the advice of the Independent Financial Advisor, considers that the terms of the Shipyard Purchase Agreement are fair and reasonable so far as the Titan Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Titan Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Shipyard Purchase Agreement and transactions contemplated thereunder.

By Order of the Board
Titan Petrochemicals Group Limited
Barry Cheung Chun Yuen, ***JP***
Chief Executive

TITAN PETROCHEMICALS GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1192)

24 September 2007

To the Titan Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

We refer to the circular issued by the Company to Titan Shareholders dated 24 September 2007 (the "Circular") of which this letter forms part. Terms defined in this Circular shall have the same meanings in this letter unless the context otherwise requires.

Under the Listing Rules, the purchase of Shipyard Holdco under the Shipyard Purchase Agreement from the Shipyard Vendors (being associates of Mr. Tsoi, the controlling shareholder and a Director of the Company) constitutes a connected transaction for the Company and is thus subject to the approval of the Titan Independent Shareholders at the SGM.

We have been appointed by the Board to consider the terms of the Shipyard Purchase Agreement and to advise the Titan Independent Shareholders as to whether, in our opinion, its terms are fair and reasonable so far as the Titan Independent Shareholders are concerned. CIMB-GK Securities (HK) Limited has been appointed as the Independent Financial Adviser to advise us in this respect.

We wish to draw your attention to the letter from the Board and the letter from CIMB-GK Securities (HK) Limited as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of CIMB-GK Securities (HK) Limited as set out in its letter of advice, we consider that terms of the Shipyard Purchase Agreement are on normal commercial terms and are in the best interests of the Company and the Titan Shareholders as a whole. We also consider that the terms of the Shipyard Purchase Agreement are fair and reasonable so far as the Titan Independent Shareholders are concerned. Accordingly, we recommend the Titan Independent Shareholders to vote in favour of the ordinary resolution to approve the Shipyard Purchase Agreement at the SGM.

Yours faithfully,
For and on behalf of
Independent Board Committee

John William Crawford, *JP* **Abraham Shek Lai Him,** *JP* **Maria Tam Wai Chu,** *JP*
Independent non-executive Directors

CIMB

CIMB-GK Securities (HK) Limited

25/F., Central Tower
28 Queen's Road Central
Hong Kong

24 September 2007

To the Independent Board Committee and the Titan Independent Shareholders of Titan Petrochemicals Group Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee in relation to the terms of the Shipyard Purchase Agreement, details of which are contained in a circular (the "Circular") to the Shareholders dated 24 September 2007, of which this letter forms part. Expressions used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

An independent board committee comprising Mr. John William Crawford, *JP*, Mr. Abraham Shek Lai-Him, *JP*, and Miss. Maria Tam Wai Chu, *JP* being the independent non-executive Directors, has been formed to advise the Titan Independent Shareholders in relation to the terms of the Shipyard Purchase Agreement. Any vote of the Titan Independent Shareholders at the SGM shall be taken by poll. Mr. Tsoi and his associates will abstain from voting in relation to the resolutions approving the Shipyard Purchase Agreement and the transactions contemplated thereunder.

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular. The Directors have declared in a responsibility statement set out in Appendix VII to the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained in the Circular. We have assumed that the information and representations contained or referred to in the Circular were true and accurate at the time they were made and continue to be so at the date of the dispatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company or Shipyard Holdco or any of their respective subsidiaries or associates.

I. BACKGROUND

(A) The Group

The Company is a fully integrated downstream oil logistics company, providing end-to-end transportation, storage, supply and distribution services on a single platform. The Company has its headquarters in Hong Kong and it currently operates in the PRC, Hong Kong, Singapore and Malaysia.

Set out below is the audited financial results of the Group for the two years ended 31 December 2006 and the unaudited financial results of the Group for the six months ended 30 June 2007 and the previous comparative period.

	For the year ended		**For the six months ended**	
	31 December 2005	**31 December 2006**	**30 June 2006**	**30 June 2007**
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	10,464	11,460	6,472	7,695
Profit before taxation	307	110	68	180
Profit attributable to the shareholders of the Company	303	100	65	152

For the year ended 31 December 2006 ("FY2006"), the Group recorded a turnover of approximately HK$11,460 million representing an increase of 9.5% as compared with the previous year ended 31 December 2005 ("FY2005") of approximately HK$10,464 million. However, the transportation business of the Group was affected by unexpectedly soft market conditions for Very Large Crude Carriers ("VLCC"), most notably in the historically buoyant fourth quarter during the year and this, in conjunction with a 23% increase in interest expenses and the effect of the vessel disposal gain of approximately HK$131 million in the previous year, resulted in a decline in the Group's net profit. The profit attributable to Shareholders for FY2006 was the approximately HK$100 million, representing a decrease of approximately 67% from approximately HK$303 million reported in FY2005. Against this background, the Company stated in its FY2006 annual report that it was seeking to increase diversification of the Group's businesses away from the volatile VLCC business and would continue to develop its integrated oil logistics capabilities in China.

For the six months ended 30 June 2007, the Group recorded a turnover of approximately HK$7,695 million representing an increase of approximately 19%, as compared with the previous corresponding period, which was principally attributable to the Group's efforts in reducing reliance on the volatile VLCC business and increasing revenues from the Group's other businesses. The profit attributable to Shareholders during the six month period ended 30 June 2007 was approximately HK$152 million, representing an increase of approximately 132% as compared with the previous corresponding period, which was mainly due to the increase in revenues and profitability in the Group's supply, storage and distribution businesses. The profit attributable to Shareholders also included gains on vessel disposals of approximately HK$105 million. The unaudited consolidated net asset value of the Group was approximately HK$2,708 million as at 30 June 2007 as compared to approximately HK$2,152 million as at 31 December 2006, representing an increase of approximately 26%. The increase in asset base was mainly due to the equity fund raising exercise completed by the Company in June 2007.

(B) The Shipyard Group

Assets to be acquired

Shipyard Holdco is an investment holding company incorporated in July 2007 for the purpose of holding Titan Quanzhou Shipyard and it has engaged in no other business. It wholly-owns Titan Quanzhou Shipyard which was established in the PRC on 1 March 2004 as a sino-foreign joint venture limited liability company for a term of 50 years expiring on 28 February 2054. As at the Latest Practicable Date, it has registered capital of RMB270 million (approximately HK$278.1 million) which has been fully paid up) and total investment amount of RMB800 million (approximately HK$824 million). Its approved scope of business is ship repair, the design and construction of specialty vessels or high performance vessels of less than 100,000 dwt and the manufacture, conversion and repair of offshore oil drilling equipment. Titan Oil initially held a 40% equity interest in Titan Quanzhou Shipyard. Over the last two years, Mr. Tsoi consolidated his control over Titan Quanzhou Shipyard and the Shipyard Vendors came to own 100% of the Titan Quanzhou Shipyard, which became a wholly foreign-owned enterprise in July 2007. To date the total investment made by Mr. Tsoi and his associates in the Shipyard Group (being the aggregate of contributions of registered capital and cost of acquisition from independent third party shareholders) is approximately RMB279.7 million (approximately HK$288.1 million).

Titan Quanzhou Shipyard owns sites aggregating approximately 669,000 sq.m. and has been granted a coastal area of 445,000 sq.m. for reclamation for ship repair facilities located at Zhen Feng Town, Hui An County, Quanzhou. It has also been granted the rights to use an adjacent 1,190.9 m of shallow water coast line and 1,425.5 m of deep water coast line for berthing and turning of vessels.

Titan Quanzhou Shipyard is a multi-functional shipyard with three main business units covering (i) ship repair, (ii) ship building and (iii) offshore engineering. The ship building unit's ground breaking ceremony took place on 27 September 2005 and the first ship was launched in August 2007 with its expected delivery in October 2007. The second ship has been launched in mid September 2007. The construction of the ship repair unit started in December 2006 and is expected to be completed by the end of 2009. The offshore engineering unit is anticipated to enter into service by the end of 2008. All three business units are expected to come on-stream in phases and become fully operational by the end of 2009.

The ship repair unit will be equipped with four large docks with a maximum length of 420m which could accommodate the world's largest container vessels of up to 397m in length. As the only shipyard in the region (excluding Japan and Korea) capable of docking vessels of such size, Titan Quanzhou Shipyard is envisaged to become one of the largest ship repair yards in Asia.

According to a technical and market study conducted by Drewry Shipping Consultants Ltd, Titan Quanzhou Shipyard, as designed, will have the potential to repair up to 250 vessels per annum by 2011.

With a unique product portfolio ranging from high value-added bunker/ transportation dual purpose tankers to other high performance vessels up to 100,000 dwt, the ship building unit has secured a strong order book amounting to approximately US$210 million for the coming years. The shipyard currently has two multiple-purpose dry docks and one slip way supported by building berths of 480m in length, two large scale hull workshops, a spraying and coating workshop, and auxiliary power supply facilities. Targeting the international market, the state-of-the-art equipment and facilities ensure that, upon full operation, Titan Quanzhou Shipyard will have an annual ship building capacity of 26 tankers.

Currently, Titan Quanzhou Shipyard has vessel building contracts to build and deliver up to 22 vessels for Titan Oil and the Company, respectively, as follows:

Vessel description	*Notes*	**Customer**	**Contracted/Estimated delivery dates**	**Initial contract price**
Eight 6,500 dwt bunker barges	1	Titan Oil	Between 1 October 2007 and 30 June 2008	US$8.7 million per vessel
Four 9,000 dwt product tankers	1	Titan Oil	Between 10 December 2008 and 9 April 2009	US$13 million per vessel
Ten 6,500 dwt bunker barges	2	The Company	Between 31 December 2007 and 31 December 2008	US$8.67 million per vessel

Notes:

1. Principal terms for the time charter of two product barges and four product tankers to two independent third parties for terms ranging from 5 to 7 years have been agreed, subject to contract. All twelve vessels contracted by Titan Oil are fully financed.

2. The vessel building contract to which these vessels relate was the subject of the Company's announcement dated 4 July 2006 and shareholders' circular dated 27 July 2006.

Refer also to the section headed "Information on the Shipyard Group" from the Letter from the Board of the Circular for further details on the Shipyard Group.

Financial performance

The audited key financial information relating to Titan Quanzhou Shipyard for the period from 1 March 2004 to 31 December 2004, the two years ended 31 December 2005 and 2006 and the six months ended 30 June 2007 as extracted from the Accountants' Report of Titan Quanzhou Shipyard prepared in accordance with HKFRS as set out in Appendix IIA to the Circular were as follows:

	Period from 1 March 2004 (date of establishment) to 31 December	For the year ended 31 December		For the six months ended 30 June
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	—	—	15,127	67,604
Profit/(loss) before taxation	(1,370)	35	3,314	11,087
Profit/(loss) attributable to equity holders of Titan Quanzhou Shipyard	(1,370)	35	3,314	11,087

Titan Quanzhou Shipyard was established on 1 March 2004. No sales or turnover were recorded for the years ended 31 December 2004 and 2005 as Titan Quanzhou Shipyard only commenced construction of its first vessels in late 2006. For the period from 1 March 2004 to 31 December 2004, the net loss was mainly attributable to the pre-development expenses incurred during the period. For FY2005, only minimal expenses were incurred as major production work had not yet commenced. The net profit for the year was mainly attributable to bank interest income received during the year.

For FY2006, Titan Quanzhou Shipyard recorded its first revenue of RMB15,127,000 (approximately HK$15,580,810), reflecting the initiation of construction on its first vessels towards the end of the financial year. Associated costs of goods sold, administrative expenses and selling expenses increased accordingly. There was also an increase in other revenue by 158% to RMB361,000 (approximately HK$371,830), reflecting an increase in bank interest income due to the higher average cash balances carried.

For the six months ended 30 June 2007, revenue of Titan Quanzhou Shipyard increased significantly to RMB67,604,000 (approximately HK$69,632,120), whereas in the corresponding period in 2006, no shipbuilding activities were underway. The activities, accordingly, gave rise to the increased associated costs of goods sold. Administrative expenses and selling expenses also increased as a result of the incurrence of overhead expenses to ramp up Titan Quanzhou Shipyard's activities, including the recruitment of additional administrative and management personnel. There was also an increase in interest income due to the higher average cash balances compared to the corresponding period in 2006.

The total equity attributable to equity holders of the Shipyard Group amounted to approximately HK$283.1 million as at 30 June 2007.

Refer also to the sub-section headed "Management Discussion and Analysis on Financial Performance of Titan Quanzhou Shipyard" as set out in Appendix IIB to the Circular for further details.

II. FACTORS CONSIDERED

In arriving at our opinion in relation to the terms of the Shipyard Purchase Agreement, we have considered the following principal factors:

1. Industry overview of the shipping market

As stated in the Letter from the Board, the Company has taken into account a market study conducted by Drewry Shipping Consultants Ltd., and considered that the following industry drivers support a positive outlook for global demand for the various services offered by Titan Quanzhou Shipyard:

- Growth in global seaborne trade is likely to generate excess demand for current levels of shipyard services;
- China's increasingly important role as the world centre for goods manufacturing and its need for raw materials creates favourable conditions for domestic fleet expansion to meet the needs of its booming local market;
- Ageing global fleet will bring about a notable boost in global shipbuilding orders;
- Recent regulatory changes require all single-hulled tankers to be phased out by 2010; and
- Offshore oil and gas activities are expected to continue to grow from the current 34% of global oil production to 40% in 2015. Consequently, a significant increase in demand for offshore engineering services is expected.

2. Rationale for the Acquisition

In addition to the current attractive outlook for the global ship building industry as discussed above, the Directors consider that Titan Quanzhou Shipyard has some distinct features which should enable it to capture the potential demand in the global ship building industry in the future.

Titan Quanzhou Shipyard was established in early 2004. The first phase of construction work was concluded in September 2006 and the second phase of work is currently underway. While Titan Quanzhou Shipyard is already actively building ships, it is estimated that it will commence full operations in various phases from 2008 onwards and will achieve planned capacity levels by the end of 2009, in accordance with the original plans.

Titan Quanzhou Shipyard is strategically located in the Douwei area of Huian, Quanzhou, the southern part of Meizhou Bay's economic zone and features a 2.6 km natural deep water coastline and, on completion of planned reclamation, a land area of 1.1 million m^2. The location faces the Straits of Taiwan with a distance of 170 nautical miles from Taipei and 186 nautical miles from Kaohsiung. Distances to Shanghai and Hong Kong are 502 and 386 nautical miles, respectively. Except for one dry dock in Guangzhou, the remaining eight dry and floating docks with capacities over 100,000 dwt in China are located north of the Yangtze River and there are no large docks along the 900 nautical mile coastline between Shanghai and Guangzhou.

Titan Quanzhou Shipyard's facilities are designed based on the need for maximum flexibility and optimal use of its prime location. It is a multi-functional shipyard with three main business units covering (i) ship repair, (ii) ship building and (iii) offshore engineering, allowing an integration of ship building together with repair and conversion capabilities unique to China. Titan Quanzhou Shipyard will be capable of docking and handling all types of ships, including the world's largest new generation vessels. The modular nature of construction allows Titan Quanzhou Shipyard to allocate resources in the yard in accordance with demand patterns. The ship repair operations are relatively stable repeat business and counterbalances ship building and offshore services which are more cyclical by nature.

The Directors also believe that, upon integration into the Company, Titan Quanzhou Shipyard will be able to extract further benefits from the other activities carried out by the Group and enable it to further diversify its business profile to that of a leading fully integrated oil logistics provider in Asia.

Having taken the above into account, we consider that the acquisition by the Company of the entire issued share capital of Shipyard Holdco pursuant to the Shipyard Purchase Agreement (the "Acquisition") is consistent with the Group's growth strategy and represents another step towards reducing the Company's exposure to the volatile VLCC business and further expand the Group's shipping business value chain and its scope of business and operations, which is in line with the Group's long-term business strategy. Given this, we concur with the views of the Board that the Acquisition are in the interests of and beneficial to the Company and the Titan Independent Shareholders.

3. The Acquisition

(A) *The Consideration*

Basis

The US$170 million (approximately HK$1,326 million) consideration (the "Consideration") for the purchase of the Shipyard Group is to be satisfied on Completion as to approximately US$56.9 million (approximately HK$443.8 million) by cash payment and as to the balance of US$113.1 million (approximately HK$882.2 million) by the issuance of the Consideration Shares which comprise 1,046,198,808 Shipyard Ordinary Shares, and 354,406,844 Earn-out Shares. The Consideration Shares are to be issued to the Shipyard Vendors or their nominees.

The Consideration has been determined after negotiations between a willing buyer and a willing seller by reference to the unaudited consolidated net asset value (the "Adjusted NAV") of the Shipyard Group as at 30 June 2007 after taking into account the indicative valuation (the "Valuation") as at that date by Grant Sherman Appraisal Limited ("Grant Sherman") of the property interests and plant and machinery of the Shipyard Group at RMB1,307 million (approximately HK$1,346 million) relative to the book value of such assets as at 30 June 2007 of RMB348.5 million (approximately HK$359.0 million) in aggregate, without adjusting for the Deferred Tax Liability as defined and explained below. In addition, for the benefit of the Company and its shareholders as a whole, after arm's length negotiations between the Company and the Shipyard Vendors, they have agreed to an "earn-out" arrangement reflected in the terms of the Earn-out Shares whereby the Shipyard Vendors will only derive economic benefit from those shares upon specified NPBT Targets, as described in the Letter from the Board contained in the Circular, being met or exceeded.

Titan Quanzhou Shipyard is still in an early development stage. Although it is already actively building ships, it is not expected to be fully operational until the end of 2009. In this regards, we consider that the Consideration determined with reference to the asset valuation is appropriate.

As noted from the unaudited pro forma consolidated balance sheet of the Enlarged Group set out in Appendix III to the Circular, upon Completion, for financial reporting purposes and in accordance with Hong Kong Financial Reporting Standards, the Group will need to recognize an unaudited pro forma deferred tax liability of HK$247 million (the "Deferred Tax Liability") arising from the temporal difference between the tax basis of the fair values of the land use rights and sea area use rights of the Shipyard Group and their carrying amount. Notwithstanding this, the Directors confirm that, the Company has no intentions of disposing of such assets on the basis that the land and sea use rights form the core operating assets of the Shipyard Group. In this regard, the Directors consider that such Deferred Tax Liability will not materialize in the foreseeable future. In addition, from discussions with the Directors we note that such Deferred Tax Liability while required to be recorded in accordance with the Hong Kong Financial Reporting Standards, will only be realized if the land and sea use rights are disposed of at the Valuation amount and therefore will have no immediate effect on the cash flow of the Enlarged Group. On this basis, we consider that in assessing the fairness and reasonableness of the Consideration, reference should be made to the Adjusted NAV.

The Consideration represents a premium of approximately 3.7% to the Adjusted NAV or the Consideration will be adjusted to US$141.4 million (approximately HK$1,102.9 million) before the earn-out arrangement, representing a discount of approximately 13.8% to the Adjusted NAV.

In assessing the fairness and reasonableness of the Consideration, we have reviewed and discussed the methodology, bases and assumptions used in arriving at the Valuation with Grant Sherman.

Methodology

For Properties

As noted in the valuation report set out in Appendix I to this Circular, the valuation on the property interests (the "Properties") of Titan Quanzhou Shipyard was prepared by Grant Sherman using the depreciated replacement cost approach ("DRC"). Grant Sherman considered that the direct comparison approach, the most commonly used property valuation methodology, was not appropriate for this case as there is no readily identifiable comparable market due to the specific nature of the buildings and structures constructed for the shipyard. DRC is based on an estimate of the market value for the existing use of land, plus the current gross replacement costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence. We have been advised by Grant Sherman that given the nature of the Properties, DRC was the most appropriate methodology to be used in arriving at the valuation.

For plant and machinery

As noted in the Grant Sherman' valuation report, there are three generally accepted valuation approaches available for use in valuing the plant and machinery (the "Equipment") of Titan Quanzhou Shipyard namely, (i) the cost approach; (ii) the market approach; and (iii) the income approach. Grant Sherman considered that in the absence of sufficient financial data, they believe the income approach is not appropriate and the cost and market approaches should be the principle methods adopted in valuing the Equipment

Given the purpose and specific nature of each of the three types of approaches as described in the Grant Sherman valuation report and, in the absence of identifiable income generated by specific Equipment, we concur with Grant Sherman's views that a combination of the cost and market approaches is the most appropriate methodology in arriving at the Equipment valuation.

Bases and assumptions

The cost approach establishes value based on the cost of reproducing or replacing the Equipment, less depreciation from physical deterioration together with functional and economic/external obsolescence. In the market approach, the value of the appraised Equipment is estimated through analysis of recent sales of comparable Equipment items. We note that the market approach is only adopted in the valuation of Equipment for which there is a known used market.

We note that in arriving at the Equipment valuation, Grant Sherman has conducted a site inspection and a reasonable verification of the Equipment based on the information provided by the Company. Grant Sherman has also ascertained condition, utility and history of the Equipment and ensured items were in good working condition and capable of performing efficiently for the purpose for which designed and built. We also note that Grant Sherman has taken into consideration all relevant and pertinent factors including the current market prices of the Equipment, the condition of the Equipment, and made allowances for freight, installation, commissioning and financial costs, where appropriate. We have been advised by Grant Sherman that it has taken into account the depreciation costs in its valuation model based on observations of the existing condition and utility of the Equipment in arriving at the Equipment valuation.

View

Based on all of the above factors, we consider that the Valuation performed by Grant Sherman forms an appropriate basis for determining the Consideration.

Earn-out arrangement

Pursuant to the Amended and Restated Agreement, when specified NPBT Targets are met or exceeded, the "earn-out" arrangement will take effect by the direct issue of Earn-out Shares in three tranches of up to 88,601,711 new Titan Ordinary Shares, 88,601,711 new Titan Ordinary Shares and 177,203,422 new Titan Ordinary Shares on the seventh Business Day after receipt by the Company of the audited consolidated financial statements of the Shipyard Group for FY2008, FY2009 and FY2010 respectively. The NPBT Targets relevant to the tranches of Earn-out Shares are as follows:

Tranche of Earn-out Shares	**NPBT Target**
88,601,711 Earn-out Shares	US$7.5 million (approximately HK$58.5 million) for FY2008
88,601,711 Earn-out Shares	US$20.0 million (approximately HK$156.0 million) for FY2009
177,203,422 Earn-out Shares	US$50.0 million (approximately HK$390.0 million) for FY2010

If the NPBT Target for any of FY2008, FY2009 or FY2010 is not met, then the Earn-out Shares which fall to be issued will be reduced rateably (rounded down to the nearest whole number of Titan Ordinary Shares), by applying the following formula:

$$\frac{\text{Actual consolidated net profit before taxation of the Shipyard Group}}{\text{Target consolidated net profit before taxation of the Shipyard Group}}$$

However, if no profit is made in any of the relevant financial years, then no Earn-out Shares will be issued in respect of that year. Therefore, under the earn-out arrangements in the Consideration, the Consideration of US$170 million will effectively be reduced to US$141.4 million (approximately HK$1,102.9 million) if the Shipyard Group does not make any profits in FY2008, FY2009 and FY2010. Based on the NPBT Target for each of FY2008, FY2009 and FY2010, the consideration after taking into account of the earn-out arrangement represents a prospective price-earning ratio ("PER") of approximately 19.81 times, 7.79 times and 3.4 times the NPBT Target of the Shipyard Group for FY2008, FY2009 and FY2010, respectively. For details of the calculations on prospective PERs, refer to notes 6, 7 and 8 of the table set out below.

Although the NPBT Target is not a profit forecast, to provide an additional reference to the fairness of the Consideration, we have, to the best of our knowledge, reviewed the PER of those companies listed on Stock Exchange whose principal business is engaged in the shipbuilding business similar to those of the Shipyard Group and compared these with the valuation parameters implied under the NPBT Target. As the shipbuilding industry is a global industry, notwithstanding the difference in terms of valuations underlying different countries/regions of listings, we have also reviewed the PER of the relevant overseas listed comparables whose principal operations are engaged in the shipbuilding business and compared these with those implied under the Acquisition (together, the "Comparables"). Details of the findings are summarized below.

Name of the Comparables	**Country/ Region of listing**	**Market capitalization** *(Note 1)* *(US$ million)*	**PER (times) for the year** ended 2006 *(Note 2)*	ending 2007 *(Note 3)*	ending 2008 *(Note 3)*	ending 2009 *(Note 3)*	ending 2010 *(Note 3)*
Guangzhou Shipyard Intl. Co., Ltd	Hong Kong	4,264	86.38	36.89	25.28	20.00	N/A
COSCO Corporation (Singapore) Ltd.	Singapore	7,415	46.91	39.70	26.40	19.62	N/A
Jaya Holdings Ltd. *(Note 4)*	Singapore	958	12.01	10.68	9.36	9.00	10.00
Keppel Corporation Ltd.	Singapore	13,407	22.70	19.52	16.36	13.92	2.58
Labroy Marine Ltd.	Singapore	1,105	15.74	14.64	11.99	9.86	12.50
SembCorp Marine Ltd.	Singapore	5,567	28.11	27.24	20.46	17.21	17.34
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	South Korea	11,720	184.57	25.80	12.51	9.74	N/A
Hyundai Mipo Dockyard Co., Ltd	South Korea	6,081	23.83	16.59	12.66	10.80	N/A
Samsung Heavy Industries Co., Ltd.	South Korea	11,564	69.35	21.39	12.66	9.28	N/A
Aker Yards	Norway	1,354	7.46	17.36	7.90	6.01	N/A
ABG Shipyard *(Note 5)*	India	684	24.04	19.56	11.54	9.97	N/A
Average			**47.37**	**22.67**	**15.19**	**12.31**	**10.61**
The Acquisition			**—**	**—**	**19.81** *(Note 6)*	**7.79** *(Note 7)*	**3.40** *(Note 8)*

Source: Bloomberg

Notes:

1. Based on the market capitalization of the Comparables as quoted on Bloomberg on the Last Trading Day.

2. Represents the historical PER of the Comparables as quoted on Bloomberg on the Last Trading Day.

3. Represents the prospective PER of the Comparables as quoted on Bloomberg on the Last Trading Day as available.

4. As the financial year for Jaya Holdings Ltd. ended on 30 June, the PERs stated in the above table are based on earnings for the year ended on that date.

5. As the financial year for AGB Shipyard ended on 31 March, the PERs stated in the above table are based on earnings for the year ended on that date.

6. Calculated based on the consideration of US$141.4 million before the earn-out arrangements plus the value of 88,601,711 Earn-out Shares (based on the issue price of HK$0.63) divided by the NPBT Target for FY 2008.

7. Calculated based on the consideration of US$141.4 million before the earn-out arrangements plus the value of 177,203,422 Earn-out Shares (based on the issue price of HK$0.63) divided by the NPBT Target for FY 2009.

8. Calculated based on the consideration of US$141.4 million before the earn-out arrangements plus the value of 354,406,844 Earn-out Shares (based on the issue price of HK$0.63) divided by the NPBT Target for FY 2010.

Although the PERs quoted from Bloomberg are based on profits after tax of the Comparables, whereas the NPBT Targets represent profits before tax for the Shipyard Group, we consider the above analysis still provides a reasonable reference to the fairness of the earn-out arrangements and, hence, the Consideration.

As indicated in the above PER analysis, the implied PER based on the NPBT Target for FY2008 is within the range and higher than the average prospective PER (as quoted on Bloomberg) of the Comparables. The implied PERs based on the NPBT Target for FY2009 and FY2010 are within the ranges and lower than the average prospective PERs (as quoted on Bloomberg) of the Comparables.

Views

As the implied PERs under the NPBT Target, which is not a profit forecast, is within the range of the Comparables, we consider that basis in determining the earn-out arrangements as part of the consideration is reasonable and the above analysis further supports the fairness of the Consideration.

Opinion

Although the Consideration represents a slight premium of approximately 3.7% to the Adjusted NAV, we consider that the Earn-out Shares as part of the Consideration provides the Company with a mechanism to retrospectively decrease the consideration payable if certain NPBT Targets are not met is beneficial to the Company and the Titan Independent Shareholders. Therefore, we consider that the Consideration with the earn-out arrangements is fair and reasonable so far as the Company and the Titan Independent Shareholders are concerned.

(B) *Consideration Shares*

The Consideration is to be satisfied as follows:

- US$56.9 million (approximately HK$443.8 million) by cash payment;
- US$84.5 million (approximately HK$659.1 million) by the issuance of 1,046,198,808 Shipyard Ordinary Shares; and
- US$28.6 million (approximately HK$223.3 million) by the issuance of 354,406,844 Earn-out Shares.

Consideration Shares

The Consideration Shares are comprised of 1,046,198,808 Shipyard Ordinary Shares and 354,406,844 Earn-out Shares. Mr. Tsoi's aggregate shareholding interest in the Company through the Shipyard Vendors and Great Logistics will increase from approximately 50.8% before Completion to approximately 58.8% after the issuance of the Shipyard Ordinary Shares, and to approximately 60.9% after the issuance of the Shipyard Ordinary Shares and the Earn-out Shares (on full issuance of the Earn-out Shares after all the NPBT Targets are met or exceeded).

Issue Price per Shipyard Ordinary Share

The issue price per Shipyard Ordinary Share is HK$0.63 which has been determined after arm's length negotiations between the parties by reference to the market price for the Titan Ordinary Shares and represents:

Share price reference	**% of premium/ (discount)**
• to the Last Closing Price as quoted on the Stock Exchange on 3 September 2007, being the last trading day preceding the date of the Announcement (the "Last Trading Day");	1.6
• to the 5 Day Average Closing Price;	4.0
• to the 30 Day Average Closing Price per Share;	(2.3)
• to the closing price per Titan Ordinary Shares on the Latest Practicable Date;	6.8
• to the unaudited consolidated net asset value of approximately HK$0.42 per Share (based on 6,452,952,823 Titan Ordinary Shares) as at 30 June 2007 before Completion; and	50.0
• to the unaudited pro forma consolidated net asset value (as prepared under the HKFRS) of approximately HK$0.43 per Share (based on 7,852,898,475 Titan Ordinary Shares) upon Completion.	46.5

The chart below shows the closing prices of the Titan Ordinary Shares on the Stock Exchange during the six-month period preceding the Last Trading Day (the "Pre-Announcement Period") up to and including the Latest Practicable Date (the "Post-Announcement Period"):

Source: Bloomberg

As shown in the above chart, during the Pre-Announcement Period, the highest and lowest closing prices of the Titan Ordinary Shares as quoted on the Stock Exchange were HK$0.91 per Titan Ordinary Share recorded on 15 June 2007 and HK$0.50 per Titan Ordinary Share recorded on 17 August 2007, respectively.

Following the release of the Announcement, the price of the Titan Ordinary Shares traded within the range of HK$0.59 to HK$0.74 per Titan Ordinary Share, with an average price of HK$0.64 per Titan Ordinary Share, which is close to the issue price of the Consideration Shares of HK$0.63. As at the Latest Practicable Date, the Titan Ordinary Shares closed at HK$0.59.

Issue price of Earn-out Shares

If no profits are achieved in FY 2008, FY 2009 or FY2010, then no Earn-out Shares will be issued and the effective consideration for the acquisition of the Shipyard Group would be reduced by approximately US$28.6 million to approximately US$141.4 million (approximately HK$1,102.9 million). The Company will make further announcements in accordance with Rule 14A.57 of the Listing Rules if any of the NPBT Targets are not met.

Based on the above and, in particular, that the number of Earn-out Shares which fall to be issued will be reduced rateably if certain NPBT Targets are not met or exceeded, we consider that the terms of the Earn-out Shares are fair and reasonable to the Company and the Titan Independent Shareholders.

Views

Having considered the above and in particular that the issue of the Consideration Shares to partly satisfy the Consideration will enable the Group to preserve working capital for future business expansion as well as increase the capital base of the Group, and that the issue price per Consideration Share was determined with reference to the market price for the Titan Ordinary Shares and represents a premium of 1.6% to the Last Closing Price, we consider that the issue of the Consideration Shares as a payment method is in the interests of the Company and the Titan Independent Shareholders and that the issue price per Consideration Share is also fair and reasonable so far as the Company and the Titan Independent Shareholders are concerned.

(C) *Possible financial effects of the Acquisition*

Earnings

Upon Completion, the results of the Shipyard Group will be consolidated by the Group.

Net asset value

As noted from the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group set out in Appendix III to the Circular which assumes that the Acquisition had been completed on 30 June 2007, the unaudited pro forma consolidated net asset value of the Enlarged Group immediately upon Completion would have amounted to approximately HK$3,368.9 million as compared to the unaudited consolidated net asset value of the Group as at 30 June 2007 of approximately HK$2,707.8 million, representing an increase of approximately 24.4%.

Gearing

As the Consideration will be satisfied by a cash payment and the issuance of the Consideration Shares, the capital base of the Group will increase and, in turn, the gearing ratio will be reduced immediately after the Completion.

Based on the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group set out in Appendix III to the Circular, the Group would have had a gearing ratio (total interest-bearing borrowings divided by total assets) of approximately 49.0% as at 30 June 2007 and, upon Completion, the gearing ratio (total interest bearing borrowings divided by total assets) of the Enlarged Group would have decreased to approximately 45.0%.

Working capital

The Consideration of US$170 million (approximately HK$1,326 million) will be satisfied as to approximately US$56.9 million (approximately HK$443.8 million) by cash payment and as to the balance of US$113.1 million (approximately HK$882.2 million) by the issuance of the Consideration Shares. Furthermore, based on the cash and cash equivalents and the unutilized facilities of the Group of approximately HK$1,561 million and HK$3,732 million as at 30 June 2007, respectively, as disclosed in the interim report of the Group for the six months ended 30 June 2007, we concur with the views of the Directors that the Acquisition will not have a material adverse impact on the working position of the Group immediately following Completion.

V. RECOMMENDATION

Having considered the principal factors and reasons referred to the above, in particular:

— given the strategic location of the Titan Quanzhou Shipyard and the favourable outlook of the shipbuilding industry according to the market study conducted by Drewry Shipping Consultants Ltd., the Directors expect that the Titan Quanzhou Shipyard's prospects are positive and, upon integration into the Company, it will also be able to extract further benefits from the other activities carried out by the Group;

— the Acquisition is in line with the stated business and development plans and of the stated objective of the Group to become a leading fully integrated oil logistics provider in Asia;

— the bases of and Consideration for the Acquisition are fair and reasonable;

— the issuance of the Earn-out Shares, the terms of which are considered reasonable, as part of the Consideration provides the Company with a means to retrospectively decrease the consideration payable if certain NPBT Targets are not met through an adjustment mechanism which rateably reduces the number of Earn-out Shares which fall to be issued;

— the issue price per Consideration Share which was determined with reference to the market price for the Titan Ordinary Shares represents a respective premium of 1.6% and 4.0% to the Last Closing Price and the 5 Day Average Closing Price;

— the issuance of the Titan Consideration Shares to partly satisfy the Consideration to be in the interests of the Company as such method reduces immediate cash outflow and, increases the Company's shareholders' equity; and

— the unaudited pro forma financial effects of the Acquisition upon Completion enhance the overall financial position of the Enlarged Group and, eventually, the expected financial performance, we are of the opinion that the Acquisition relates to the ordinary and usual course of business of the Group and is in the interests of the Company and the Titan Independent Shareholders, and the terms thereof are of normal commercial terms and are fair and reasonable so far as the Company and the Titan Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Titan Independent Shareholders to vote for the ordinary resolution to be proposed at the EGM to approve the Shipyard Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
CIMB-GK Securities (HK) Limited

Alex Lau	**Flavia Hung**
Executive Vice President	*Senior Vice President*

A. AUDITED FINANCIAL INFORMATION FOR THE YEARS ENDED 31 DECEMBER 2006, 2005 AND 2004

Set out below is a summary of the audited consolidated income statements of the Group for each of the three years ended 31 December 2006, 2005 and 2004 and the consolidated balance sheets at 31 December 2006, 2005 and 2004, consolidated statements of changes in equity and consolidated cash flow statements for each of the three years ended 31 December 2006, 2005 and 2004 of the Group together with the relevant notes to financial statements for 2006 and 2005 as extracted from the annual report of the Company for the year ended 31 December 2006.

(i) Consolidated Income Statement

Years ended 31 December 2006, 2005 and 2004

	Notes	2006 HK$'000	2005 HK$'000	2004 HK$'000
REVENUE	5	11,459,980	10,463,650	3,493,565
Cost of sales		(10,796,880)	(9,836,628)	(3,006,479)
Gross profit		663,100	627,022	487,086
Other revenue		53,885	48,583	7,382
Gain on disposal of vessels, net		—	130,605	63,430
General and administrative expenses		(221,567)	(184,991)	(115,382)
Finance costs	7	(385,544)	(312,864)	(39,608)
Share of profits/(losses) of associates		615	(1,851)	—
PROFIT BEFORE TAX	6	110,489	306,504	402,908
Tax	10	(13,977)	(3,474)	(2,450)
Profit for the year		96,512	303,030	400,458
ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11, 33(a)	100,333	303,030	400,458
Attributable to minority interests		(3,821)	—	—
		96,512	303,030	400,458
DIVIDENDS — proposed final	12	—	29,077	48,462
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13			
Basic		HK2.07 cents	HK6.25 cents	HK8.92 cents
Diluted		HK2.02 cents	HK6.16 cents	HK8.85 cents

(ii) Consolidated Balance Sheet

31 December 2006, 2005 and 2004

	Notes	2006 HK$'000	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSETS				
Property, plant and equipment	14	4,997,710	4,444,320	1,401,684
Deposits for acquisition of vessels	15	44,207	—	—
Prepaid land/seabed lease payments	16	348,694	60,750	—
Licences	17	42,528	45,136	47,733
Goodwill	18	483,205	237,907	236,599
Interests in associates	20	169,661	294,317	249,380
Deposit held in a collateral account	21	9,750	78,000	—
Vessel rental deposits		—	—	92,572
Total non-current assets		6,095,755	5,160,430	2,027,968
CURRENT ASSETS				
Bunker oil		92,872	81,413	16,770
Inventories		783,434	318,276	1,520
Accounts receivable	22	1,250,652	1,021,184	322,637
Prepayments, deposits and other receivables		182,396	113,373	119,270
Contracts in progress	23	20,296	211,938	77,625
Derivative financial instruments	24	148,439	26,992	—
Pledged deposits	25	72,644	13,000	43,912
Cash and cash equivalents	25	300,548	644,251	400,423
Non-current assets classified as held for sale	14	—	11,372	—
Total current assets		2,851,281	2,441,799	982,157
CURRENT LIABILITIES				
Interest-bearing bank and other loans	26	642,899	420,521	240,642
Accounts and bills payable	27	912,634	630,516	150,011
Other payables and accruals	27	629,469	159,373	99,316
Finance lease payables	28	26,352	21,807	18,188
Excess of progress billings over contract costs	23	11,490	29,207	15,779
Derivative financial instruments	24	48,669	38,990	—
Tax payable		26,093	18,987	12,658
Total current liabilities		2,297,606	1,319,401	536,594
NET CURRENT ASSETS		553,675	1,122,398	445,563
TOTAL ASSETS LESS CURRENT LIABILITIES		6,649,430	6,282,828	2,473,531

	Notes	2006 HK$'000	2005 HK$'000	2004 HK$'000
NON-CURRENT LIABILITIES				
Fixed rate guaranteed senior notes	29	(3,124,306)	(3,113,649)	—
Interest-bearing bank and other loans	26	(1,202,464)	(1,132,859)	(665,548)
Finance lease payables	28	(112,005)	(143,066)	(164,474)
Deferred tax liabilities	30	(58,750)	(7,492)	(14,163)
Total non-current liabilities		(4,497,525)	(4,397,066)	(844,185)
Net assets		2,151,905	1,885,762	1,629,346
EQUITY				
Equity attributable to equity holders of the parent				
Issued capital	31	48,649	48,462	48,462
Reserves	33(a)	2,000,259	1,781,558	1,532,422
Proposed final dividend	12	—	29,077	48,462
		2,048,908	1,859,097	1,629,346
Minority interests		102,997	26,665	—
Total equity		2,151,905	1,885,762	1,629,346

(iii) Consolidated Summary Statement of Changes in Equity

Years ended 31 December 2006, 2005 and 2004

	Notes	2006 HK$'000	2005 HK$'000	2004 HK$'000
Total equity at 1 January		1,859,097	1,629,346	549,316
Share issue expenses		—	—	(21,984)
Exchange differences on translation of the financial statements of foreign entities	33(a)	20,568	2,507	40
Change in fair value on cash flow hedges	24	36,555	(28,121)	—
Net income/(expenses) recognised directly in equity		57,123	(25,614)	40
Profit for the year	33(a)	100,333	303,030	400,458
Total income and expense for the year		157,456	277,416	400,498
Issue of shares, including share premium	31, 33(a)	8,398	—	701,516
Equity-settled share option arrangements	33(a)	8,830	797	—
Final dividend declared	12	(29,077)	(48,462)	—
Asset revaluation reserve arising from acquisition of subsidiaries	33(a)	44,204	—	—
Total equity attributable to ordinary equity holders of the parent		2,048,908	1,859,097	1,629,346
Minority interests as at 31 December		102,997	26,665	—
Total equity as at 31 December		2,151,905	1,885,762	1,629,346

(iv) Consolidated Cash Flow Statement

Years ended 31 December 2006, 2005 and 2004

	Notes	2006 HK$'000	2005 HK$'000	2004 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		110,489	306,504	402,908
Adjustments for:				
Gain on disposal of vessels, net		—	(130,605)	(63,430)
Depreciation	6	369,789	245,168	96,560
Write-off of/allowance for bad and doubtful debts	6	17,264	2,033	—
Amortisation of licences	6	2,608	2,597	2,597
Amortisation of goodwill		—	—	740
Loss on disposal of items of property, plant and equipment	6	258	311	352
Impairment of non-current assets classified as held for sale	6	—	3,086	—
Net change in fair value of derivative instruments not qualifying as hedges	6	(75,213)	(16,123)	—
Share of losses/(profits) of associates		(615)	1,851	—
Interest income	6	(22,114)	(34,065)	(979)
Finance costs	7	385,544	312,864	39,608
Equity-settled share option expenses		8,830	797	—
		796,840	694,418	478,356
Increase in amounts due from associates		(68,020)	(25,652)	(13,004)
(Increase)/decrease in bunker oil		(11,459)	(64,643)	2,284
Increase in inventories		(465,158)	(316,756)	(1,520)
Increase in accounts receivable		(246,732)	(700,580)	(102,508)
Increase in prepayments, deposits and other receivables		(32,737)	(47,424)	(16,828)
(Increase)/decrease in contracts in progress		191,642	(134,313)	(60,465)
Increase/(decrease) in trust receipt loans		320,854	—	(98,744)
Increase in accounts and bills payable		282,118	480,505	60,154
Increase in other payables and accruals		467,732	44,827	33,493
Increase/(decrease) in excess of progress billings over contract costs		(17,717)	13,428	8,808
Cash generated from/(used in) operations		1,217,363	(56,190)	290,026
Interest received		22,114	31,885	979
Interest paid		(374,887)	(222,096)	(37,368)
Hong Kong profits taxes paid		—	(1,289)	(785)
Overseas profits tax refund/(paid)		(10,044)	(2,527)	464
Net cash inflow/(outflow) from operating activities		854,546	(250,217)	253,316

	Notes	2006 HK$'000	2005 HK$'000	2004 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received		—	1,901	—
Decrease/(increase) in a deposit held in a collateral account	21	68,250	(78,000)	—
Additions of items of property, plant and equipment		(713,690)	(3,221,218)	(790,298)
Prepaid land/seabed lease additions		(74,231)	—	—
Deposits paid for acquisition of vessels		(44,207)	—	(68,835)
Proceeds from disposal of items of property, plant and equipment		249	232,219	150,908
Payment of vessel rental deposits		—	—	(92,572)
Proceeds from disposal of non-current assets classified as held for sale		11,372	—	—
Increase in contribution from minority shareholders to a subsidiary		89,136	—	—
Capital contributions to associates		(13,507)	(58,547)	(24,430)
Acquisition of subsidiaries	34	(231,177)	(21,645)	(370,955)
Net cash outflow from investing activities		(907,805)	(3,145,290)	(1,196,182)
CASH FLOWS FROM FINANCING ACTIVITIES				
Inception of new bank and other loans	26	732,047	1,436,104	976,647
Repayment of bank and other loans	26	(905,149)	(790,144)	(70,457)
Proceeds from issue of fixed rate guaranteed senior notes	29	—	3,120,000	—
Transaction costs incurred for the issue of fixed rate guaranteed senior notes	29	—	(90,709)	—
Proceeds from issue of shares	31	8,398	—	414,000
Share issue expenses		—	—	(21,984)
Capital element of finance lease rental payments		(26,516)	(18,287)	(12,377)
Dividends paid		(29,077)	(48,462)	—
Net cash inflow/(outflow) from financing activities		(220,297)	3,608,502	1,285,829
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(273,556)	212,995	342,963
Cash and cash equivalents at beginning of year		657,251	444,335	101,322
Effect of foreign exchange rate changes, net		(10,503)	(79)	40
CASH AND CASH EQUIVALENTS AT END OF YEAR		373,192	657,251	444,335

	Notes	2006 HK$'000	2005 HK$'000	2004 HK$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	25	112,651	297,051	400,423
Non-pledged time deposits with original maturity of less than three months when acquired	25	187,897	347,200	—
Bank balances pledged as security for trading facilities	25	12,141	4,457	—
Time deposits with original maturities of less than three months when acquired, pledged as security for trading facilities	25	60,503	8,543	43,912
		373,192	657,251	444,335

(v) Notes to Financial Statements

1. CORPORATE INFORMATION

Titan Petrochemicals Group Limited (the "Company") was incorporated in Bermuda on 24 April 1999 as an exempted company with limited liability under the Bermuda Companies Act 1981.

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. During the year, the principal place of business of the Company was located at 6706 Two International Finance Centre, 8 Finance Street, Central, Hong Kong. Effective from 12 February 2007, the principal place of business of the Company has been changed to Suite 4901, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.

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

(i) supply of oil products;

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

(iii) provision of bunker refueling services.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for inventories and derivative financial instruments, which have been measured at fair value. Non-current assets held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.4 to the financial statements. These financial statements are presented in Hong Kong dollars and all amounts are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

The principal changes in accounting policies are as follows:

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

Amendment for net investment in a foreign operation

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

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

Amendment for financial guarantee contracts

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

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

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

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

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

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

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from joint venture operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

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

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

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of joint venture registered capital and is in a position to exercise significant influence over the joint venture; or

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

Associates

An associate is an entity, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

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

Goodwill

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

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

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

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

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

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

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

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

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

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

Impairment of non-financial assets other than goodwill

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

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however, not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the consolidated income statement in the period in which it arises.

Related parties

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

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

(b) the party is an associate;

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	The shorter of the lease terms and 6 years
Vessels	The shorter of the remaining age and 25 years
Oil storage facilities	30 years
Furniture, equipment and motor vehicles	5 to 10 years

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

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

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

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

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

Non-current assets held for sale

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

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

Licences

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

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

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

Financial assets

Financial assets under the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss or loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of loans and receivables, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. Embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same, and a discounted cash flow analysis.

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

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

Derecognition of financial assets

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

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

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

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

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

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

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

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

Derivative financial instruments and hedging

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

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the consolidated income statement.

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

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

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

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

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

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

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

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

Bunker oil, ship stores and spare parts

Bunker oil is stated at cost less any provisions considered necessary by the directors. Cost is determined on the weighted average cost method basis.

Ship stores and spare parts are charged as operating expenses when purchased.

Inventories

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

Contracts in progress/excess of progress billings over contract costs

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

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where direct costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as contracts in progress.

Where progress billings exceed direct costs incurred to date plus recognised profits less recognised losses, the surplus is treated as excess of progress billings over contract costs.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

Provisions

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

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

Income tax

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses, can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) revenue from the provision of logistic services:

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

  (ii) from time chartering, in the period in which the vessels are let and on the straight-line basis over the lease terms; and

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

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity- settled transactions").

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

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

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

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

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

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

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

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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

The employees of subsidiaries in Singapore are members of the Central Provident Fund (the "CPF") operated by the government of Singapore. The subsidiaries and the employees are required to contribute a certain percentage of the employees' payroll to the CPF. The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the CPF. The subsidiaries have no further obligations for the actual pension payments or post-retirement benefits beyond their contributions.

Borrowing costs

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

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

Dividends

Final dividends proposed by the directors are classified as a separation allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

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

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

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Depreciation of vessels

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

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

Impairment of assets

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

Income tax

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

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

Estimation uncertainty

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

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

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(i) supply of oil products;

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

(iii) provision of bunker refueling services.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years end 31 December 2006 and 2005.

	Supply of oil products		Provision of logistic services: Oil transportation		Provision of logistic services: Oil storage		Provision of bunker refueling services		Eliminations		Consolidated	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:												
Revenue from external customers	4,811,090	5,599,257	2,081,842	1,761,014	96,022	48,066	4,471,026	3,055,313	—	—	11,459,980	10,463,650
Intersegment revenue	1,762,349	675,326	147,158	116,476	72,581	18,866	624,092	460,638	(2,606,180)	(1,271,306)	—	—
	6,573,439	6,274,583	2,229,000	1,877,490	168,603	66,932	5,095,118	3,515,951	(2,606,180)	(1,271,306)	11,459,980	10,463,650
Segment results	38,569	53,689	445,329	548,169	25,499	14,084	36,507	18,563	—	—	545,904	634,505
Interest income and unallocated gains											51,334	64,854
Unallocated expenses											(101,205)	(79,991)
Finance costs											(385,544)	(312,864)
Profit before tax											110,489	306,504
Tax											(13,977)	(3,474)
Profit for the year											96,512	303,030

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

	Supply of oil products		Provision of logistic services: Oil transportation		Provision of logistic services: Oil storage		Provision of bunker refueling services		Consolidated	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities:										
Segment assets	2,042,910	1,308,150	4,362,583	4,878,153	1,587,756	472,460	442,920	462,231	8,436,169	7,120,994
Interests in associates	—	—	—	—	169,661	294,317	—	—	169,661	294,317
Unallocated assets									341,206	186,918
Total assets									8,947,036	7,602,229
Segment liabilities	1,299,924	383,654	218,963	152,529	154,518	41,565	223,034	224,691	1,896,439	802,439
Unallocated liabilities									4,898,692	4,914,028
Total liabilities									6,795,131	5,716,467
Other segment information:										
Depreciation and amortisation	10,688	—	343,254	236,727	10,453	6,215	—	—	364,395	242,942
Unallocated depreciation and amortisation									8,002	4,823
									372,397	247,765
Capital expenditure	—	—	138,180	3,231,606	597,137	143,619	—	—	735,317	3,375,225
Unallocated capital expenditure									52,604	7,301
									787,921	3,382,526
Write-off of/allowance for bad and doubtful debts	6,492	—	9,702	832	—	—	218	—	16,412	832
Unallocated write-off of/allowance for bad and doubtful debts									852	1,201
									17,264	2,033

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

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

5. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of oil products sold, after allowances for returns and trade discounts, income from the provision of bunker refueling services, gross freight income from the provision of oil transportation services and gross income from oil storage services. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

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

6. PROFIT BEFORE TAX

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

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

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

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

7. FINANCE COSTS

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

8. DIRECTORS' REMUNERATION

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

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

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

(a) Independent non-executive directors

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

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

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

(b) Executive directors and a non-executive director

2006	**Fees** *HK$'000*	**Salaries, allowances and benefits in kind** *HK$'000*	**Employee share option benefits** *HK$'000*	**Retirement benefits scheme contributions** *HK$'000*	**Total emoluments** *HK$'000*
Executive directors:					
Mr. Cheung Chun Yuen Barry	—	3,359	1,943	12	5,314
Mr. Ib Fruergaard	—	3,895	652	12	4,559
Mr. Tsoi Tin Chun	—	—	—	—	—
	—	7,254	2,595	24	9,873
Non-executive director:					
Mr. Cheong Soo Kiong	200	—	—	—	200
	200	7,254	2,595	24	10,073

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

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

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2005: two) directors, details of whose remuneration are disclosed in note 8 above. Details of the remuneration of the remaining three (2005: three) non-director, highest paid employees for the year are as follows:

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

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

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

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

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. The majority of the Group's subsidiaries are domiciled in Singapore where the prevailing tax rate is 20% (2005: 20%).

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

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

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

A reconciliation of the tax expense applicable to profit before tax using the applicable rates (i.e. statutory rates) for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

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

11. PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

12. DIVIDENDS

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

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

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

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent of approximately HK$100,333,000 (2005: HK$303,030,000). The number of ordinary shares used in the calculation is the weighted average of 4,853,689,462 (2005: 4,846,240,202) ordinary shares in issue during the year, as used in the basic earnings per share calculation, plus the weighted average of 102,817,352 (2005: 75,393,836) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

14. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold improvements	Vessels	Oil storage facilities	Furniture, equipment and motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2006						
At 31 December 2005 and at 1 January 2006:						
Cost	8,995	4,552,488	—	23,824	162,882	4,748,189
Accumulated depreciation	(3,149)	(293,759)	—	(6,961)	—	(303,869)
Net carrying amount	5,846	4,258,729	—	16,863	162,882	4,444,320
At 1 January 2006, net of accumulated depreciation	5,846	4,258,729	—	16,863	162,882	4,444,320
Additions	9,444	137,843	10	49,588	516,805	713,690
Disposals	—	(106)	—	(401)	—	(507)
Acquisition of subsidiaries *(note 34)*	—	—	—	—	180,843	180,843
Depreciation provided during the year	(2,611)	(359,278)	(295)	(7,605)	—	(369,789)
Transfers	—	—	159,430	—	(159,430)	—
Exchange realignment	(14)	(474)	—	64	29,577	29,153
At 31 December 2006, net of accumulated depreciation	12,665	4,036,714	159,145	58,509	730,677	4,997,710
At 31 December 2006:						
Cost	18,452	4,687,414	159,440	72,581	730,677	5,668,564
Accumulated depreciation	(5,787)	(650,700)	(295)	(14,072)	—	(670,854)
Net carrying amount	12,665	4,036,714	159,145	58,509	730,677	4,997,710

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

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

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

At 31 December 2006, the Group's vessels, oil storage facilities and construction in progress with carrying values of approximately HK$2,560,454,000 (2005: HK$2,717,825,000), HK$159,145,000 (2005: Nil) and HK$166,402,000 (2005: HK$162,882,000), respectively, were pledged to secure certain banking facilities granted to the Group (note 26).

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of vessels and furniture, equipment and motor vehicles at 31 December 2006 amounted to HK$206,958,000 (2005: HK$212,895,000) and HK$348,000 (2005: HK$448,000), respectively.

15. DEPOSITS FOR ACQUISITION OF VESSELS

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

16. PREPAID LAND/SEABED LEASE PAYMENTS

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

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

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

17. LICENCES

Group

	HK$'000
31 December 2006	
Cost at 1 January 2006, net of accumulated amortisation	45,136
Amortisation provided during the year	(2,608)
At 31 December 2006	42,528
At 31 December 2006:	
Cost	51,935
Accumulated amortisation	(9,407)
Net carrying amount	42,528
31 December 2005	
At 1 January 2005:	
Cost	51,935
Accumulated amortisation	(4,202)
Net carrying amount	47,733
Cost at 1 January 2005, net of accumulated amortisation	47,733
Amortisation provided during the year	(2,597)
At 31 December 2005	45,136
At 31 December 2005 and at 1 January 2006:	
Cost	51,935
Accumulated amortisation	(6,799)
Net carrying amount	45,136

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

18. GOODWILL

Group

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

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

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

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

Impairment testing of goodwill

Oil supply cash-generating unit

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

Oil storage cash-generating unit

The recoverable amount of the oil storage cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering the period equivalent to the lease term of the land where the oil berthing and storage facilities are erected. The discount rate applied to cash flow projections is 10% and the cash flows beyond five-year period are projected by using average growth rates from 2% to 5% for different oil storage revenue.

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

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

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

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

19. INTERESTS IN SUBSIDIARIES

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

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

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

Particulars of the principal subsidiaries are as follows:

Name	**Place of incorporation/ registration and operations**	**Nominal value of issued/registered capital**	**Percentage of equity attributable to the Company**	**Principal activities**
Directly held				
Titan Oil (Asia) Ltd.	British Virgin Islands ("BVI")	Ordinary US$1	100	Investment holding
Titan FSU Investment Limited	BVI	Ordinary US$1,000	100	Investment holding
Titan Oil Storage Investment Limited	BVI	Ordinary US$1	100	Investment holding
Titan Oil Trading (Asia) Limited	BVI	Ordinary US$1	100	Investment holding
Titan Bunkering Investment Limited	BVI	Ordinary US$1	100	Investment holding
Harbour Sky Investments Limited	BVI	Ordinary US$1	100	Investment holding
Indirectly held				
Petro Titan Pte. Ltd. ("Petro Titan")	Singapore	Ordinary S$10,000,000	100	Provision of supply and procurement services of oil products
Titan Oriental Tiger Limited	Hong Kong	Ordinary HK$100	100	Provision of oil transportation services

Name	Place of incorporation/ registration and operations	Nominal value of issued/registered capital	Percentage of equity attributable to the Company	Principal activities
Titan Oil (HK) Co. Limited	Hong Kong	Ordinary HK$2	100	Provision of oil transportation services
Titan Bunkering (HK) Limited	Hong Kong	Ordinary HK$1	100	Provision of bunker refueling services
Titan Bunkering Pte. Ltd.	Singapore	Ordinary S$500,000	100	Provision of bunker refueling services
Sino Ocean Development Limited	BVI/Hong Kong	Ordinary US$1	100	Provision of oil transportation services
Sino Venus Pte. Ltd.	Singapore	Ordinary S$1,000,000	100	Provision of oil transportation services
Titan Chios Pte. Ltd.	Singapore	Ordinary S$2	100	Provision of oil transportation services
Titan Leo Pte. Ltd.	Singapore	Ordinary S$1,000,000	100	Provision of oil transportation services
Titan Libra Pte. Ltd.	Singapore	Ordinary S$1,000,000	100	Provision of oil transportation services
Estonia Capital Ltd.	BVI/Singapore	Ordinary US$1	100	Provision of oil transportation services
Titan Gemini Pte. Ltd.	Singapore	Ordinary S$1,000,000	100	Provision of oil transportation services
Titan Aries Pte. Ltd.	Singapore	Ordinary S$1,000,000	100	Provision of oil transportation services
Titan Neptune Shipping Pte. Ltd.	Singapore	Ordinary S$1,000,000	100	Provision of oil transportation services
Titan Pisces Pte. Ltd.	Singapore	Ordinary S$1,000,000	100	Provision of oil transportation services
Titan Mercury Shipping Pte. Ltd.	Singapore	Ordinary S$1,000,000	100	Provision of oil transportation services
Wendelstar International Ltd.	BVI/Singapore	Ordinary US$1	100	Provision of oil transportation services
Titan Ocean Pte. Ltd.	Singapore	Ordinary S$100,000	100	Provision of ship management and agency services
Titan Mars Limited	BVI/Malaysia	Ordinary US$1,000	100	Provision of floating storage services

Name	Place of incorporation/ registration and operations	Nominal value of issued/registered capital	Percentage of equity attributable to the Company	Principal activities
Titan Storage Limited	BVI/Malaysia	Ordinary US$1,000	100	Provision of floating storage services
Titan Mercury Limited	BVI/Singapore	Ordinary US$1,000	100	Provision of oil transportation services
Titan Virgo Pte. Ltd.	Singapore	Ordinary S$1,000,000	100	Provision of oil transportation services
Titan Solar Pte. Ltd.	Singapore/Malaysia	Ordinary S$2	100	Provision of floating storage services
Roswell Pacific Ltd.	BVI/Singapore	Ordinary S$1	100	Provision of floating storage services
Wynham Pacific Ltd.	BVI/Singapore	Ordinary S$1	100	Provision of oil transportation services
Titan Orient Lines Pte. Ltd.	Singapore	Ordinary S$2	100	Investment holding
Neptune Associated Shipping Pte. Ltd.	Singapore	Ordinary S$60,000,000	100	Owning and chartering of vessels
Far East Bunkering Services Pte. Ltd.	Singapore	Ordinary S$1,000,000	100	Owning and chartering of bunker barges
NAS Management Pte. Ltd.	Singapore	Ordinary S$500,000	100	Provision of ship management services
泰山企業管理諮詢（上海）有限公司*#	Mainland China	US$1,000,000	100	Provision of consultancy services
Guangzhou Nansha Titan Petrochemical Development Company Limited ("GZ Nansha")*^	Mainland China	US$42,000,000	70	Provision for oil berthing and storage facilities
廣州華南石化交易中心有限公司("交易中心")*	Mainland China	RMB60,000,000	70	Provision of services
Sky Sharp Investments Limited ("Sky Sharp")	BVI	US$10,000	100	Investment holding
Forever Fortune Holdings Limited ("Forever Fortune")	Hong Kong	Ordinary HK$10,000 and non-voting deferred shares HK$10,000	100	Investment holding
Fujian Titan Petrochemical Storage Development Co., Ltd. ("Fujian Titan")*#	Mainland China	US$22,000,000	100	Provision for oil berthing and storage facilities
Quanzhou Titan Petrochemical Terminal Development Co., Ltd. ("Quanzhou Titan")*#	Mainland China	US$10,000,000	100	Provision for oil berthing and storage facilities

Name	Place of incorporation/ registration and operations	Nominal value of issued/registered capital	Percentage of equity attributable to the Company	Principal activities
石獅市益泰潤滑油脂貿易有限責任公司(“益泰”)*@	Mainland China	RMB28,000,000	100	Investment holding
Titan Petrochemicals (Fujian) Ltd.*#	Mainland China	US$5,000,000	100	Holding of land

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

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

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

@ Registered as a limited company under the PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

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

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

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

20. INTERESTS IN ASSOCIATES

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

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

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

Particulars of the associates are as follows:

Name	**Particulars of issued shares held**	**Business structure**	**Place of registration and operations**	**Percentage of ownership interest attributable to the Group**	**Principal activities**
Yangshan Shen Gang International Oil Logistics Co., Ltd. ("Yangshan Shen Gang")*	Registered capital US$19,350,000	Corporate	Mainland China	28	Provision for oil berthing and storage facilities
Guangzhou Xiaohu Petrochemical Terminal Co., Ltd ("GZ Xiaohu")*	Registered capital RMB45,000,000	Corporate	Mainland China	30	Provision for terminal facilities
福建中油油品倉儲有限公司*	Registered capital RMB46,000,000	Corporate	Mainland China	30	Provision of oil product storage
福建石獅中油油品銷售有限公司*	Registered capital RMB6,000,000	Corporate	Mainland China	30	Provision of oil product sale services

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

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

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

21. DEPOSIT HELD IN A COLLATERAL ACCOUNT

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

22. ACCOUNTS RECEIVABLE

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

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

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
1 to 3 months	1,190,255	998,278
4 to 6 months	30,381	10,669
7 to 12 months	22,641	10,904
Over 12 months	7,375	1,333
	1,250,652	1,021,184

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

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

24. DERIVATIVE FINANCIAL INSTRUMENTS

Group

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

Company

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

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

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

Interest rate swap agreement — cash flow hedge

At 31 December 2005, the Group had an interest rate swap agreement in place with notional amounts ranging from US$216,199,000 to US$391,879,000, whereby it receives interest at variable rates ranging from 3.22% to 5.51% and pays at a fixed rate equal to LIBOR on the notional amounts for a period of seven years until 18 March 2012. During the year, a restructured interest rate swap agreement was entered by the Group with the same financial institution whereby the Group receives interest at LIBOR and pays at a fixed rate of 4.55% on the notional amounts ranging from US$1,500,000 to US$154,095,000 for a period from 27 July 2006 to 18 September 2012.

The swap is used to hedge the exposure to variability in cash flows that is attributable to the Group's future expected loan requirements, which are highly probable. The expected loan requirements and the interest rate swap agreement have the same critical terms and the hedge of the interest rate swap has been assessed to be highly effective. The increase in fair value of this cash flow hedge during the year ended 31 December 2006 of HK$36,555,000 (2005: decrease of HK$28,121,000) has been included in the hedging reserve.

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

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

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

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$17,511,000 (2005: HK$101,667,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

26. INTEREST-BEARING BANK AND OTHER LOANS

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

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

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Analysed into:				
Trust receipt loans, secured	320,854	—	—	—
Bank loans repayable:				
Within one year	322,045	420,521	—	—
In the second year	246,882	242,240	—	—
In the third to fifth years, inclusive	562,482	733,411	—	—
Beyond five years	393,100	103,241	—	—
	1,524,509	1,499,413	—	—
Other loan repayable:				
In the second year	—	8,113	—	8,113
In the third to fifth years, inclusive	—	29,292	—	29,292
Beyond five years	—	16,562	—	16,562
	—	53,967	—	53,967
	1,845,363	1,553,380	—	53,967

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

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

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

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

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

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

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

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

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

(ix) shares of certain subsidiaries;

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

(xi) corporate guarantees executed by the Company;

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

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

Other interest rate information:

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

	Company			
	2006		2005	
	Fixed rate	Floating rate	Fixed rate	Floating rate
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other loan — secured	—	—	53,967	—

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

	Carrying amounts		Fair value	
	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans — secured	551,000	115,385	496,932	107,365
Bank loans — unsecured	—	76,923	—	72,090
Other loan — secured	—	53,967	—	52,829
	551,000	246,275	496,932	232,284

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

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

27. ACCOUNTS AND BILLS PAYABLE/OTHER PAYABLES AND ACCRUALS

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

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
1 to 3 months	899,396	619,224
4 to 6 months	8,254	3,855
7 to 12 months	3,464	3,679
Over 12 months	1,520	3,758
	912,634	630,516
Other payables and accruals	629,469	159,373
	1,542,103	789,889

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

28. FINANCE LEASE PAYABLES

The Group leases a vessel for its oil transportation business and a motor vehicle for administrative purposes. These leases are classified as finance leases and have remaining lease terms ranging from two to four years.

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

Group

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

At 31 December 2006, the effective interest rate of the finance lease payables was 13.88% (2005: 13.88%) per annum.

29. FIXED RATE GUARANTEED SENIOR NOTES

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

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

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

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

At 31 December 2006, the effective interest rate of the Notes was 9.27% (2005: 9.27%) per annum and the fair value of the Notes was HK$2,737,800,000 (2005: HK$3,021,564,000).

30. DEFERRED TAX LIABILITIES

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

Group

	Accelerated capital allowances *HK$'000*	**Fair value adjustments arising from acquisition of subsidiaries** *HK$'000*	**Total** *HK$'000*
At 1 January 2005	14,163	—	14,163
Deferred tax credited to the consolidated income statement during the year *(note 10)*	(6,671)	—	(6,671)
At 31 December 2005 and 1 January 2006	7,492	—	7,492
Arising on acquisition of subsidiaries *(note 34)*	—	54,431	54,431
Deferred tax credited to the consolidated income statement during the year *(note 10)*	(3,173)	—	(3,173)
At 31 December 2006	4,319	54,431	58,750

At 31 December 2006, there were no significant unrecognised deferred tax liabilities (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associates as the Group has no liabilities for additional taxes should such amounts be remitted.

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

31. SHARE CAPITAL

Shares

	2006 *HK$'000*	**2005** *HK$'000*
Authorised:		
10,000,000,000 ordinary shares of HK$0.01 each	100,000	100,000
Issued and fully paid:		
4,864,900,202 (2005: 4,846,240,202) ordinary shares of HK$0.01 each	48,649	48,462

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

	Number of shares in issue *'000*	Nominal value of shares issued *HK$'000*
At 1 January 2005, 31 December 2005, and 1 January 2006	4,846,240	48,462
Exercise of share options during the year	18,660	187
At 31 December 2006	4,864,900	48,649

Share option scheme

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

32. SHARE OPTION SCHEME

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

Purpose	To provide incentives and rewards to eligible participants who contribute to the success of the operations of the Group.
Participants	(i) Full time employees and directors of the Company and its subsidiaries; and (ii) Any suppliers, consultants, agents and advisors of the Group.
Total number of ordinary shares available for issue and the percentage of the issued shares of the Company that it represents as at the date of approval of the financial statements	411,424,020 ordinary shares, representing 8.45% of the issued shares of the Company atthe 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.

The following share options under the Scheme were outstanding during the year:

Name or category of participant	Number of share options At 1 January 2006	Granted during the year	Lapsed during the year	Exercised during he year	At 31 December 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$
Directors								
Mr. Cheung Chun Yuen Barry	10,000,000	—	—	—	10,000,000	21 September 2005	9 July 2006 to 8 July 2008	0.68
	10,000,000	—	—	—	10,000,000	21 September 2005	21 September 2007 to 20 September 2009	0.68
Mr. Ib Fruergaard	—	2,500,000	—	—	2,500,000	20 February 2006	20 February 2007 to 19 February 2012	0.72
	—	2,500,000	—	—	2,500,000	20 February 2006	20 February 2008 to 19 February 2013	0.72
	20,000,000	5,000,000	—	—	25,000,000			
Other employees								
In aggregate	153,220,000	—	(13,220,000)	(18,660,000)	121,340,000	25 June 2004	25 June 2006 to 25 June 2008	0.45
	—	24,100,000	(1,500,000)	—	22,600,000	20 February 2006	20 February 2007 to 19 February 2012	0.72
	—	24,100,000	(1,500,000)	—	22,600,000	20 February 2006	20 February 2008 to 19 February 2013	0.72
	153,220,000	48,200,000	(16,220,000)	(18,660,000)	166,540,000			
Others								
In aggregate	32,800,000	—	—	—	32,800,000	25 June 2004	25 June 2006 to 25 June 2008	0.45
	32,800,000	—	—	—	32,800,000			
	206,020,000	53,200,000	(16,220,000)	(18,660,000)	224,340,000			

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

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

Options granted on 20 February 2006 are also vested to grantees in two tranches. 50% of such options were vested on 20 February 2007 with an exercise period from 20 February 2007 to 19 February 2012 and the remaining 50% will be vested on 20 February 2008 with an exercise period from 20 February 2008 to 19 February 2013. The closing price of the Company's shares was HK$0.72 on 17 February 2006.

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

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

The fair value of the equity-settled share options granted during the year was estimated as at the date of grant using the Binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the input to the model used for the year ended 31 December 2006.

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

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

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

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

33. RESERVES

(a) Group

	Notes	Share premium account HK$'000	Contributed surplus* HK$'000	Share option reserve HK$'000	Hedging reserve HK$'000	Asset revaluation reserve# HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2005		996,391	18,261	—	—	—	40	517,730	1,532,422
Equity-settled share option arrangements		—	—	797	—	—	—	—	797
Exchange realignment		—	—	—	—	—	2,507	—	2,507
Change in fair value on cash flow hedge	24	—	—	—	(28,121)	—	—	—	(28,121)
Profit for the year		—	—	—	—	—	—	303,030	303,030
Proposed final 2005 dividend	12	—	—	—	—	—	—	(29,077)	(29,077)
At 31 December 2005 and 1 January 2006		996,391	18,261	797	(28,121)	—	2,547	791,683	1,781,558
Equity-settled share option arrangements		—	—	8,830	—	—	—	—	8,830
Exchange realignment		—	—	—	—	—	20,568	—	20,568
Change in fair value on cash flow hedge	24	—	—	—	36,555	—	—	—	36,555
Exercise of share options		8,211	—	—	—	—	—	—	8,211
Acquisition of subsidiaries	34	—	—	—	—	44,204	—	—	44,204
Profit for the year		—	—	—	—	—	—	100,333	100,333
At 31 December 2006		1,004,602	18,261	9,627	8,434	44,204	23,115	892,016	2,000,259

* *The contributed surplus of the Group arose as a result of the Group reorganisation carried out on 18 May 1998 and represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.*

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

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Hedging reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2005		996,391	60,916	—	—	6,914	1,064,221
Equity-settled share option arrangements		—	—	797	—	—	797
Change in fair value on cash flow hedge	24	—	—	—	(28,121)	—	(28,121)
Profit for the year	11	—	—	—	—	28,319	28,319
Proposed final 2005 dividend	12	—	—	—	—	(29,077)	(29,077)
At 31 December 2005 and 1 January 2006		996,391	60,916	797	(28,121)	6,156	1,036,139
Equity-settled share option arrangements		—	—	8,830	—	—	8,830
Change in fair value on cash flow hedge	24	—	—	—	36,555	—	36,555
Exercise of share options		8,211	—	—	—	—	8,211
Profit for the year	11	—	—	—	—	43,061	43,061
At 31 December 2006		1,004,602	60,916	9,627	8,434	49,217	1,132,796

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the same Group reorganisation referred to above, over the nominal value of the Company's shares issued in exchange therefor. Under the Bermuda Companies Act 1981, the Company may make distributions to its members out of the contributed surplus under certain circumstances.

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

34. BUSINESS COMBINATIONS

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

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

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

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

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

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

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

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

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

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

35. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

During the year, other receivables and amounts due from associates of HK$37,274,000 and HK$78,765,000, respectively, were reclassified as amounts due from subsidiaries upon the Group's acquisition of 益泰 and Sky Sharp Group. In the prior year, the Group entered into a finance lease arrangement in respect of a vehicle with a total capital value at the inception of the lease of HK$498,000.

36. OPERATING LEASE ARRANGEMENTS

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

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

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

37. COMMITMENTS

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

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

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

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

(e) At 31 December 2005, the Group had a capital contribution commitment of US$18,780,000 (equivalent to approximately HK$146,484,000) in respect of the formation of GZ Nansha. The amount was fully settled during the current year.

38. CONTINGENT LIABILITIES

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

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

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

Other than the contingent liabilities as disclosed above, the Group and the Company had no other material contingent liabilities as at 31 December 2006 and 2005.

39. RELATED PARTY TRANSACTIONS

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

(i) *Tenancy agreement with Titan Oil*

In 2004, the Group entered into a tenancy agreement with Titan Oil for the lease of office premises currently used for the operation of the oil supply business for a term of three years commencing from 1 January 2005 until 31 December 2007. During the year, the Group paid a total amount of S$212,660 (equivalent to approximately HK$1,040,379) (2005: S$212,660 (equivalent to approximately HK$996,289)) to Titan Oil for the lease of the office premises, which is comparable to the prevailing market rental for similar properties.

(ii) *Shipbuilding contract*

On 3 July 2006, the Company entered into a conditional shipbuilding contract with Titan Quanzhou Shipyard Co., Ltd. ("QZ Shipyard"), a company which is approximately 46.52% owned by Titan Oil, to purchase two bunker barges and with two options to acquire a further eight bunker barges for an aggregate consideration of US$86.7 million (equivalent to approximately HK$676 million) (the "Purchase"). As at 31 December 2006, deposits of approximately HK$44 million were paid to QZ Shipyard (note 37(d)).

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

(iii) *Bank guarantees*

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

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

(b) Other transaction with a related party:

In current year and as at 31 December 2006, a subsidiary of Titan Oil advanced an amount of RMB660,000 (equivalent to approximately HK$660,000) (2005: RMB10,000,000 (equivalent to approximately HK$9,615,000)) to a subsidiary of the Company (2005: an associate of the Group) for working capital purposes, which is unsecured, interest-free and has no fixed terms of repayment.

(c) Outstanding balance with a related party:

At 31 December 2005, an amount of HK$1,184,000 due from Titan Oil was included in "Prepayments, deposits and other receivables" which was unsecured, interest-free and had no fixed terms of repayment. Such amount also represented the maximum outstanding amount during that year. During the year ended 31 December 2006, this amount was fully settled.

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

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

Commodity price risks

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

Credit risks

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

Cash flow interest rate risks

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

Liquidity risks

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

Foreign currency risks

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

41. POST BALANCE SHEET EVENTS

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

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

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

42. APPROVAL OF THE FINANCIAL STATEMENTS

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

B. MANAGEMENT DISCUSSION AND ANALYSIS

1. Supply

The Group's supply business provides a comprehensive service to both the Group's other businesses and external customers, using an extensive network of relationships around the world to source and trade oil products.

- Decline of revenue and segment results were due to lower trading volume in first half 2006

- Overall improvement in structure and strategy achieved by new Oil Services team introduced in June resulting in:

  — Substantial increase in segment results for second half compared to first half of year

  — Greater synergies from the Group's transportation, storage and distribution operations

For 2006, revenue results decreased 14% to HK$4,811 million and segment results also decreased by 28% to HK$39 million. This was largely attributable to the lower results in the first half of the year — the outcome of a reversal of the unrealized mark-to-market gain from 2005 and the negative import margins in the China market — as previously reported.

The Group, however, has made substantial improvements in this business sector by an overhaul of the supply operations with the establishment of a new Oil Services Team, comprised of experienced individuals under new senior management. Although revenue for the second half of 2006 was lower by 38% at HK$1,842 million compared to the first six months of the year, segment results by contrast increased more than tenfold to HK$37 million. The Team has made gains by extracting greater synergies from the Group's transportation, floating storage and distribution businesses. In the fourth quarter, the Team was able to take advantage of the market price structure through the use of the Group's newly opened storage facility at Nansha.

In addition to generating more business, the supply business is executing more profitable trading strategies, and this trend is expected to accelerate as our China terminals expand their operations.

During the year, we also implemented a new trading system to strengthen control and enhance integration. To gain maximum benefit from the system and avoid any unforeseen risks, we engaged the consulting firm Ernst & Young to undertake an audit, which was completed in December.

In 2007, the supply business will seek to take full advantage of the operation of the first phases of the Nansha and Fujian storage terminals to strengthen its customer relationships in China. The Group is also setting up a similar Oil Services team in the mainland to provide the Team in Singapore with an on-the-ground presence in the Chinese domestic market. Through an improved understanding of the needs of Chinese customers, Titan aims to become a trusted source of supply, offering diversification, security and price stability.

2. Transportation

Following two years of rapid growth, the Group's fleet capacity was 3.51 million deadweight tons (dwt) at the end of 2006, which included 12 VLCCs (very large crude carriers), two Aframaxes and a range of product tankers. Our VLCC fleet mainly transports crude oil between oil producing centers such as the Middle East to refineries in China, India and South-east Asia. In addition, we operate smaller product tankers that transport oil products and petrochemicals within Asia.

- Focus on operational excellence helped mitigate the effects of a soft market
- Product tanker fleet performed well in favorable market environment
- Conversion of an old VLCC into FSU in second half 2006 helped capture strong demand in that market

Revenues for 2006 were HK$2,082 million, an increase of 18%. Segment results for 2006, which were without the net gain on disposal of vessels of HK$131 million recorded in 2005, decreased 19% to HK$445 million. Excluding this exceptional item, segment results would have increased by 7%.

The improved performance of the transportation business was achieved despite lower average vessel earnings from the VLCC fleet, caused by an extremely weak market in the fourth quarter that was compounded by significantly higher average fuel prices. During 2006, the OPEC countries reduced production in order to support the oil price. In particular, the usual pattern of global demand for oil peaking for the fourth quarter failed to materialize. This was primarily due to the unusually warm winter, which led to reduced demand from key OECD countries in North America, Europe and Japan. As a result, after a promising start to the year, World Scale rates declined to an average WS69.5 for the TD3 (Middle East — Japan) route in fourth quarter 2006 versus WS156.4 in fourth quarter 2005. This resulted in an average of WS95.75 for the whole year of 2006, against WS103.96 in 2005. Not only were VLCC earnings lower, but fuel cost was significantly higher, impacting profitability. Bunker fuel prices rose by an average of 20% in 2006.

Notwithstanding this, Titan's VLCC fleet registered an average of WS94 on our usual Middle East-Asia routes. Our focus in 2006 on operational excellence for this existing tonnage also helped mitigate the effect of the soft market. We also placed six VLCCs into dry-docking during the second and third quarters of the year, and this had the effect of reducing average utilization to 82%. The VLCC fleet continues to be the main revenue contributor with a share of 75.6%, whilst the Aframaxes contribute 9.7% and the rest of the tankers 14.7% of the segment revenues in 2006.

The product tanker fleet comprises vessels in the 6,000 to 7,500 dwt range, which operate largely under contract to international and national oil companies. This fleet performed well in a strong market to achieve an average utilization in 2006 of 97%, higher revenues and improved profitability. In addition, there are two Aframaxes primarily operating in the fuel oil trade.

While global demand for oil may rise in 2007, the tanker order book currently stands at over 135 million dwt, implying an average growth of 4% a year for the next few years. This imbalance is likely to give pressure to VLCC rates, and the Group will make certain steps to address this challenge. We intend to rationalize our fleet operations, convert the older and smaller VLCCs to floating storage to capitalize on the strong demand in this area. By the end of 2007, we expect to be operating no more than six VLCCs compared to the 12 in operation as at 2006 year-end. Titan is pursuing more period charter business to increase the stability of revenues and maximize utilisation. Our transport business will also capitalize more on the synergies of the other Group's businesses to ensure optimal utilization and, overall, greater profitability of our assets.

3. Storage

The Group operates two Floating Storage Units (FSU) in Tanjong Pelapas, near the port of Singapore, with a total of 375,000 tons of storage capacity at the end of 2006. Titan is also developing three major onshore facilities at strategic locations in China. Phase I of Titan Nansha Petrochemical Terminal in the Pearl River Delta, providing 410,000 cubic meters of capacity, commenced operations in October.

- Successful opening of Nansha terminal marks a major milestone
- Good progress achieved on construction at Fujian and Yangshan terminals
- Growth in both revenue and profits due to increased integration of FSU with Group's other operations and a small initial contribution from Nansha

Revenues for the year doubled to HK$96 million, and segment results were 81% higher at HK$25 million. The improved result was due to both a small initial contribution from the Nansha terminal and the increasing integration of the Group's oil services, which has seen turnover increase by more than 90% in the FSU business.

Titan is adding more capacity to its FSU operations in 2007 by converting a few of the Group's VLCCs to meet the increasingly strong demand in this market.

China Terminals

The successful opening of Phase I of the Nansha terminal marks a major milestone in Titan's storage business as we enter the fast developing China storage market. Oil demand in China is forecast to increase at some 6% a year for the foreseeable future, with the dependence on imports continuing to rise.

Much of the demand for oil and petrochemical products lies in the newly industrialized areas of the southern and eastern coastal regions. Since China's oil-related infrastructure is located largely in the north-east, these regions face a shortage of modern, large-scale and efficient oil storage facilities.

Titan is addressing this shortage by building its large, state-of-the-art storage terminals in southern and eastern China. All 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.

They are built to the highest international standards with advanced technology and equipment, including Enraf radar measurement, Honeywell automation control and SAP systems. The equipment includes double screw pumps for high viscosity oil delivery, tanks for blending and comprehensive HSE management systems. Efficiency is further enhanced by the use of a shared service centre providing financial, HR, IT, legal, administrative and other services, which entered operation in July.

Funding for the Group's onshore storage projects will come largely from non-recourse project financing arrangements. For the Nansha terminal, a RMB380 million facility had previously been arranged for Phase I. A further RMB270 million credit facility has been arranged for the chemical storage section of Phase II. For Phase I of the Fujian terminal, a total of RMB195 million of loan facilities has been arranged.

Nansha, Guangdong

Phase I of the Nansha terminal began operations in October 2006 and comprises 410,000 m^3 of fuel oil storage together with eight berths for vessels of between 1,000 dwt and 100,000 dwt. The inaugural delivery in November of an 80,000 dwt vessel marked the first time in the history of the Pearl River Delta that cargo of this size was discharged in less than 24 hours. The discharge rate achieved is some three to four times faster than those currently achievable in the region, representing a huge step up in efficiency and consequently significant cost savings to customers. The direct ship-to-shore transfer also significantly reduces risk to the marine environment.

The response from the market to the Nansha terminal has been extremely positive, validating the Group's earlier decision to accelerate the facility's development. During the year progress was made in land improvement and site preparation works on the expanded Phase II, which will add a further 270,000 m^3 of fuel oil, 830,000 m^3 of diesel and gasoline and 290,000 m^3 of chemicals storage together with a further 13 berths for vessels of various sizes. Land improvement work was completed by year end, and construction of the tank foundation will begin in the first half of 2007.

Titan holds 70% of the Nansha terminal, and the remaining 30% is held by Nansha Assets Operation Co. Ltd, an investment arm of the Guangzhou Nansha Municipal Government.

Quanzhou, Fujian

Progress at the Fujian terminal, located at the port of Quanzhou in Fujian Province, was accomplished despite delays caused by adverse weather conditions. The construction of Phase I, comprising 90,000 m^3 of storage for chemicals and diesel together with a 5,000 dwt berth and a 3,000 dwt berth, is now complete. Trial operations began early this year, following full inspection and acceptance by the authorities, and we expect Phase I to become fully operational by April 2007.

During the year, construction of all 42 storage and six utility tanks was completed, together with testing and corrosion protection. Installation and testing of the piping system was completed together with all associated buildings and other facilities, including the waste water treatment plant. All the systems including electrical, instrumentation, Honeywell DCS system, survillence system and fire fighting system were installed and tested.

Project Information

	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 by 2008
Phase II	1,390,000 m^3 by 2008	600,000 m^3 by end 2008	600,000 m^3 by 2009
Phase III	—	800,000 m^3 by 2010	1.35 million m^3 by 2011
Number of Berths	21	8	16
Maximum Berth Capacity	100,000 dwt	300,000 dwt	300,000 dwt
Products	Fuel Oil, Chemicals, Petroleum products	Fuel Oil, Chemicals, Petroleum products	Fuel Oil, Chemicals, Petroleum products

Phase II, with a capacity of 600,000 m^3, is scheduled to enter operation late 2008, and Phase III with a further 800,000 m^3 in 2010, adding storage of petroleum products and fuel oil. The later phases will also add six additional berths capable of accommodating VLCCs up to 300,000 dwt.

Titan owns 100% of the Fujian terminal. This follows the acquisition, announced in July, of the remaining shareholding for RMB227.6 million (HK$219 million)

Yangshan, Shanghai

The Yangshan terminal near Shanghai obtained approval from the National Development and Reform Commission during the year, and work began in August on Phase I, due for completion in 2008.

Phase I comprises 420,000 m^3 of storage for fuel oil, one berth for vessels up to 100,000 dwt and four berths for vessels up to 5,000 dwt. Work on the jetty is underway, and foundations for the tank farm are complete. Construction of the tank farm and pipelines will commence in April 2007.

The plan is for Phase II, with a capacity of 600,000 m^3, to be completed in 2009. Depending upon demand, Phase III of a further 1.35 million m^3 is planned for 2011. These two subsequent phases will add storage for various petroleum and chemical products.

Titan owns 28% of the Yangshan terminal, with three other parties, including Petrochina, holding the remainder.

4. Distribution

The Group's distribution business consists of bunkering or ship refueling operations in Singapore and Hong Kong. Titan Bunkering is an accredited supplier in the port under the Singapore's Accreditation Scheme for Bunker Suppliers (ASBS.)

- Strong growth achieved in both revenue and segment results

- Singapore bunkering business climbs from No. 15 to No. 10 in the market

- Synergies achieved with the Group's storage and supply operations

Revenues for 2006 grew strongly by 46% to HK$4,471 million, while segment results increased significantly by 97% to HK$37 million.

The growth came primarily from the Singapore market, the world's largest bunker market. Not only was demand strong, but we were able to increase market share as we strengthened our relationships with the major shipping companies who are our customers.

Titan has now risen from the top 15 to the top 10 suppliers of bunkering services in Singapore in 2006, with an approximate market share of 8%. On average, we moved about 150,000–200,000 tonnes per month in 2006. Last year, the port of Singapore moved a record 28.4 million tonnes of bunkers, 11.4% more than the 25.5 million tonnes for 2005.

We aspire to grow our market share in 2007, despite a likely increase in competition with more players entering the market to serve new and expanded terminals. Like the rest of the other businesses, we are increasingly deriving more synergies from a closer integration with the Group's supply, FSU and onshore storage businesses and expect performance to improve further.

To capture the growing demand in bunkering and to increase our delivery capabilities, the Group has ordered six new double-hulled bunker barges in the second half of 2006, with an option to buy another four more. The firsts of the barges are scheduled for delivery in late 2007.

In Hong Kong, the year was devoted to reorganizing the business in order to be able to fully exploit the opportunities that will arise from the operations of the Nansha terminal across the border.

5. Financial Review

Financial Results

The Group's turnover for the year was up 10% to HK$11,460 million. Cost of sales rose by 10% to HK$10,797 million in line with the expansion of operations. No exceptional net gain was recorded from the disposal of vessels during the year. Earnings before interest expenses, tax, depreciation and amortization (EBITDA) rose by 0.15% over 2005 to HK$868 million. Finance costs rose from HK$313 million to HK$386 million as the Group increased its debt to finance expansion, and profit before tax decreased by 64% to HK$110 million. The profit for the year attributable to ordinary equity holders of the parent decreased to HK$100 million from HK$303 million for the previous year, resulting in a return on equity of 5%.

Supply

The contribution to the Group's turnover and the segment result dropped by 14% to HK$4,811 million and by 28% to HK$39 million respectively as compared to HK$5,599 million and HK$54 million for 2005. The business accounted for 42% of Group revenues.

Transportation

The oil transportation business remained an important profit contributor to the Group. This business recorded turnover of HK$2,082 million for the year, up 18% over the HK$1,761 million recorded for the year 2005. The segment result from oil transportation business decreased by 19% from HK$548 million to HK$445 million, which included a net disposal gain of vessels of approximately HK$131 million in 2005. The transportation business accounted for 18% of Group revenues.

Storage

The oil storage business recorded turnover of HK$96 million in 2006, as compared to HK$48 million for the year of 2005. The segment result was HK$25 million as compared to HK$14 million for the year of 2005. The oil storage business accounted for 1% of Group revenues.

Distribution

The contribution to the Group's turnover and the segment results for the year was HK$4,471 million and HK$37 million respectively. The business accounted for 39% of Group revenues.

Liquidity, Financial Resources, Charges on Assets and Gearing

The Group finances its operations through internally generated cash flows, term loans and trade finance facilities provided by banks in Hong Kong, Singapore and China. At 31 December 2006, the Group had cash and cash equivalents of HK$300 million (31 December 2005: HK$644 million) and pledged deposits of HK$73 million (31 December 2005: HK$13 million), comprising an equivalent of HK$337 million denominated in US dollars, an equivalent of HK$10 million denominated in Singapore dollars, an equivalent of HK$18 million in Renminbi, an equivalent of HK$4 million in Euro and HK$4 million in Hong Kong dollars. At 31 December 2006, the Group had interest-bearing bank and other loans of HK$1,845 million (31 December 2005: HK$1,553 million), of which 69% were floating rate interest bearing and denominated in US dollars. HK$643 million of the Group's bank loans at 31 December 2006 had maturities within one year.

At 31 December 2006, the Group's banking facilities were largely secured or guaranteed by cash deposits amounting to HK$73 million, deposits of HK$10 million held in a collateral account, vessels with carrying values of HK$2,560 million, prepaid land/seabed lease payments of HK$269 million, oil storage facilities with carrying values of HK$159 million, inventories with carrying values of HK$321 million, a personal guarantee executed by a director of the Company, corporate guarantees executed by the Company, a corporate guarantee executed by a subsidiary of Titan Oil, the Company's ultimate holding company and an unlimited corporate guarantee executed by Titan Oil.

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

At 31 December 2006, the Group had current assets of HK$2,851 million (31 December 2005: HK$2,442 million). The Group's current ratio decreased from 1.85 at 31 December 2005 to 1.24 as at 31 December 2006. At 31 December 2006, the Group had total assets of HK$8,947 million (31 December 2005: HK$7,602 million), total bank and other loans of HK$1,845 million (31 December 2005: HK$1,553 million), finance lease payables of HK$138 million (31 December 2005: HK$165 million) and the Notes of HK$3,124 million (31 December 2005: HK$3,114 million). The gearing of the Group, calculated as total bank and other loans, finance lease payables and the Notes to total assets, was 0.57 at 31 December 2006 (31 December 2005: 0.64).

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

Contingent Liabilities

At 31 December 2006, the banking facilities granted to certain subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of HK$2,615 million (31 December 2005: HK$1,944 million).

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

At 31 December 2006, a guarantee of HK$38 million given by the Company to suppliers in connection with the bunkering refueling business was utilised by a subsidiary of the Company (31 December 2005: HK$9 million).

C. STATEMENT OF INDEBTEDNESS

Borrowings

At 31 July 2007, the Enlarged Group had total outstanding borrowings of approximately HK$5,022 million, comprised of fixed rate guaranteed senior notes of approximately HK$3,153 million, secured bank loans of approximately HK$1,708 million, unsecured bank loans of approximately HK$161 million, and finance lease payables of approximately HK$0.1 million.

At 31 July 2007, the Enlarged Group had contingent liabilities of HK$1 million in respect of letters of guarantee given to a governmental authority by a subsidiary of the Enlarged Group.

Security

At 31 July 2007, the Enlarged Group's banking facilities and finance lease payables were secured by the following:

(i) the Enlarged Group's vessels with a carrying value of HK$2,222 million;

(ii) the Enlarged Group's construction in progress with a carrying value of HK$83 million;

(iii) the Enlarged Group's deposits of HK$229 million;

(iv) the Enlarged Group's deposit held in a collateral account of HK$10 million;

(v) the Enlarged Group's land/seabed/sea area use rights of HK$185 million;

(vi) the Enlarged Group's oil storage facilities with a carrying value of HK$238 million;

(vii) the Enlarged Group's inventory with a carrying value of HK$406 million;

(viii) shares of certain subsidiaries;

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

(x) corporate guarantees executed by the Company; and

(xi) a corporate guarantee executed by a related company which is a subsidiary of Titan Oil.

Disclaimer

Save as aforesaid or otherwise mentioned herein and apart from intra-group liabilities, the Enlarged Group did not, at the close of business on 31 July 2007, have any outstanding loan, capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other contingent liabilities.

The Directors have confirmed there have been no material changes in the indebtedness and contingent liabilities of the Enlarged Group since 31 July 2007.

Foreign currency amounts have, for the purposes of this indebtedness statement, been translated into Hong Kong dollars at the applicable rates of exchange ruling at the close of business on 31 July 2007.

D. WORKING CAPITAL

The Directors are of the opinion that after taking into account the Enlarged Group's internal resources and the present available banking facilities, the Enlarged Group will have sufficient working capital for its present requirements.

E. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse changes in the financial or trading positions of the Enlarged Group since 31 December 2006 (being the date to which the latest published audited financial statements of the Company were made up).

The following is the text of a report, prepared for the sole purpose of incorporation in this circular, received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.

ERNST & YOUNG
安 永 會 計 師 事 務 所

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

24 September 2007

The Board of Directors
Titan Petrochemicals Group Limited

Dear Sirs,

We set out below our report on the financial information regarding Titan Quanzhou Shipyard Co., Ltd. (泉州船舶工業有限公司) ("QZ Shipyard") for the period from 1 March 2004 (date of establishment) to 31 December 2004 and each of the two years ended 31 December 2005 and 2006 and the six months ended 30 June 2007 (the "Relevant Periods") (the "Financial Information") and the comparative financial information for the six months ended 30 June 2006 (the "30 June 2006 Financial Information"), prepared on the basis set out in note 2.1 under Section II "Notes to Financial Information" below, for inclusion in the circular of Titan Petrochemicals Group Limited (the "Company") dated 24 September 2007 (the "Circular") in connection with its proposed acquisition of the entire issued share capital of Titan TQSL Holding Company Ltd. ("TQSL") (the "Proposed Acquisition").

QZ Shipyard was established in the People's Republic of China (the "PRC") as a limited liability company on 1 March 2004. As at 30 June 2007, QZ Shipyard had registered and paid-up capital of RMB270,000,000 and was owned by Titan Oil Pte. Ltd. ("Titan Oil"), the Company's ultimate holding company; Fujian Shishi Titan Sailor Administer Company Limited, a subsidiary of Titan Oil; and Vision Jade Investments Limited ("Vision Jade"), an associate of a director of the Company (collectively known as the "Ex-shareholders of the QZ Shipyard"). Their respective interests were 46.52%, 30% and 23.48%. On 5 July 2007, the Ex-shareholders of QZ Shipyard entered into a sale and purchase agreement to transfer their interests in QZ Shipyard to TQSL. TQSL is a company incorporated in the British Virgin Islands and owned by Titan Oil, Vision Jade and Titan Shipyard Investment Company Limited, all being associates of a director of the Company. On 18 July 2007, such transfer was approved by Fujian Provincial Department of Foreign Trade and Economic Cooperation and hence QZ Shipyard became a wholly foreign-owned enterprise. During the Relevant Periods, QZ Shipyard was principally engaged in the ship building and ship repairing business.

The financial statements of QZ Shipyard were prepared in accordance with PRC accounting principles (the "PRC GAAP Financial Statements"). The PRC GAAP Financial Statements for the period from 1 March 2004 to 31 December 2004 and for the year ended 31 December 2005 were audited by Quanzhou Mingcheng Certified Public Accountants and those for year ended 31 December 2006 were audited by Quanzhou Zhonghe Certified Public Accountants, both of which are certified public accountants registered in the PRC.

The Financial Information, which includes the income statements, statements of changes in equity and cash flow statements of QZ Shipyard for the Relevant Periods and the balance sheets of QZ Shipyard as at 31 December 2004, 2005 and 2006 and 30 June 2007 together with the notes thereto set out in this report, has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Financial Information is based on the PRC GAAP Financial Statements, after making the necessary adjustments as appropriate to comply with HKFRSs and is presented on the basis set out in note 2.1 under Section II "Notes to Financial Information" below.

The directors of QZ Shipyard are responsible for the preparation of the Financial Information and the 30 June 2006 Financial Information together with the notes thereto. In preparing the Financial Information and the 30 June 2006 Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable, and that the reasons for any significant departure from applicable accounting standards are stated. It is our responsibility to form an independent opinion and a review conclusion on such information in respect of the Relevant Periods and for the six months ended 30 June 2006, respectively, and to report our opinion and review conclusion to you. We believe that our work provides a reasonable basis for our opinion.

PROCEDURES PERFORMED IN RESPECT OF THE RELEVANT PERIODS

For the purpose of this report, we have carried out an independent audit on the Financial Information in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA and have carried out such additional procedures on the management accounts as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

PROCEDURES PERFORMED IN RESPECT OF THE 30 JUNE 2006 FINANCIAL INFORMATION

For the purpose of this report, we have performed a review of the 30 June 2006 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSAs and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 30 June 2006 Financial Information.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION OF THE RELEVANT PERIODS

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of QZ Shipyard as at 31 December 2004, 2005 and 2006, and 30 June 2007 and of the results and cash flows of QZ Shipyard for each of the Relevant Periods.

REVIEW CONCLUSION IN RESPECT OF THE 30 JUNE 2006 FINANCIAL INFORMATION

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the 30 June 2006 Financial Information of QZ Shipyard is not prepared, in all material respects, in accordance with HKFRSs.

I. FINANCIAL INFORMATION

Income Statements

		Period from 1 March 2004 (date of establishment) to 31 December	Year ended 31 December		Six months ended 30 June	
		2004	**2005**	**2006**	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
REVENUE	*5*	—	—	15,127	—	67,604
Cost of sales		—	—	(11,367)	—	(50,588)
Gross profit		—	—	3,760	—	17,016
Other revenue	*5*	98	140	361	128	523
Administrative expenses		(1,468)	(105)	(703)	(137)	(6,413)
Selling expenses		—	—	(104)	—	(39)
Finance costs	*6*	—	—	—	—	—
PROFIT/(LOSS) BEFORE TAX	*7*	(1,370)	35	3,314	(9)	11,087
Tax	*9*	—	—	—	—	—
PROFIT/(LOSS) FOR THE YEAR/PERIOD		(1,370)	35	3,314	(9)	11,087

Balance Sheets

		31 December			30 June
		2004	**2005**	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS					
Property, plant and equipment	*10*	2,048	15,394	98,825	267,492
Prepaid land/sea area lease payments	*11*	—	75,677	75,419	81,025
Intangible assets	*12*	—	12	650	987
Deposits paid	*13*	22,500	—	64,697	60,683
Total non-current assets		24,548	91,083	239,591	410,187
CURRENT ASSETS					
Inventories	*14*	—	—	2,308	27,324
Amount due from customer for contract works	*15*	—	—	15,127	82,737
Prepayments, deposits and other receivables	*13*	131	393	21,133	125,842
Amounts due from fellow subsidiaries	*16*	—	—	33,930	146,858
Pledged bank balances	*17*	—	—	—	28,792
Cash and cash equivalents	*17*	13,554	1,463	3,391	36,841
Total current assets		13,685	1,856	75,889	448,394
CURRENT LIABILITIES					
Accounts payable	*18*	—	—	2,029	45,002
Other payables and accruals	*19*	603	5,774	14,532	6,121
Receipts in advance	*20*	—	—	44,440	319,392
Interest-bearing bank loans	*21*	—	—	20,000	101,410
Total current liabilities		603	5,774	81,001	471,925
NET CURRENT ASSETS/ (LIABILITIES)		13,082	(3,918)	(5,112)	(23,531)
TOTAL ASSETS LESS CURRENT LIABILITIES		37,630	87,165	234,479	386,656
NON-CURRENT LIABILITY					
Interest-bearing bank loan	*21*	—	—	—	103,590
Net assets		37,630	87,165	234,479	283,066
EQUITY					
Equity attributable to equity holders of QZ Shipyard					
Paid-up capital	*22*	39,000	88,500	232,500	270,000
Retained profits/(accumulated losses)		(1,370)	(1,335)	1,979	13,066
Total equity		37,630	87,165	234,479	283,066

Statements of Changes in Equity

	Paid-up capital *RMB'000*	**Retained profits/ (accumulated losses)** *RMB'000*	**Total** *RMB'000*
Increase in paid-up capital	39,000	—	39,000
Loss for the period	—	(1,370)	(1,370)
At 31 December 2004 and 1 January 2005	39,000	(1,370)	37,630
Increase in paid-up capital	49,500	—	49,500
Profit for the year	—	35	35
At 31 December 2005 and 1 January 2006	88,500	(1,335)	87,165
Increase in paid-up capital	144,000	—	144,000
Profit for the year	—	3,314	3,314
At 31 December 2006 and 1 January 2007	232,500	1,979	234,479
Increase in paid-up capital	37,500	—	37,500
Profit for the period	—	11,087	11,087
At 30 June 2007	270,000	13,066	283,066

Cash Flow Statements

	Notes	Period from 1 March 2004 (date of establishment) to 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2006	Six months ended 30 June 2006	Six months ended 30 June 2007
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit/(loss) before tax		(1,370)	35	3,314	(9)	11,087
Adjustments for:						
Interest income	*5*	(98)	(140)	(361)	(128)	(499)
Depreciation	*7*	—	—	317	127	1,813
Amortisation	*7*	—	—	—	—	54
Recognition of prepaid land/sea area lease payments	*7*	—	—	258	—	813
		(1,468)	(105)	3,528	(10)	13,268
Increase in inventories		—	—	(2,308)	—	(25,016)
Increase in an amount due from customers for contract works		—	—	(15,127)	—	(66,301)
Increase in prepayments, deposits and other receivables		(131)	(262)	(20,740)	(97)	(104,709)
Increase in amounts due from fellow subsidiaries		—	—	(33,930)	—	(112,928)
Increase in pledged bank balances		—	—	—	—	(28,792)
Increase in accounts payable		—	—	2,029	—	42,973
Increase/(decrease) in other payables and accruals		603	5,171	8,758	1,621	(8,411)
Increase in receipts in advance		—	—	44,440	—	274,952
Cash generated from/(used in) operations		(996)	4,804	(13,350)	1,514	(14,964)
Interest received		98	140	361	128	499
Net cash inflow/(outflow) from operating activities		(898)	4,944	(12,989)	1,642	(14,465)

	Notes	Period from 1 March 2004 (date of establishment) to 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2006	Six months ended 30 June 2006	Six months ended 30 June 2007
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
CASH FLOWS FROM INVESTING ACTIVITIES						
Additions of items of property, plant and equipment		(2,048)	(13,346)	(83,748)	(11,690)	(131,636)
Increase in prepaid land/ sea area lease payments		—	(53,177)	—	—	(2,419)
Additions of intangible assets		—	(12)	(638)	(197)	(391)
Increase in deposits paid		(22,500)	—	(64,697)	(33,735)	(35,203)
Net cash outflow from investing activities		(24,548)	(66,535)	(149,083)	(45,622)	(169,649)
CASH FLOWS FROM FINANCING ACTIVITIES						
New bank loans		—	—	20,000	—	185,000
Interest paid		—	—	—	—	(4,936)
Increase in paid-up capital		39,000	49,500	144,000	75,085	37,500
Net cash inflow from financing activities		39,000	49,500	164,000	75,085	217,564
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		13,554	(12,091)	1,928	31,105	33,450
Cash and cash equivalents at beginning of year/ period		—	13,554	1,463	1,463	3,391
CASH AND CASH EQUIVALENTS AT END OF YEAR/ PERIOD		13,554	1,463	3,391	32,568	36,841
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances		13,554	1,463	3,391	32,568	36,841

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

QZ Shipyard was established as a limited liability company on 1 March 2004. QZ Shipyard is principally engaged in the ship building and ship repairing business. The registered office of QZ Shipyard is located at No.1 Shipyard Road, Jingfeng, Huian County, Quanzhou City, Fujian Province, the PRC.

2.1 BASIS OF PRESENTATION AND PREPARATION

Basis of presentation

QZ Shipyard had net current liabilities of RMB23,531,000 at 30 June 2007. The Financial Information has been prepared on the going concern basis based on the undertaking from Titan Oil, the Company's ultimate holding company, to provide continuing financial support to QZ Shipyard's operations to enable it to meet its liabilities as and when they fall due.

Basis of preparation

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong. It has been prepared under the historical cost convention. The Financial Information are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

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

QZ Shipyard has not applied the following new and revised HKFRS, that has been issued but is not yet effective, in the Financial Information:

HKFRS 8	Operating Segments
HKAS 23 (Revised)	Borrowing costs

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

HKAS 23 (Revised) shall be applied for annual periods beginning on or after 1 January 2009. This standard requires an entity to capitalise all borrowing costs if they are directly attributable to the acquisition, construction or production of a qualifying asset. The choice to immediately recognise such costs as an expense is eliminated. The revised standard does not require the capitalisation of borrowing costs relating to assets measured at fair value and inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis.

QZ Shipyard expects that the adoption of the pronouncements listed above will not have any significant impact on QZ Shipyard's financial statements in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Impairment of non-financial assets

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

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however, not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to QZ Shipyard if:

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

(b) the party is a member of the key management personnel of QZ Shipyard or its parent;

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

(d) 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 (b) or (c).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Machinery	10 years
Motor vehicles	5 years
Furniture, fixtures and equipment	5 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.

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

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

Construction in progress represents buildings and ship building and repairing 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.

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets represent the software purchased for operations. The software is stated at cost less any accumulated amortisation and any impairment losses. Such costs are amortised on the straight-line basis, over their estimated useful lives of five years.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where QZ Shipyard is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

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

Financial assets

Financial assets under the scope of HKAS 39 are classified as loans and receivables. When financial assets are recognised initially, they are measured at fair value, plus, directly attributable transaction costs. QZ Shipyard considers whether a contract contains an embedded derivative when QZ Shipyard first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

QZ Shipyard determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All standard purchases and sales of financial assets are recognised on the trade date, that is, the date that QZ Shipyard commits to purchase or sell the asset. Such purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

QZ Shipyard 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 income statement.

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

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

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;

- QZ Shipyard 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

- QZ Shipyard 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 QZ Shipyard 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 QZ Shipyard'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 QZ Shipyard 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 QZ Shipyard's continuing involvement is the amount of the transferred asset that QZ Shipyard 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 QZ Shipyard'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 bank loans)

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

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

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 income statement.

Inventories

Inventories represent raw materials that are held for ship building and construction of QZ Shipyard's ship building and repairing facilities, are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to disposal.

Construction contracts

Ship building is accounted for in the balance sheet as all direct costs incurred plus recognised profits, less recognised losses and progress billings. Ship building revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Ship building costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from customers for contract works.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to customers for contract works.

Cash and cash equivalents

For the purpose of the cash flow statements, cash and cash equivalents include cash on hand, demand deposits with banks, and other short term highly liquid investments with original maturities of three months or less when acquired, less bank overdrafts which are repayable on demand and form an integral part of QZ Shipyard's cash management.

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

Provisions

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

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

Income tax

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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.

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 profit 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 that it is probable that sufficient taxable profit 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 QZ Shipyard and when the revenue can be measured reliably, on the following bases:

(a) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above; and

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

Employee benefits

Pension scheme

The employees of QZ Shipyard are required to participate in a central pension scheme (the "CB Scheme") operated by the local municipal government. QZ Shipyard is required to contribute a certain percentage of its payroll to the CB Scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the CB Scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., 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 recognised as expenses in the income statement in the period in which they are incurred.

Foreign currencies

The Financial Information is presented in Renminbi, which is QZ Shipyard's functional and presentation currency. Transactions in foreign currencies are translated into the functional currency of QZ Shipyard using the exchange rates prevailing at the dates of the transactions. Exchange differences arising from the settlement of such transactions and from the translation at the year-end/period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

4. SEGMENT INFORMATION

Segment information is not presented as QZ Shipyard is principally engaged in ship building in the PRC, to which the QZ Shipyard's entire revenue, profit/(loss) and assets and liabilities relate during each of the Relevant Periods.

5. REVENUE

Revenue, which is also QZ Shipyard's turnover, represents an appropriate proportion of contract revenue of its ship building contracts.

An analysis of turnover and other revenue is as follows:

	Period from 1 March 2004 (date of establishment) to 31 December	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Turnover					
Ship building income	—	—	15,127	—	67,604
Other revenue					
Bank interest income	98	140	361	128	499
Others	—	—	—	—	24
	98	140	361	128	523

6. FINANCE COSTS

	Period from 1 March 2004 (date of establishment) to 31 December	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Interest on bank loans wholly repayable:					
Within five years	—	—	—	—	2,525
Beyond five years	—	—	—	—	2,411
Less: Interest capitalised as property, plant and equipment — *note 25*	—	—	—	—	(3,627)
Less: Interest capitalised as contract works — *note 25*	—	—	—	—	(1,309)
	—	—	—	—	—

7. PROFIT/(LOSS) BEFORE TAX

QZ Shipyard's profit/(loss) before tax is arrived at after charging:

	Period from 1 March 2004 (date of establishment) to 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2006	Six months ended 30 June 2006	Six months ended 30 June 2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Cost of inventories sold	—	—	11,367	—	50,588
Depreciation	—	—	317	127	1,813
Amortisation	—	—	—	—	54
Recognition of prepaid land/sea area lease payments	—	—	258	—	813
Minimum lease payments under operating leases in respect of leasehold land and buildings	—	—	—	—	254
Auditors' remuneration	—	8	8	8	—
Foreign exchange differences, net	21	36	302	—	487
Employee benefits expense (excluding directors' remuneration *(note 8)*):					
Wages and salaries	—	—	1,774	—	3,550
Pension scheme contributions	—	—	89	—	182

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' remuneration

No director received any fees or other emoluments during each of the Relevant Periods.

There was no arrangement under which a director waived or agreed to waive any remuneration during each of the Relevant Periods.

(b) Five highest paid employees

Details of the five highest paid employees during each of the Relevant Periods are set out below:

	Period from 1 March 2004 (date of establishment) to 31 December	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Salaries, allowances and benefits in kind	36	702	963	482	923

The number of highest paid employees whose remuneration fell within the following band is as follows:

	Period from 1 March 2004 (date of establishment) to 31 December	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Nil to RMB1,000,000	5	5	5	5	5

9. TAX

In accordance with the approval document issued by the State Tax Bureau of the PRC on 29 March 2007, QZ Shipyard is entitled to an exemption from the state and local corporate income tax ("CIT") for its first two profitable financial years of operation and thereafter a 50% relief from the state CIT for the following three financial years. The two years' tax exemption period for QZ Shipyard commenced in the financial year ended 31 December 2006.

A reconciliation of the tax position applicable to profit/(loss) before tax using the statutory rate in the PRC to the tax expense at the effective tax rate is as follows:

	Period from 1 March 2004 (date of establishment) to 31 December	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Profit/(loss) before tax	(1,370)	35	3,314	(9)	11,087
Tax at the statutory rate at 33%	(452)	12	1,094	(3)	3,659
Lower tax rate due to tax holiday	—	—	(1,094)	—	(3,659)
Expenses not deductible for tax	452	—	—	—	—
Others	—	(12)	—	3	
	—	—	—	—	—

At the balance sheet dates, there was no unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of QZ Shipyard as QZ Shipyard had no liability to additional tax should such amounts be remitted.

10. PROPERTY, PLANT AND EQUIPMENT

	Machinery *RMB'000*	Furniture, equipment and motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2004				
At 1 March 2004 (date of establishment)	—	—	—	—
Additions	—	596	1,452	2,048
At 31 December 2004, net of accumulated depreciation	—	596	1,452	2,048
At 31 December 2004:				
Cost	—	596	1,452	2,048
Accumulated depreciation	—	—	—	—
Net carrying amount	—	596	1,452	2,048
31 December 2005				
At 31 December 2004 and at 1 January 2005:				
Cost	—	596	1,452	2,048
Accumulated depreciation	—	—	—	—
Net carrying amount	—	596	1,452	2,048
At 1 January 2005, net of accumulated depreciation	—	596	1,452	2,048
Additions	—	765	12,581	13,346
At 31 December 2005, net of accumulated depreciation	—	1,361	14,033	15,394
At 31 December 2005:				
Cost	—	1,361	14,033	15,394
Accumulated depreciation	—	—	—	—
Net carrying amount	—	1,361	14,033	15,394

	Machinery	Furniture, equipment and motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2006				
At 31 December 2005 and at 1 January 2006:				
Cost	—	1,361	14,033	15,394
Accumulated depreciation	—	—	—	—
Net carrying amount	—	1,361	14,033	15,394
At 1 January 2006, net of accumulated depreciation	—	1,361	14,033	15,394
Additions	15,090	1,465	67,193	83,748
Depreciation	(1)	(316)	—	(317)
At 31 December 2006, net of accumulated depreciation	15,089	2,510	81,226	98,825
At 31 December 2006:				
Cost	15,090	2,826	81,226	99,142
Accumulated depreciation	(1)	(316)	—	(317)
Net carrying amount	15,089	2,510	81,226	98,825
30 June 2007				
At 31 December 2006 and at 1 January 2007:				
Cost	15,090	2,826	81,226	99,142
Accumulated depreciation	(1)	(316)	—	(317)
Net carrying amount	15,089	2,510	81,226	98,825
At 1 January 2007, net of accumulated depreciation	15,089	2,510	81,226	98,825
Additions	23,597	3,013	143,870	170,480
Depreciation	(1,380)	(433)	—	(1,813)
At 30 June 2007, net of accumulated depreciation	37,306	5,090	225,096	267,492
At 30 June 2007:				
Cost	38,687	5,839	225,096	269,622
Accumulated depreciation	(1,381)	(749)	—	(2,130)
Net carrying amount	37,306	5,090	225,096	267,492

11. PREPAID LAND/SEA AREA LEASE PAYMENTS

		31 December		30 June
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount at beginning of year/period	—	—	75,677	75,419
Additions	—	75,677	—	6,419
Recognised in the income statement	—	—	(258)	(813)
Carrying amount at end of year/period	—	75,677	75,419	81,025

Prepaid land/sea area lease payments represent outlays in respect of the acquisition of land/sea area use rights that are accounted for as operating leases. The land/sea area leases are of medium term and are situated in the PRC. At 30 June 2007, land use rights of carrying amount of RMB45,342,000 were pledged to secure a bank loan of QZ Shipyard (note 21).

12. INTANGIBLE ASSETS

Software

		31 December		30 June
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period:				
Cost	—	—	12	650
Accumulated amortisation	—	—	—	—
Net carrying amount	—	—	12	650
Cost at beginning of year/period, net of accumulated amortisation	—	—	12	650
Additions	—	12	638	391
Amortisation provided during the year/period	—	—	—	(54)
At end of year/period	—	12	650	987
At end of year/period:				
Cost	—	12	650	1,041
Accumulated amortisation	—	—	—	(54)
Net carrying amount	—	12	650	987

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		31 December			30 June
		2004	2005	2006	2007
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets:					
Deposits	*(a)*	22,500	—	64,697	60,683
Current assets:					
Prepayments and deposits	*(b)*	48	4	19,097	115,272
Other receivables		83	389	2,036	10,570
		131	393	21,133	125,842
		22,631	393	85,830	186,525

(a) The balance included deposits paid for the purchase of land, deposits paid to contractors for construction works of QZ Shipyard's ship building and repairing facilities, and deposits paid to suppliers for the purchase of QZ Shipyard's property, plant and equipment.

(b) The balance mainly included deposits paid for the purchase of raw materials for use in ship building and prepayments for subcontracting works to be performed on the ships built by QZ Shipyard.

14. INVENTORIES

As at 31 December 2006 and 30 June 2007, inventories represented raw materials for ship building.

15. AMOUNT DUE FROM CUSTOMER FOR CONTRACT WORKS

	31 December			30 June
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contract costs incurred plus recognised profits less recognised losses to date	—	—	15,127	82,737
Less: Progress billings	—	—	—	—
Gross amount due from customer for contract works	—	—	15,127	82,737

16. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

Amounts due from fellow subsidiaries were unsecured, interest-free and had no fixed terms of repayment. The carrying values of amounts due from fellow subsidiaries approximate to their fair values.

17. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES

	31 December			30 June
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	13,554	1,463	3,391	36,841
Pledged bank balances	—	—	—	28,792
	13,554	1,463	3,391	65,633

Cash and cash equivalents and pledged bank balances of QZ Shipyard were denominated in RMB during each of the Relevant Periods. The RMB is not freely convertible into other currencies; however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, QZ Shipyard is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. Cash at banks earn interest at floating rates based on daily bank deposit rates. The carrying amounts of the cash and cash equivalents and the pledged bank balances approximate to their fair values.

As at 30 June 2007, bank balances amounting to RMB28,792,000 were pledged to a bank as security for issuing refund guarantees of ship building fees received in advance to a customer in favour of QZ Shipyard.

18. ACCOUNTS PAYABLE

An aged analysis of QZ Shipyard's accounts payable as at the balance sheet dates, based on the invoice date, is as follows:

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
1 to 3 months	—	—	2,029	20,814
4 to 6 months	—	—	—	24,188
	—	—	2,029	45,002

The carrying amounts of accounts payable approximate to their fair values as at the balance sheet dates.

19. OTHER PAYABLES AND ACCRUALS

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other payables	494	5,667	12,476	4,072
Accruals	109	107	2,056	2,049
	603	5,774	14,532	6,121

Other payables are non-interest-bearing and have an average term of three months. The carrying amounts of other payables approximate to their fair values as at the balance sheet dates.

20. RECEIPTS IN ADVANCE

At 31 December 2006 and 30 June 2007, receipts in advance represented ship building fees received in advance from QZ Shipyard's customers, which are Titan Oil (note 26(a)) and the Company (note 26(b)).

21. INTEREST-BEARING BANK LOANS

	Effective interest rate (%)	Maturity	31 December			30 June
			2004	**2005**	**2006**	**2007**
			RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current:						
Bank loans — secured	6.12–6.84	2007–2008	—	—	20,000	101,410
Non-current:						
Bank loan — secured	6.62	2009 –2014	—	—	—	103,590
			—	—	20,000	205,000

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Analysed into:				
Bank loans repayable:				
Within one year	—	—	20,000	101,410
In the second year	—	—	—	12,820
In the third to fifth years, inclusive	—	—	—	25,640
Beyond five years	—	—	—	65,130
	—	—	20,000	205,000

As at 31 December 2006, the bank loan of QZ Shipyard was secured by the pledge of land use rights for the training centre of Titan Sailor, which was a subsidiary of Titan Oil, and was subject to interest at fixed rate.

As at 30 June 2007, the bank loans of QZ Shipyard were secured by the pledge of QZ Shipyard's land use rights with a carrying value of approximately RMB45,342,000 (note 11) and the pledge of land use rights owned by Titan Sailor. Out of the bank loans of RMB205,000,000 as at 30 June 2007, bank loans of RMB95,000,000 were subject to interest at fixed rates and the remaining bank loan of RMB110,000,000 was subject to interest at floating rate.

All the bank loans at 31 December 2006 and 30 June 2007 were denominated in RMB. The carrying amounts of the bank loans approximate to their fair values as at 31 December 2006 and 30 June 2007.

22. REGISTERED AND PAID-UP CAPITAL

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Registered capital	50,000	50,000	270,000	270,000
Paid-up capital	39,000	88,500	232,500	270,000

23. OPERATING LEASE ARRANGEMENTS

QZ Shipyard leases certain leasehold buildings under operating lease arrangements. Leases for leasehold buildings are negotiated for a term of one year.

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

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	41	—	121	282

24. COMMITMENTS

In addition to the operating lease commitments detailed in note 23 above, QZ Shipyard had the following commitments as at the balance sheet dates:

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for:				
Land/sea area use rights	52,500	—	299	—
Construction of buildings and ship building and repairing facilities	3,408	7,948	147,925	188,363
Plant and machinery	—	—	25,772	26,723
Inventories	—	—	15,453	237,461
	55,908	7,948	189,449	452,547

25. NOTES TO CASH FLOW STATEMENTS

Year ended 31 December 2005

(a) The deposit of RMB22,500,000 paid during the year ended 31 December 2004 in connection with the purchase of land use rights was utilised as partial payment of the consideration of RMB75,677,000 for the land use rights acquired during the year ended 31 December 2005.

Six months ended 30 June 2007

(a) The deposits of RMB35,217,000 paid during the year ended 31 December 2006 were utilised as partial payments for the additions of items of property, plant and equipment during the six months ended 30 June 2007. Interest paid of RMB3,627,000 in the six months ended 30 June 2007 was capitalised as property, plant and equipment (note 6).

(b) The deposit of RMB4,000,000 paid during the year ended 31 December 2006 was utilised as payment of the consideration of RMB6,419,000 for the land use rights acquired during the six months ended 30 June 2007.

(c) Interest paid of RMB1,309,000 during the six months ended 30 June 2007 was capitalised as contract works (note 6).

26. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere, QZ Shipyard had the following material transactions with related parties during the Relevant Periods:

(a) Ship building contracts with Titan Oil

Pursuant to several ship building contracts signed on 15 September 2006, 13 February 2007 and 27 June 2007, QZ Shipyard was engaged to construct six 6,500 DWT bunker vessels at US$8.7 million each (equivalent to RMB65,883,000) and four 9,000 DWT product tankers at US$13 million each (equivalent to RMB98,447,000) for Titan Oil. As at 30 June 2007, QZ Shipyard had received deposits of RMB268,926,000 from Titan Oil, which were classified as "Receipts in Advance" on the face of the balance sheet. Revenue recognised for the year ended 31 December 2006 and the six months ended 30 June 2007 was entirely generated from the vessels constructed for Titan Oil.

(b) Ship building contract with the Company

Pursuant to the ship building contract signed on 3 July 2006, QZ Shipyard was engaged to construct ten 6,500 DWT bunker tankers for the Company at a total contract amount of US$86.7 million (equivalent to RMB656,563,000). As at 31 December 2006 and 30 June 2007, QZ Shipyard had received deposits of RMB44,440,000 and RMB50,466,000 from the Company, respectively, which were classified as "Receipts in Advance" on the face of the balance sheet.

(c) Compensation of key management personnel

For each of the Relevant Periods and the six months ended 30 June 2006, no compensation was paid to directors of QZ Shipyard, which are designated as key management personnel.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

QZ Shipyard's principal financial instruments comprise bank loans and cash and bank balances. The main purpose of these financial instruments is to raise and/or retain funds for operations. QZ Shipyard has various other financial assets and liabilities such as other receivables and accounts payable, which arise directly from its operations.

Liquidity risk

QZ Shipyard is principally exposed to liquidity risk. QZ Shipyard's management monitors QZ Shipyard's cash flow positions on a regular basis to ensure the cash flows of QZ Shipyard are positive and closely controlled.

Interest rate risk

QZ Shipyard's exposure to the risk of changes in market interest rates primarily relates to its long term bank loan with floating interest rates. QZ Shipyard's treasury department continually monitors the positions and explores other ways to reduce interest costs of QZ Shipyard.

Credit risk

From a business prespective, there is minimal risk as ship building deposits are received in advance during the vessels' various phases of construction. QZ Shipyard's credit risk is primarily attributable to its amounts due from fellow subsidiaries, which are of non-trading nature, with a maximum exposure equal to the carrying amount of these financial instruments.

Foreign currency risk

QZ Shipyard's foreign currency exposures are minimal in view of most of the transactions carried out by QZ Shipyard are primarily in RMB.

Capital management

QZ Shipyard manages its capital to ensure that QZ Shipyard will be able to continue as a going concern while maximising the return to the equity holders through the optimisation of the debt and equity balance.

The capital structure of QZ Shipyard consists of cash and cash equivalents, interest-bearing bank loans and equity attributable to equity holders of QZ Shipyard, which comprises the paid-up capital and retained profits.

28. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by QZ Shipyard in respect of any period subsequent to 30 June 2007.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS

Based on information provided by Titan Quanzhou Shipyard, the management discussion and analysis in relation to Titan Quanzhou Shipyard for each of the periods since it was established on 1 March 2004 is set out below. The following tables set forth the audited financial information for Titan Quanzhou Shipyard for the three period/years ended 31 December 2004, 31 December 2005, and 31 December 2006 and the six months ended 30 June 2007 as extracted from the accountants' report as set out in Appendix IIA of this circular.

Balance sheet

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	24,548	91,083	239,591	410,187
Current assets	13,685	1,856	75,889	448,394
Total assets	38,233	92,939	315,480	858,581
Current liabilities	603	5,774	81,001	471,925
Non-current liabilities	—	—	—	103,590
Total liabilities	603	5,774	81,001	575,515
Total equity	37,630	87,165	234,479	283,066

Income Statement

	Period from 1 March 2004 (date of establishment) to 31 December	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	—	—	15,127	—	67,604
Gross profit	—	—	3,760	—	17,016
Profit/(Loss) before tax	(1,370)	35	3,314	(9)	11,087
Profit/(Loss) for the year/period	(1,370)	35	3,314	(9)	11,087

Cash Flow Statement

	Period from 1 March 2004 (date of establishment) to 31 December	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Net cash inflow/(outflow) from operating activities	(898)	4,944	(12,989)	1,642	(14,465)
Net cash outflow from investing activities	(24,548)	(66,535)	(149,083)	(45,622)	(169,649)
Net cash inflow from financing activities	39,000	49,500	164,000	75,085	217,564
Net increase/(decrease) in cash & cash equivalents	13,554	(12,091)	1,928	31,105	33,450
Cash and cash equivalents at beginning of year/period	—	13,554	1,463	1,463	3,391
Cash & cash equivalents at end of year/period	13,554	1,463	3,391	32,568	36,841

Segment Information

Segment information is not presented as Titan Quanzhou Shipyard is principally engaged in ship building in the PRC, to which the entire Titan Quanzhou Shipyard's revenue, profit/(loss) and assets relate during each of the three period/years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007.

Business Review

For the financial periods ended 31 December 2004, 2005 and 2006 as well as the six months ended 30 June 2007, Titan Quanzhou Shipyard has had no subsidiaries. As Titan Quanzhou Shipyard did not carry out any business prior to 2006, no sales or turnover were recorded for the financial periods ended 31 December 2004 and 2005. Titan Quanzhou Shipyard commenced construction of the first vessels in late 2006. As at 30 June 2007, Titan Quanzhou Shipyard had secured a strong order book amounting to approximately US$210 million for the coming years. Set out below are the business reviews for the three periods ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007.

For the period ended 31 December 2004

Titan Quanzhou Shipyard was established on 1 March 2004. Titan Quanzhou Shipyard's net loss amounted to RMB1,370,000 (approximately HK$1,411,100) in 2004. No operating revenue was generated during the period as production work had not yet commenced on Titan Quanzhou Shipyard. However, administrative expenses were incurred of RMB1,468,000 (approximately HK$1,512,040) during the period, principally reflecting the pre-development expenses incurred.

As at 31 December 2004, the audited net asset value of Titan Quanzhou Shipyard was approximately RMB37,630,000 (approximately HK$38,758,900). Assets were financed principally by way of paid-up capital from shareholders of RMB39,000,000 (approximately HK$40,170,000).

For the year ended 31 December 2005

Similar to 2004, Titan Quanzhou Shipyard recorded no operating revenue and only minimal expenses in the financial year ended 31 December 2005. Titan Quanzhou Shipyard recorded a net profit of RMB35,000 (approximately HK$36,050), representing an improvement of RMB1,405,000 (approximately HK$1,447,150) over 2004. The audited net asset value of Titan Quanzhou Shipyard increased by RMB49,535,000 (approximately HK$51,021,050), or 131.6%, to RMB87,165,000 (approximately HK$89,779,950), from RMB37,630,000 (approximately HK$38,758,900). Cash and cash equivalents decreased to RMB1,463,000 (approximately HK$1,506,890) reflecting mainly the cash consumed by investing activities. Additional shareholder capital was injected to finance the expansion, thereby enlarging the paid-up capital to RMB88,500,000 (approximately HK$91,155,000) by year-end.

For the year ended 31 December 2006

In 2006, Titan Quanzhou Shipyard recorded its first revenue of RMB15,127,000 (approximately HK$15,580,810), reflecting the initiation of construction of Titan Quanzhou Shipyard's first vessels towards the end of the financial year. The associated cost of goods sold amounted to RMB11,367,000 (approximately HK$11,708,010), compared to nil in 2005. In 2006, the gross profit amounted to RMB3,760,000 (approximately HK$3,872,800), versus nil in 2005. Other revenue increased by 158% from RMB140,000 (approximately HK$144,200) to RMB361,000 (approximately HK$371,830), reflecting increased interest income due to the higher cash balances carried during the year. Administrative expenses and selling expenses totaled RMB807,000 (approximately HK$831,210) in aggregate, representing an increase of 669% over 2005. No tax was paid in 2005 or 2006 as Titan Quanzhou Shipyard benefits from the tax incentive scheme generally applicable to foreign enterprises in the PRC. As a result, the net profit of Titan Quanzhou Shipyard rose by RMB3,279,000 (approximately HK$3,377,370) from year 2005 to RMB3,314,000 (approximately HK$3,413,420 for year 2006).

The audited net asset value of Titan Quanzhou Shipyard was RMB234,479,000 (approximately HK$241,513,370), reflecting a 169% increase compared to 2005. Property, plant and equipment amounted to RMB98,825,000 (approximately HK$101,789,750), reflecting an increase of 542% over 2005 and significant additional investment in the build-out of Titan Quanzhou Shipyard with not only construction in progress and the purchase of new plants and machinery, but also the addition to existing stocks of furniture, equipment, and motor vehicles. Prepaid land/sea area lease payments were virtually unchanged at RMB75,419,000 (approximately HK$77,681,570), while deposits paid were capitalized at RMB64,697,000 (approximately HK$66,637,910), reflecting deposits paid for property, plant and equipment where the relevant equipment had not yet been received at year-end. Cash and cash equivalents increased to RMB3,391,000 (approximately HK$3,492,730) from RMB1,463,000 (approximately HK$1,506,890) in 2005 reflecting the additional equity injections by shareholders. While Titan Quanzhou Shipyard had no indebtedness in 2005, it raised interest-bearing bank loans of

RMB20,000,000 (approximately HK$20,600,000) from PRC banks during 2006 to partially finance the build-out. These loans are in the form of working capital facilities and are secured by certain parcels of lands held by a subsidiary of Titan Oil. Paid-up capital increased by RMB144,000,000 (approximately HK$148,320,000) from RMB88,500,000 (approximately HK$91,155,000) in 2005 to RMB232,500,000 (approximately HK$239,475,000) in 2006, as shareholders contributed more capital in 2006. Retained earnings turned positive in 2006 from an accumulated loss of RMB1,335,000 (approximately HK$1,375,050) in 2005 due to the profit generated in this financial year and amounted to RMB1,979,000 (approximately HK$2,038,370) at year-end.

For the six months ended 30 June 2007

In the six months ended 30 June 2007, revenue increased significantly to RMB67,604,000 (approximately HK$69,632,120), whereas in the corresponding period in 2006, no shipbuilding activities were underway. The cost of goods sold amounted to RMB50,588,000 (approximately HK$52,105,640) whereas they were nil in the six month period ended 30 June 2006. The gross profit amounted to RMB17,016,000 (approximately HK$17,526,480). Other revenue of RMB523,000 rose, reflecting the higher average cash balances carried during the period. Administrative expenses and selling expenses totaled RMB6,452,000 (approximately HK$6,645,560) in aggregate, up from RMB137,000 (approximately HK$141,110) during the corresponding period in the previous year. This increase is a result of the incurrence of overhead expenses to ramp up Titan Quanzhou Shipyard's activities, including recruitment of administrative and management personnel. No taxes were paid for the six months ended 30 June 2007 as Titan Quanzhou Shipyard benefits from the tax incentive scheme generally applicable to foreign enterprises in the PRC. The net profit of Titan Quanzhou Shipyard totaled RMB11,087,000 (approximately HK$11,419,610), up from a net loss of RMB9,000 (approximately HK$9,270) in the six month period ended 30 June 2006, reflecting the profitability from the commencement of construction of Titan Quanzhou Shipyard's first vessels.

The audited net asset value of Titan Quanzhou Shipyard was RMB283,066,000 (approximately HK$291,557,980), up from RMB234,479,000 (approximately HK$241,513,370) at the end of 2006. Property, plant and equipment amounted to RMB267,492,000 (approximately HK$275,516,760), reflecting an increase of 171% over year-end 2006 levels due to the accelerated investment in the build-out of Titan Quanzhou Shipyard. Prepaid land/sea area lease payments were relatively stable at RMB81,025,000 (approximately HK$83,455,750), while deposits paid decreased by RMB4,014,000 (approximately HK$4,134,420) to RMB60,683,000 (approximately HK$62,503,490). Cash and cash equivalents increased substantially to RMB36,841,000 (approximately HK$37,946,230) from RMB3,391,000 (approximately HK$3,492,730) at the end of 2006 as Titan Quanzhou Shipyard took on more external capital to finance the build-out. Non-current interest-bearing bank loan amounted to RMB103,590,000 (approximately HK$106,697,700) at the end of the period. Shareholders of Titan Quanzhou Shipyard contributed an additional RMB37,500,000 (approximately HK$38,625,000), causing paid-up capital to increase by this amount. Paid-up capital stood at RMB270,000,000 (approximately HK$278,100,000) at the end of the period. Retained earnings continued to grow and amounted to RMB13,066,000 (approximately HK$13,457,980) at the end of the period, reflecting a 560% increase from 2006, as further profits were generated by Titan Quanzhou Shipyard.

Cash flows from operating activities

Prior to 2006, Titan Quanzhou Shipyard had no commercial revenue. Hence, working capital movements were minimal. Due to the commencement of shipbuilding activities in 2006, there was a significant increase in working capital requirement during that year, which continued in the six month period ended 30 June 2007. As a result, Titan Quanzhou Shipyard experienced net cash outflow from operating activities during 2006 and the six months ended 30 June 2007.

Cash flows from investing activities

There has been steady investments throughout 2004, 2005 and 2006 in respect of additions to property, plant and equipment for the purpose of construction of facilities, increasing from RMB2,048,000 (approximately HK$2,109,440), RMB13,346,000 (approximately HK$13,746,380), to RMB83,748,000 (approximately HK$86,260,440), respectively, in each year. In 2005, there was an increase of RMB53,177,000 (approximately HK$54,772,310) for the payment of prepaid land/sea area leases. Deposits paid for purchasing of fixed assets increased by RMB22,500,000 (approximately HK$23,175,000) in the year ended 31 December 2004 and RMB64,697,000 (approximately HK$66,637,910) in the year ended 31 December 2006.

There was an increase in the investment in property, plant and equipment from RMB11,690,000 (approximately HK$12,040,700) in 30 June 2006, to RMB131,636,000 (approximately HK$135,585,080) for the same period in 2007, primarily reflecting the capital expenditure required to fund further expansion as well as to support the existing business operations of Titan Quanzhou Shipyard. In addition, there was an increase in prepaid land/sea area lease payments incurred of RMB2,419,000 (approximately HK$2,491,570) in the period ended 30 June 2007. These factors contributed to an increase in cash outflow from investing activities from RMB45,622,000 (approximately HK$46,990,660) for the six months ended 30 June 2006 to RMB169,649,000 (approximately HK$174,738,470) for the six months ended 30 June 2007.

Cash flows from financing activities

The construction of Titan Quanzhou Shipyard in 2004 and 2005 was entirely equity financed. The increase in paid-up capital was RMB39,000,000 (approximately HK$40,170,000) and RMB49,500,000 (approximately HK$50,985,000) respectively. Net cash inflow from financing activities corresponded to the same amounts.

In the year ended 31 December 2006 and the six month period ended 30 June 2007, shareholders of Titan Quanzhou Shipyard continued to provide additional equity funding. The increase in paid-up capital amounted to RMB144,000,000 (approximately HK$148,320,000) and RMB37,500,000 (approximately HK$38,625,000) in these periods, respectively. Titan Quanzhou Shipyard also secured PRC bank loans, as at 30 June 2007, with non-current interest-bearing bank loan amounting to RMB103,590,000 (approximately HK$106,697,700). Net cash inflow from financing activities amounted to RMB164,000,000 (approximately HK$168,920,000) in 2006 and RMB217,564,000 (approximately HK$224,090,920) in the six month period ended 30 June 2007, respectively.

Financial Position

Liquidity and Capital Resources

As at 31 December 2004, 2005, 2006 and 30 June 2007, cash and cash equivalents amounted to RMB13,554,000 (approximately HK$13,960,620), RMB1,463,000 (approximately HK$1,506,890), RMB3,391,000 (approximately HK$3,492,730), RMB36,841,000 (approximately HK$37,946,230), respectively. Titan Quanzhou Shipyard's management monitors its cash flow positions on a regular basis to ensure cash flow is positive and closely controlled. The directors believe that Titan Quanzhou Shipyard has sufficient working capital to meet its present requirements.

Capital Structure, Borrowings and Gearing Ratio

Titan Quanzhou Shipyard has relied upon a mix of project finance debt and shareholders' equity to finance its build-out to date. The capital structure of Titan Quanzhou Shipyard consists of cash and cash equivalents, interest-bearing bank loans and equity attributable to equity holders which comprises the paid-up capital and retained profits. As at 31 December 2004, 2005, 2006 and 30 June 2007, Titan Quanzhou Shipyard's non-current interest-bearing borrowings amounted to nil, nil, nil and RMB103,590,000 (approximately HK$106,697,700) respectively. This contributes to gearing ratios, measured as total interest-bearing borrowings to total assets, of 0%, 0%, 6% and 24% respectively. Titan Quanzhou Shipyard manages its capital to ensure that it will be able to continue as a going concern while maximising the return to the equity holders through the optimisation of the debt and equity balance.

Interest Rate Exposure

Titan Quanzhou Shipyard's exposure to the risk of changes in market interest rates primarily relates to its long term bank loan with floating interest rates. Titan Quanzhou Shipyard's treasury department continually monitors the positions and explores other ways to reduce interest costs. Management envisages that the exposure to interest rate risk is not significant.

Liquidity Exposure

Titan Quanzhou Shipyard's management monitors the cash flow positions of on a regular basis to ensure the cash flows are positive and closely controlled.

Foreign Exchange Exposure

Titan Quanzhou Shipyard's foreign currency exposures are minimal in view of most of the transactions carried out by Titan Quanzhou Shipyard are primarily in RMB.

Credit Risk Exposure

From a business perspective, there is minimal credit risk as ship building deposits are received in advance during the vessels' various phases of construction. Titan Quanzhou Shipyard's credit risk is primarily attributable to its amounts due from fellow subsidiaries which are of non-trading nature, with a maximum exposure equal to the carrying amount of these financial instruments.

Capital Commitments and Contingent Liabilities

Titan Quanzhou Shipyard leases certain leasehold buildings under operating lease arrangements, as well as contracts to certain land/sea area use rights, construction of buildings, ship building and repairing facilities, plant and machinery, as well as inventory. Accordingly, Titan Quanzhou Shipyard has the following capital commitments of RMB55,908,000 (approximately HK$57,585,240), RMB7,948,000 (approximately HK$8,186,440), RMB189,449,000 (approximately HK$195,132,470) and RMB452,547,000 (approximately HK$466,123,410) as at 31 December 2004, 2005, 2006 and 30 June 2007, respectively. Titan Quanzhou Shipyard had no significant contingent liabilities as at 31 December 2004, 2005, 2006 and 30 June 2007.

Charges on Assets

As at 30 June 2007, Titan Quanzhou Shipyard's bank loans of RMB205,000,000 (approximately HK$211,150,000) were secured by the pledge of its land use rights and the pledge of land use rights held by a related company which is a subsidiary of Titan Oil.

Employees and Pension Scheme

As at 30 June 2007, Titan Quanzhou Shipyard had approximately 350 employees in total in the PRC. All employees are required to participate in a central pension scheme (the "CB Scheme") operated by the local municipal government. Titan Quanzhou Shipyard is required to contribute a certain percentage of its payroll to the CB Scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the CB Scheme.

A. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules for the purpose of illustrating the effect of the acquisition of 100% interest in Shipyard Holdco (the "Acquisition") on the financial position of the Enlarged Group as at 30 June 2007.

The unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group is prepared based on (1) the unaudited consolidated balance sheet of the Group as at 30 June 2007 extracted from the interim results announcement of the Company for the six months ended 30 June 2007 and (2) the audited balance sheet of Titan Quanzhou Shipyard as at 30 June 2007, as extracted from the accountants' report as set out in Appendix II to this Circular as if the Acquisition had been completed on 30 June 2007, after taking into account the pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable, as summarised in the accompanying notes.

The unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group is prepared by the directors to provide the unaudited pro forma financial information of the Enlarged Group upon completion of the Acquisition. As it is prepared for illustration purposes only, it does not purport to give a true picture of the financial position of the Enlarged Group as at the date to which it is made up to or at any future dates.

	The Group as at 30 June 2007	**Titan Quanzhou Shipyard as at 30 June 2007**	**Titan Quanzhou Shipyard as at 30 June 2007**	**Combined**	**Pro forma adjustments**	*Notes*	**Pro forma Enlarged Group**
	HK$'000	*RMB'000*	*HK$'000* *Note (1)*	*HK$'000*	*HK$'000*		*HK$'000*
Non-current assets							
Property, plant and equipment	4,183,335	267,492	275,765	4,459,100	192	(3)	4,459,292
Deposits for acquisition of vessel	50,419	—	—	50,419	(50,419)	(5)	—
Prepaid land/seabed/sea area lease payments	176,692	81,025	83,531	260,223	988,019	(3)	1,248,242
Intangible assets	—	987	1,017	1,017			1,017
Licenses	41,241	—	—	41,241			41,241
Goodwill	382,707	—	—	382,707	69,900	(4)	452,607
Interests in associates	129,996	—	—	129,996			129,996
Deposits paid	—	60,683	62,560	62,560			62,560
Deposit held in a collateral account	9,750	—	—	9,750			9,750
Total non-current assets	4,974,140	410,187	422,873	5,397,013			6,404,705

	The Group as at 30 June 2007	Titan Quanzhou Shipyard as at 30 June 2007	Titan Quanzhou Shipyard as at 30 June 2007	Combined	Pro forma adjustments	*Notes*	Pro forma Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
			Note (1)				
Current assets							
Bunker oil and inventories	1,441,954	27,324	28,168	1,470,122			1,470,122
Accounts and bills receivable	950,812	—	—	950,812			950,812
Prepayments, deposits and other receivables	675,865	125,842	129,734	805,599			805,599
Contracts in progress	47,839	82,737	85,296	133,135			133,135
Amounts due from fellow subsidiaries	—	146,858	151,400	151,400	(27,835)	(5)	123,565
Derivative financial instruments	162,762	—	—	162,762			162,762
Pledged deposits and bank balances	168,391	28,792	29,682	198,073			198,073
Cash and cash equivalents	1,560,843	36,841	37,980	1,598,823	(443,820)	(2)	1,155,003
Total current assets	5,008,466	448,394	462,260	5,470,726			4,999,071
Current liabilities							
Interest-bearing bank loans	853,639	101,410	104,546	958,185			958,185
Accounts and bills payable	1,454,186	45,002	46,394	1,500,580			1,500,580
Other payables and accruals	372,269	6,121	6,311	378,580	(28,166)	(5)	350,414
Receipts in advance	—	319,392	329,270	329,270	(52,027)	(5)	277,243
Finance lease payables	135	—	—	135			135
Derivative financial Instruments	201,045	—	—	201,045			201,045
Tax payable	43,681	—	—	43,681			43,681
Total current liabilities	2,924,955	471,925	486,521	3,411,476			3,331,283
Net current assets/(liabilities)	2,083,511	(23,531)	(24,261)	2,059,250			1,667,788
Total assets less current liabilities	7,057,651	386,656	398,612	7,456,263			8,072,493
Non-current liabilities							
Fixed rate guaranteed senior notes	3,129,139	—	—	3,129,139			3,129,139
Convertible, redeemable preference shares	232,608	—	—	232,608			232,608
Interest-bearing bank loans	957,292	103,590	106,794	1,064,086			1,064,086
Deferred tax liabilities	30,784	—	—	30,784	247,005	(4)	277,789
Total non-current liabilities	4,349,823	103,590	106,794	4,456,617			4,703,622
Net assets	2,707,828	283,066	291,818	2,999,646			3,368,871

NOTES TO THE UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

(1) The adjustment represents the translation of the assets and liabilities of Titan Quanzhou Shipyard in RMB into HK$ at the exchange rate of RMB0.97/HK$1, being the closing rate as at 30 June 2007.

(2) The adjustment represents the payment of cash consideration of approximately US$56.9 million on Completion.

(3) These represent the adjustments to restate the Titan Quanzhou Shipyard's land use rights, sea area use rights and property, plant and equipment to their fair values. The net total surplus arising on revaluation of HK$988.2 million equals to the difference between the total fair value of these assets of approximately HK$1,347.5 million as at 30 June 2007 and their net carrying amount of HK$359.3 million (equivalent to RMB348.5 million) stated in the audited balance sheet of Titan Quanzhou Shipyard as at 30 June 2007.

The valuation of land use rights, sea area use rights and property, plant and equipment as at 30 June 2007 was carried out by Grant Sherman Appraisal Limited, an independent qualified professional valuer not connected to the Group.

(4) The adjustment represents the recognition of goodwill of HK$69.9 million that would arise from the Acquisition. The goodwill is calculated as the excess of the consideration for the Acquisition over the total fair value of the identifiable assets and liabilities of Titan Quanzhou Shipyard acquired as at 30 June 2007.

The fair value of the consideration of US$141.4 million (equivalent to HK$1,102.9 million) is calculated as the summation of the following:

(i) cash consideration of US$56.9 million (equivalent to HK$443.8 million) payable on Completion; and

(ii) the issue of 1,046,198,808 Titan Ordinary Shares at the issue price of HK$0.63 per share upon Completion with a total amount of US$84.5 million (equivalent to HK$659.1 million). The issue price of HK$0.63 per share has been determined after arm's length negotiations between the Company and the Shipyard Vendors by reference to the market price for the Titan Ordinary Shares. It represents a 1.6% premium to the Last Closing Price, a 4.0% premium to the 5 Day Average Closing Price and a 2.3% discount to the 30 Day Average Closing Price.

The fair value of Titan Quanzhou Shipyard's identifiable assets and liabilities acquired is HK$1,033 million as at 30 June 2007, which is calculated based on (i) the audited net asset value of Titan Quanzhou Shipyard of HK$291.8 million (equivalent to RMB283 million) plus (ii) the fair value adjustments on land use rights, sea area use rights and property, plant and equipment of HK$988 million and HK$0.2 million, respectively, minus (iii) the deferred tax liability of HK$247 million arising from the temporary difference between the fair values of land use rights and sea area use rights and their aggregate carrying amount.

The market value of Titan Ordinary Shares that should be issued, the fair values of the land use rights, sea area use rights and property, plant and equipment of Titan Quanzhou Shipyard and, accordingly, the goodwill, will be subject to further changes upon completion of the Acquisition.

Pursuant to the Shipyard Purchase Agreement, the "earn-out" arrangement could give rise to the Company issuing the Earn-Out Shares in three tranches of up to 88,601,711 new Titan Ordinary Shares, 88,601,711 new Titan Ordinary Shares, and 177,203,422 new Titan Ordinary Shares once the 2008, 2009 and 2010 NPBT Targets, respectively, can be ascertained, respectively. In the opinion of the directors of the Company, the adjustment to the cost of consideration of the Acquisition arising from the issue of Titan Ordinary Shares contingent on the NPBT Targets for 2008, 2009 and 2010 cannot be reliably measured. Accordingly, in accordance with HKFRS 3, the amount of such contingent consideration is not included in a cost of the consideration recognised upon completion of the Acquisition.

(5) The adjustment represents the elimination of the balances between the Group and Titan Quanzhou Shipyard as at 30 June 2007.

B. REPORT ON UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is the text of a report, prepared for the sole purpose of incorporation in this circular, received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.

ERNST & YOUNG
安 永 會 計 師 事 務 所

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

24 September 2007

The Board of Directors
Titan Petrochemicals Group Limited

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of the Group (as defined therein) including its interest in Titan TQSL Holding Company Ltd. ("TQSL") (the "Enlarged Group") set out on pages III–1 to III–4 in Appendix III to the circular dated 24 September 2007 (the "Circular") issued by Titan Petrochemicals Group Limited (the "Company", and together with its subsidiaries, referred to as the "Group"), which has been prepared by the directors for illustrative purposes only, to provide information in connection with its proposed acquisition of the entire issued share capital of TQSL (the "Proposed Acquisition"). The pro forma financial information is presented to provide information about how the Proposed Acquisition might have affected the relevant financial information of the Group as separately presented.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Enlarged Group, had the transaction actually occurred as at 30 June 2007 indicated therein or any future date.

OPINION

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

GRANT SHERMAN APPRAISAL LIMITED

Room 904
9th Floor, Harbour Centre
25 Harbour Road
Wanchai
Hong Kong

24 September 2007

The Directors
Titan Petrochemicals Group Limited
4901 Sun Hung Kai Centre
30 Harbour Road, Wanchai
Hong Kong

Dear Sirs,

In accordance with the instructions from Titan Petrochemicals Group Limited ("the Company") to value certain property interests to be acquired by the Company or its subsidiaries (referred to as the Titan Group) located in the People's Republic of China (the PRC), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of such interests as at 30 June, 2007 (the "Valuation Date").

Due to the nature of the buildings and structures constructed for specific purpose, there is no readily identifiable market comparable. Thus these buildings and structures cannot be valued on the basis of direct comparison. They have therefore been valued on the basis of Depreciated Replacement Cost ("DRC").

DRC is based on an estimate of the Market Value for the existing use of land, plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization.

Market Value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

In valuing the property interest, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards on Properties (1st Edition 2005) published by The Hong Kong Institute of Surveyors.

We have been provided with copies of extracts of title documents relating to the properties. However, we have not scrutinized the original documents to verify ownership or to verify any amendments, which may not appear on the copies handed to us. Due to the nature of the land registration system in the PRC, we are unable to search the original documents to verify the existing title of the properties or any material encumbrances that might be attached to the properties. In the preparation of our valuation report regarding the properties in the PRC, we have relied to the considerable extent on the legal opinion provided by the Company's legal adviser on the PRC laws regarding the titles of the properties in the PRC.

Our valuation has been made on the assumption that the owner sells the property on the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the property value.

We have assumed that all consents, approvals and licenses from relevant government authorities for the property have been granted or can be obtained and renewed without any onerous conditions or undue time delay which might affect its value.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed unless otherwise stated, defined, and considered in the report. It is also assumed that all required licenses, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organization either have been or can be obtained or renewed for any use which the report covers.

We have relied to a considerable extent on the information provided by the Company and have accepted advice given to us by the Company on matters such as property title, statutory notices, easements, tenure, occupancy, site area, progress on works, settlement of land acquisition costs and in the identification of the appraised property. We have no reason to doubt the truth and accuracy of the information provided to us by the Company. We have relied on the Company's confirmation that no material fact has been omitted from the information so supplied. All dimensions, measurements and areas stated in this report are approximate.

No allowance has been made in our valuation for any charge, mortgage or amount owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

We conducted site inspection on 26 July, 2007. We have inspected the exterior of the properties and, where possible, the interior of the properties in respect of which we have been provided with such information as we have required for the purpose of our valuation. However, we must point out that we have not carried out site investigation to determine the suitability of the ground conditions or the services for any property development to be erected thereon. Our valuation is on the basis that these aspects are satisfactory and that no extraordinary expense or delay will be incurred during the construction period. Also, no structural survey has been carried out and it was not possible to inspect the wood work and other parts of the structure which were covered, unexposed or inaccessible. We are therefore, unable to report that the properties are free of rot, infestation or any structural defect. No tests have been carried out on any of the building services.

The property value is denominated in Renminbi.

We enclose herewith the valuation certificate.

Yours faithfully,
For and on behalf of
GRANT SHERMAN APPRAISAL LIMITED
Peggy Y.Y. Lai
MRICS MHKIS RPS
Associate Director
Real Estate Group

Note: Ms. Peggy Y.Y. Lai is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors and Register Professional Surveyors in the General Practice Section, who has over 5 years experience in the valuation of properties in Hong Kong, the PRC and the Asian Region.

VALUATION CERTIFICATE

Property	Description	Capital value in existing state as at 30 June 2007 *RMB*
Land, buildings and structures located at Douweigang Zone, Jingfeng Town, Huian County, Quanzhou, Fujian Province, The People's Republic of China	The property comprises a total site area of approximately 668,988 sq.m. and coastal area of 445,000 sq.m.which are proposed to be developed as a multi-functional shipyard to provide ship repairing, ship building and offshore engineering business and related facilities. The construction of the ship building unit started in September 2005 and the first ship is expected to be delivered in October 2007. The construction of the ship repair unit started in December 2006 and is expected to be operational by the end of 2009. The offshore engineering unit is anticipated to enter into service by the end of 2008. All three business units will be fully operational by the end of 2009. As inspected, the construction works of the Steel Fabrication Workshop I and Service Workshop with a total gross floor area of approximately 27,162 sq.m. have been physically completed. The staff quarters with a gross floor area of approximately 20,710 sq.m., remaining buildings and facilities are under construction. (see note 7(c)).	1,221,200,000

Notes:

(1) As advised by the Company, the entire development will comprise 4 docks and 9 berths. Berths could be used for serving vessels up to 300,000 tonnes. The total estimated cost is RMB2,700,000,000.

(2) According to a Land Use Right Certificate No. Hui GuoYong (2005) Chu Zi Di 070004 dated 20 December 2005, the land use right of 148,374 sq.m. has been granted to 泉州船舶工業有限公司 for industrial use for a term expiring on 13 September 2055.

(3) According to a Land Use Right Certificate No. Hui GuoYong (2005) Chu Zi Di 070005 dated 20 December 2005, the land use right of 487,614 sq.m. has been granted to 泉州船舶工業有限公司 for industrial use for a term expiring on 9 September 2055.

(4) According to a Sea Area Use Certificate Guo Hai Zheng No. 053570024 issued on 22 November 2005, the sea area use right of 44.5 hectares (445,000 sq.m.) has been granted to 泉州船舶工業有限公司 for a term expiring on 21 November 2055 for ship repairing and reclamation use. We have assumed the reclamation work has been completed and the value has already been taken into account in the valuation.

(5) According to a Land Use Right Certificate No.Hui Guo Yong (2007) Chu Zi Di 070004 dated 6 May 2007, the land use right of 33,000 sq.m. has been granted to 泉州船舶工業有限公司 for industrial use for a term expiring on 25 January 2057.

(6) As informed by the Company, approximately RMB263,000,000 of construction costs were incurred as at 30 June 2007. Such costs have already been taken into account in the valuation.

(7) We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisor, which contains, *inter alia*, the following:

(a) 泉州船舶工業有限公司 has obtained the land use right under the aforesaid Land Use Right Certificates mentioned in notes (2), (3), and (5);

(b) 泉州船舶工業有限公司 has obtained the sea area use right under the aforesaid Sea Area Use Certificate mentioned in note (4);

(c) 泉州船舶工業有限公司 has obtained the relevant Construction Land Use Planning Permit, Construction Project Planning Permit and Construction Works Commencement Permit for the two staff quarters. There should be no legal impediment for the Group to obtain the relevant title certificates after completion, examination and acceptance of the construction works on the property;

(d) 泉州船舶工業有限公司 is entitled to transfer, let or mortgage the remaining term of the land use right mentioned in notes (2), (3) and (5);

(e) 泉州船舶工業有限公司 is entitled to transfer, let or mortgage the remaining term of the sea area use right mentioned in note (4) in accordance with the law;

(f) The land use rights of two parcels of lands with respective site areas of 148,374 sq.m. and 487,614 sq.m. were subject to a mortgage in favour of Huian Sub-Branch of China Construction Bank for a term commencing from 24 January 2007 and expiring on 24 January 2015.

GRANT SHERMAN APPRAISAL LIMITED

Room 904
9th Floor, Harbour Centre
25 Harbour Road
Wanchai
Hong Kong

24 September 2007

The Directors
Titan Petrochemicals Group Limited
4901 Sun Hung Kai Centre
30 Harbour Road, Wanchai
Hong Kong

Dear Sirs,

In accordance with your instructions, we have made an appraisal of the Machinery and Equipment (the "Equipment") exhibited to us as that of Titan Quanzhou Shipyard Co., Ltd ("Titan Quanzhou Shipyard").

This letter, which forms part of our appraisal report, identifies the Equipment, the scope and character of our investigation, the premise of the value adopted, the valuation approaches adopted, and our conclusion of value.

We confirm that we have carried out an inspection, made relevant inquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the Fair Market Value in Continued Use for the Equipment as of 30 June 2007.

It is our understanding that this appraisal will be used for acquisition purposes.

INTRODUCTION

Titan Quanzhou Shipyard is principally engaged in ship building and ship repairing businesses. The Equipment included in this valuation was primarily used for ship building and repairing.

The appraisal report comprises:

— this letter, identifying the Equipment, describing the nature and extent of the investigation, and presenting the conclusion of value;

— an inventory showing the proper description and the fair market value under the premise of continued use of the Equipment;

— assumptions and limiting conditions; and

— a statement of general service conditions.

We have only performed valuation of the Equipment, which are listed out in the attached inventory. Excluded from this investigation were fixtures and fittings, land, buildings and structures, spare parts, finished products, semi-finished products, tangible assets of current nature and intangible assets that might exist.

The Equipment is located at the Douwei area of Huian, Quanzhou City, southern part of Meizhou Bay's economic zone and is situated at the central part of Fujian province, the PRC.

PREMISE OF VALUE

The premise of value will be fair market value in continued use which is defined as the following:

> *Fair market value* is defined as the estimated amount at which a property might be expected to exchange between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts.
>
> *Fair market* value in continued use is defined as the fair market value of a property based on continuation of its existing use, assuming the asset could be sold in the open market for its existing use, and otherwise in keeping with the market value definition regardless of whether or not the existing use represents the highest and best use of the property.

Fair market value under the premise of continued use does not represent the amount that might be realized in the event of piecemeal disposition of the property in the open market or from any alternative use to which it may be put.

VALUATION METHODOLOGY

Before arriving at our opinion of value, we personally inspected the Equipment and studied the market conditions. To develop our opinion of value, we considered the three generally accepted approaches to value: cost, market and income capitalization. The theory of these approaches is outlined as follows:

The cost approach

> The cost approach establishes value based on the cost of reproducing or replacing the Equipment, less depreciation from physical deterioration, and functional and economic/external obsolescence.
>
> *Cost of Reproduction New* is defined as the estimated amount required to reproduce the Equipment at one time in like kind and materials in accordance with current market prices for materials, labor, and manufactured equipment, contractors' overhead and profit, and fees, but without provision for overtime, bonuses for labor, or premiums for materials or equipment.

Cost of Replacement New is defined as the estimated amount required to replace the entire property at one time with a modern new unit using the most current technology and construction materials that will duplicate the production capacity and utility of an existing unit at current market prices for materials, labor, and manufactured equipment, contractors' overhead and profit, and fees, but without provision for overtime, bonuses for labor, or premiums for materials or equipment.

Physical Deterioration is the loss in value resulting from wear and tear in operation and exposure to the elements.

Functional Obsolescence is the loss in value caused by conditions within the Equipment such as changes in design, materials, or process that result in inadequacy, overcapacity, lack of utility, or excess operating costs.

Economic/External Obsolescence is an incurable loss in value caused by unfavorable conditions external to the Equipment such as the local economy, economics of the industry, availability of financing, encroachment of objectionable enterprises, loss of material and labor sources, lack of efficient transportation, shifting of business centers, passage of new legislation, and changes in ordinances.

The cost approach generally provides a meaningful indication of the value of land improvements, special buildings, special structures, and special machinery and equipment associated with a viable business or justified by economic demand.

When market transactions of comparable Equipment are not available, when data cannot be extrapolated from larger transactions, or when transactions are non-existent, under premise of continued use, assuming adequate earnings the cost approach is the preferred valuation procedure.

The market approach

In the market approach, the value of the appraised Equipment is estimated through analysis of recent sales of comparable items of the Equipment. It is employed in the valuation of the Equipment for which there is a known used market. Under the premise of continued use assuming adequate earnings, consideration is given to the cost to acquire similar items in the used-equipment market; an allowance then is made to reflect the costs for freight and installation.

A variant of the direct market approach is the use of market relationship. Recent market prices for Equipment in an asset classification are determined with respect to age and are compared with a benchmark price, such as the cost of reproduction new. The ratio is applied to similar Equipment in the classification when the secondary market for the subject equipment is too sparse to exhibit appropriate comparables.

The income capitalization approach

In the income capitalization approach, value is developed on the basis of capitalization of the net earnings that would be generated if a specific stream of income can be attributed to an asset or a group of assets. This approach is most applicable to investment and general-use properties where there is an established and identifiable rental market.

In any appraisal study, all three approaches to value must be considered, as one or more may be applicable to the subject Equipment. In some situations, elements of two or three approaches may be combined to reach a value conclusion. For this appraisal, since the income generated by Equipment could hardly be identified individually, therefore the income capitalization approach was not applied. The cost and market approaches were the principal methods adopted to derive our opinion of value for the Equipment.

INVESTIGATION AND ASSUMPTIONS

We conducted an inspection of the Equipment on 26 July 2007. During our inspection, we noted that a large number of the Equipment was still under construction, as for the rest of the Equipment, they were in good working condition and capable of performing efficiently the purpose for which it was designed and built. In the course of our investigation, we accepted property records furnished by Titan Quanzhou Shipyard as properly describing the Equipment. We visited the locations to verify the existence of the Equipment and to gather information relating to its condition and utility. The balance of the information provided by Titan Quanzhou Shipyard, after adjustments based on our observation, although not subject to a detailed verification, was accepted as reasonably representing the facts.

When developing the cost of replacement new, we have considered the extent, character and utility of the Equipment. We have also studied the market condition and obtain current market price from relevant machinery dealers when applicable. We have also made allowance for freight, installation, commissioning and financial costs, where applicable. To arrive at the fair market value, we have made deduction for depreciation and the functional/external obsolescence that may present, if any.

Any deferred maintenance, physical wear and tear, operating malfunctions, lack of utility, or other observable conditions distinguishing the Equipment from equipment of like kind in new condition were noted and made part of our judgment in arriving at the value.

We did not investigate any financial data pertaining to the present or prospective earning capacity of the operation in which the assets are used. It was assumed that prospective earnings would provide a reasonable return on the appraised value of the assets, plus the value of any assets not included in the valuation, and adequate net working capital.

We have not carried out a mechanical survey, nor have we inspected covered or inaccessible areas of the equipment. Also, no investigation was conducted as to whether the operation of specific pieces of Equipment complied with the relevant environmental standards and ordinances; we have assumed that the equipment are and will continue complied with the current environmental standards and ordinances. We have made no allowance in our valuation for any costs associated with the disposal or handling of materials to comply with current or pending environmental legislation.

CONCLUSION OF VALUE

Based on the investigation described, it is our opinion that as of 30 June 2007, the Fair Market Value in Continued Use for the Equipment is reasonably represented by the amount of RENMINBI YUAN EIGHTY FIVE MILLION EIGHT HUNDRED EIGHTY ONE THOUSAND FOUR HUNDRED AND FIFTY SEVEN (RMB85,881,457) ONLY. The breakdown of the value is shown in the attached inventory.

Category	**Fair Market Value in Continued Use as at 30 June 2007** *(RMB)*
Plant and Machinery, Vehicle, Office Equipment and Furniture	42,581,333
Construction in Progress	43,300,124
Grand Total	85,881,457

For the purpose of this appraisal, we have reviewed the acquisition records and asset listings as well as other related technical specifications and documents supplied to us by Titan Quanzhou Shipyard. We have relied to a considerable extent on such records, listings, specifications and documents in arriving at our opinion of value.

We have not investigated the title to or any liabilities against the Equipment.

We hereby certify that we have neither present nor a prospective interest in the Equipment or the value reported.

Respectfully submitted,
For and on behalf of
GRANT SHERMAN APPRAISAL LIMITED
Keith C.C. Yan, ASA
Managing Director

Note: Mr. Keith C.C. Yan is an Accredited Senior Appraiser and he has been conducting business valuation and plant and machinery valuation in Greater China Region for various purposes since 1988.

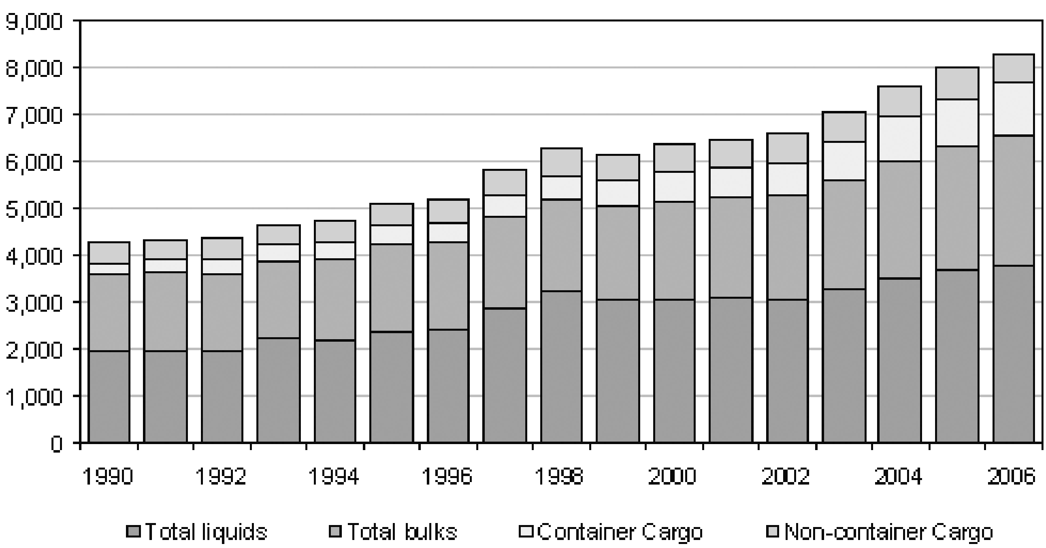
Industry information contained in this section has been derived from various official government publications and other publicly available sources, and a commissioned report dated 24 September 2007 from Drewry Shipping Consultants Ltd ("Drewry"), a shipping consultant established in 1970 whose activities cover bulk and liner shipping, ports, shipbuilding, shipmanagement and maritime intensive logistics, on the seaborne transportation sector, ship repair, ship building and offshore markets, and on Titan Quanzhou Shipyard facilities.

1. SEABORNE TRADE AND THE GLOBAL FLEET

The seaborne transportation industry is a vital link in international trade, with ocean-going vessels representing the most efficient, and often the only means of transporting large volumes of basic commodities and finished products.

The following chart shows the breakdown of the global trade by type of cargo from 1990 to 2006.

Figure 1.1
World seaborne trade (Million tonnes)



Source: Drewry

Demand

Demand for seaborne transportation is primarily determined by the volume of cargo transported and the distances over which that cargo is transported. Seaborne transportation demand is generally expressed in ton miles which is measured as the product of the volume of cargo carried (measured in metric tons) multiplied by the distance over which it is carried (measured in nautical miles). The distance component is generally the most variable element of ton mile demand. Two factors that affect demand for seaborne transportation are the demand for cargo and the geographical pattern of cargo movements.

Seaborne trading distances are determined principally by the location of production and the efficient distribution of cargo for processing and consumption. Trading patterns are sensitive to both major geopolitical events and to small shifts, imbalances and disruptions in all stages of production, processing and delivery to the end-user. Seaborne trading distances are also a function of infrastructural factors, such as the availability of canal "shortcuts", port capacity and inland distribution.

Shipments over long distance routes, referred to as long-haul routes, have a significant impact on demand for seaborne transportation capacity per unit of cargo, and consequently, on vessel charter rates. Conversely, shipments from regions closer to destination ports, referred to as short-haul routes, result in shorter average voyage length and have a lesser impact on demand for seaborne transportation capacity.

During times of rapid economic expansion, ton miles typically increase, as importing countries having absorbed all nearby production capacity must source additional cargo requirements from further away, where spare production capacity still exists. This continues as long as the economic expansion persists, and until new production capacity near importing countries expands following a period of investment. Recent examples of this phenomenon are China purchasing iron ore from Brazil as opposed to nearby Australia, or China absorbing incremental crude oil production capacity from the Atlantic basin (Venezuela and West Africa) where such capacity exists instead of the nearby Middle East region. It takes time to expand mining or upstream capacity, and the rapidly industrializing and urbanizing economies of China and India are putting continuous pressure on global resources.

According to Drewry, global seaborne trade has grown at a CAGR of 4.0% since 1990 If this trend were to continue further expansion in shipping capacity will be required, generating increased demand and related services.

Supply

Seaborne transportation supply is a function of the size of the fleet expressed in cargo carrying capacity. Supply of dry bulk carriers and tankers is measured in deadweight tons, or dwt while the supply of container vessels is measured in twenty-foot equivalent units, or teu. The size of the fleet fluctuates as newly built vessels are delivered by shipyards and over-aged vessels are deleted from the fleet. Vessel deletions refer to vessels removed from the fleet by scrapping, accidents and conversions. Future seaborne transportation capacity can be estimated by adding newbuildings expected to be delivered from shipyards and subtracting the over-aged vessels expected to be deleted from the fleet over a specific period of time.

However, deadweight or teu capacity alone does not provide an adequately accurate measure of seaborne transportation capacity. These measurements do not include a number of factors, namely:

- difference between notional and operational capacity. Notional capacity refers to the maximum deadweight tons or teu a vessel is designed to carry whereas operational capacity refers to the maximum deadweight tons or teu vessels transport given standard cargo lots and a vessel's volumetric design limitations.
- the ratio of days vessels are carrying cargo (referred to as being in "loaded" condition) to days vessels are traveling without cargo (referred to as being in "ballast" condition);
- the number of vessels used as floating storage, on dry-dock, idled for repairs, awaiting to transit a canal or to load or discharge cargo (referred to as "port congestion"), in port for the loading or discharging operations, or otherwise not available or out of commission (referred to as being in "lay-up"); and
- the speed at which vessels are traveling which is influenced by several factors including weather delays.

Each of these factors affect the ton-mile cargo carrying capacity of the fleet, which is the number of miles the fleet is capable of traveling with cargo, and the amount of cargo that can be carried over these miles and over a specific period of time. Ton mile cargo carrying capacity when measured against ton mile demand provides a more accurate indication of excess fleet capacity.

The table below shows the cargo carrying fleet in numbers and cargo carrying capacity.

Table 1.1
Cargo carrying fleet

	2006	
Sector	**No.**	**MDwt**
Oil Tankers	7,166	331.8
Liquid Chemicals	3,381	51.3
Liquefied Gas	1,283	26.9
Dry Bulk	5,807	346.7
General Cargo	16,479	75.4
Container	3,381	128.3
Reefer	1,231	6.6
Other Cargo Carrying	10,854	47.6
All Ships	49,582	1,014.6

Source: Drewry

2. SHIPYARD DESCRIPTION AND OPERATION

2.1 Shipyard location and description

Location

Titan Quanzhou Shipyard is located at the Douwei area of Huian, Quanzhou City, southern part of Meizhou Bay's economic zone. It is situated at the central part of Fujian province, between Shanghai and Guangzhou. Titan Quanzhou Shipyard is directly facing the Straits of Taiwan. VLCCs of 300,000 dwt are able to sail through Douwei. It is expected that local Fujian and Taiwanese refineries, storage terminals and LNG power generating plants will bring heavy traffic into this area.

Titan Quanzhou Shipyard aims to be a large shipyard active in three sectors:

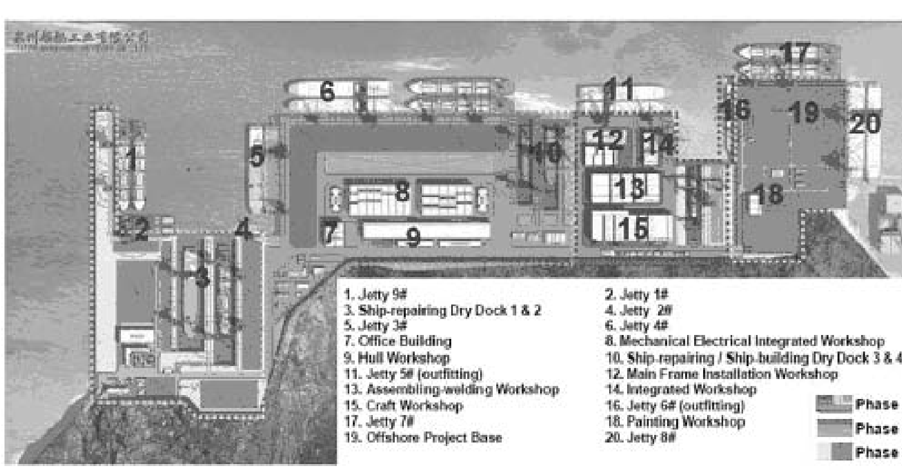
- **New building** will focus on small and medium size product and chemical tankers. The yard will operate as an assembly yard, with certain functions being subcontracted.

- **Shiprepair**, which is to create the largest turnover, will have a capacity to handle up to 20 vessels a month and dock vessels up to VLCC size.

- **Offshore facility** will be able to build high-value products such as rigs, modules as well as crane barges.

The three activities will be run by separate management teams and largely have their own dedicated area and facilities, although some of the facilities such as the steel fabrication hall will be used by all three segments.

Figure 2.1
Titan Quanzhou Shipyard



Source: Titan Quanzhou Shipyard

Shipbuilding

The development of the newbuilding shipyard is developed in two phases.

- **Phase I**, which included construction of the slipways for the building of small and medium sized product and chemical tankers, is virtually completed and is now operational. Two ships are now under construction and expected for delivery in 2007 & 2008.

- **Phase II** includes the additional facilities for the construction of tankers up to Aframax size, including a second Steel Fabrication Hall, a block area and two ship building docks west of these facilities.

The concept of the new building division is that of an assembly yard with a large share of the outfitting contracted out. This is common practice at similar shipyards. For a yard of this size building 18 vessels per annum, or more, the subcontracting of painting, building the accommodation, installation of ventilation etc is considered a normal practice.

Ship repair

The ship repair site is currently at an early stage of development and would become operational by end 2009. The shiprepair facility will principally consist of four graving docks: 420 m x 68 m and 380 m x 80 m and two docks of 280 m x 46 m. Small repair workshops for machining, electrical, pipe work, minor steelwork, other retro-fitting activities and chemical cleaning of parts, support the shiprepair business.

Offshore

Titan Quanzhou Shipyard plans to become active in this market. A separate management team will be attracted and also additional expertise via partnerships. The Offshore Division intends to build sheerlegs, modules and jack-ups. The construction of these products will require large amounts of steel, which the Company plans to obtain from the shipbuilding Fabrication Hall and nearby yards.

2.2 Shipbuilding facilities

New building ship type

The primary target market for the facility has been identified as the small and medium size chemical and bunker tankers in Phase I, extended to larger vessels in Phase II.

Phase I

The shipyard layout has been developed to achieve a production of 54,000 tonnes steel. Ultimately, a vessel is expected to be launched every 40 days per slipway. The facilities include:

- ***The Steel Stockyard*** is adjacent to the South Steelwork Shop and has the capacity to store around 5,000 tonnes of steel, a month's throughput.
- ***Treatment Line*** An automatic shotblast and primer painting plant is provided at the west end of the Stockyard, where the steel is blasted and primed before entry into the steelshop building.
- ***South Steel Fabrication Hall*** The South Hall is in operation and is used for steel preparation and forming, sub-assembly and unit/block assembly in each of three bays.
- A significant area of ***hard-stand*** for the consolidation of units/blocks from the fabrication shops, into larger blocks for erection at the berths is provided next to the slipway. The top end of the larger berth area can also be used for this purpose.
- ***Crane*** Presently the slipway area is serviced by a 160 t goliath crane.
- ***Quayside Facilities*** For completion after launching there are quays adjacent to the building berth which will have the capability of accommodating four or five vessels at a time, and more if double-banked. Appropriate cranage cover is to be provided.
- ***Workshop/machine shop*** A shipbuilding workshop is developed to house a material store, a pipe manufacturing facility, a jobbing shop, a small machine and fitters shop, and trade store/workshop facilities. As outfitting is largely subcontracted, large outfit manufacturing facilities will not be required.

Fabrication Methods

Titan Quanzhou Shipyard has principally used the shop's cranage for flat panel production. The handling method is of international standard practice which is commonly adopted by Singapore counterparties.

Launching Method

Titan Quanzhou Shipyard intends to use inflated rubber rollers positioned athwartships along the length of the vessels on the shipbuilding berths, as the means to launch the vessels into the water at high tide.

Phase II

Phase II includes the additional facilities for the construction of tankers up to Aframax size, including a second Steel Fabrication Hall, a block area and two ship building docks west of these facilities.

- ***North Steel Fabrication Shop*** For the North Steel Fabrication Hall coming into operation it is Titan Quanzhou Shipyard's intention to duplicate the present steel preparation and forming capability in the South Hall. Delivery of the Hall is expected to be by end October/begin November 2007.

- ***Block Build Areas and Docks*** To the west of the Steel Fabrication Halls there is to be a shipbuilding dock with dimensions of 280 m x 46 m, with a hard-stand area adjacent to and along the length of the dock with a 42 m width for consolidation of large blocks for erection into the dock. There is to be a further dock to the west of and alongside the shipbuilding dock, with dimensions of 300m x 46m, which could be used for build, repair or conversions such as FPSOs.

2.3 Shipbuilding throughput and capacity

Over the last four years China's shipbuilding capacity has continued to boom and it is currently the third largest shipbuilding nation, after Korea and Japan. Major factors behind this significant growth are:

- Competitive pricing, mainly due low labour and material costs.

- Rising vessels demand from growth in seaborne trade, driven by China's economic growth.

- Active Government policy to encourage the development the domestic ship building industry.

- Improved ship building quality.

The projected shipbuilding annual throughput capacity of Titan Quanzhou Shipyard at the end of Phase I is the equivalent of 18 x 6,500 dwt tankers, or one launch every 40 days per slipway. Based on a steelweight of 2,200 tonnes per vessel this equals to 39,600 tonnes of steel per annum. The capacity of the Steel Fabrication Hall will be 54,000 tonnes per annum, leaving 14,400 tonnes per annum which the Titan Quanzhou Shipyard management intends to allocate to repair, conversions and the offshore division. Upon completion of Phase II, the annual throughput capacity of Titan Quanzhou Shipyard is likely to reach 26 tankers.

Steel Preparation and Fabrication

The steel fabrication facilities have a planned output of 54,000 tonnes of steel per annum. This is equivalent to the production of four blocks per day. In Drewry's opinion the two steel fabrication shop facilities will need to operate at their peak capacity, to be able to achieve the 54,000 tonnes of steel output per year. This level of output will require production output to run smoothly, based on standard vessel series.

Slipway/Dock Cycles

The management of Titan Quanzhou Shipyard plans a building berth cycle time of 40 days for a 6,500 dwt bunker barge after the start-up phase. On this basis, and building two vessels side-by-side, it is possible to achieve the launching of the projected throughput of 18 vessels from the slipways.

When the two steel fabrication halls and two slipways and building docks are operational, there will be spare capacity:

- Steel output from the Steel Fabrication Halls exceeds the steel demand by the projected maximum shipbuilding output by over 35% or 14,400 tonnes, and

- The slipways and dry docks as planned represent a significant additional capacity (over 100%) over the planned output of the Steel Fabrication halls.

Ultimately, the latter will allow the yard to be flexible as what vessels types they will include in their order book and possibly switch to the production of one-offs as well, although even in this scenario, never both, slipways and docks will be fully utilised by the shipbuilding division. Consequently, the dry docks may be utilised by the repair division for repair and conversions, or by the offshore division for the construction of offshore units.

2.4 Shiprepair facilities and capacity

The extensive repair yard layout is divided into four areas:

— Repair dry docks,

— Repair berths,

— Mechanical/piping and electrical workshops; and

— Hull workshops.

There are four large docks in the yard. No. 1 dock has a width of 80m and is most suitable for repairing offshore vessels such as jack-up rigs and semi submersibles. No. 2 dock has a length of 420 m and can accommodate the world's largest container vessels up to a length of 397 m. Except Japan and Korea, Titan Quanzhou Shipyard is the only yard in the region which has the facilities to dock vessels of such size, which offers a key structural advantage over other shipyards in its vicinity to carve out another segment of the market currently unavailable to its competitors.

No. 1 and No. 2 docks are capable of handling vessels exceeding 300,000 DWT. No. 1 dock has the capacity to repair vessels up to 200,000 DWT and offshore engineering modules simultaneously. No. 2 dock can accommodate a VLCC and or repair up to two Panamax size (60,000 DWT) vessels, concurrently.

No. 3 and No. 4 docks, each with a dimension of 280 m x 46 m x 12.8 m, will be able to accommodate vessels up to 100,000 DWT., both docks will also be fitted with 5 x 40t lifting cranes and 1 x 300 t gantry crane for ship building activities. Such flexible use of the facilities enables Titan Quanzhou Shipyard to maximize the utilization of its assets and enhance operational efficiencies.

At the Eastern and Western side of the two dry docks are the No. 9, No. 1, No. 2 and No. 3 ship repair berths. The berths allow double banking of vessels. The quay or repair jetty has a total length of 1,130 m. It is separated into four sub-divisions of 400 m, 210 m, 140 m and 380 m and has berthing capacity of 300,000 dwt, 100,000 dwt, 5,000 dwt and 30,000 dwt respectively. The jetty has 5 x 40 t lifting cranes with adequate power supply, escalators for vessels' embarkation, mooring bits, etc.

The large scale repair factory is located behind the repair berths, thus enabling the repair factory to make full use of the berths' lifting facility. The hull workshop, the electromechanical workshop and the piping fabrication workshop are located at the eastern flank of the repair berths to facilitate production. Power supply facilities are situated very near to the dock and the berths to minimize power loss due to distance. This makes the yard power-efficient.

This inventory of comprehensive facilities and latest technology demonstrates that Titan Quanzhou Shipyard will be one of the most advanced yards in the world, and will be well-equipped to provide world-class services to a global clientele. In addition, the efficiency of the yard's infrastructure and power grid connectivity indicates the sophistication of shipyard design, allowing Titan Quanzhou Shipyard to continue functioning under a heavy workload and full capacity.

The shiprepair capacity of Titan Quanzhou Shipyard, once in full operation in 2010 and 2011, is shown below in table 2.1 and 2.2.

Table 2.1
Repair capacity for Titan Quanzhou Shipyard in 2010

No.	Type of Vessels	Type of Repair	No.	Dock Days Per Ship	Dock Days Subtotal	Berth Days Per Ship	Berth Days Subtotal	Total Days
1	Special Purpose Vessel	C	4	30	120	120	480	300
2	300,00 DWT tanker	A	10	11	110	24	240	210
3	300,00 DWT tanker	Y	15	5	75	20	300	125
4	300,00 DWT tanker	D	5	5	25	—	—	25
5	70,000 DWT bulk carrier	A	16	10	160	15	240	325
6	70,000 DWT bulk carrier	Y	32	5	160	13	416	576
7	70,000 bulk carrier	D	30	5	150	—	—	150
8	10,000–20,000 DWT tankers & 6,000 TEUs container ship	A	16	11	176	19	304	360
9	10,000–20,000 DWT tankers & 6,000 TEUs container ship	Y	29	5	145	17	493	506
10	10,000–20,000 DWT tankers & 6,000 TEUs container ship	D	23	5	115	—	—	100
	Total		**180**	**—**	**1,236**	**—**	**2,473**	**2,677**

Table 2.2
Repair potential for Titan Quanzhou Shipyard in 2011

No.	Type of Vessels	Type of Repair	No.	Dock Days Per Ship	Dock Days Subtotal	Berth Days Per Ship	Berth Days Subtotal	Total Days
1	Special Purpose Vessel	C	5	30	150	120	600	300
2	300,00 DWT tanker	A	10	11	110	24	240	210
3	300,00 DWT tanker	Y	20	5	100	20	400	125
4	300,00 DWT tanker	D	10	5	50	—	—	25
5	70,000 bulk carrier	A	19	10	190	15	285	325
6	70,000 bulk carrier	Y	36	5	180	13	468	576
7	70,000 bulk carrier	D	35	5	175	—	—	150
8	10,000–20,000 DWT tankers & 6,000 TEUs container ship	A	30	11	330	19	570	360
9	10,000–20,000 DWT tankers & 6,000 TEUs container ship	Y	45	5	225	17	765	506
10	10,000–20,000 DWT tankers & 6,000 TEUs container ship	D	40	5	200	—	—	100
	Total		**250**	**—**	**1,710**	**—**	**3,328**	**2,677**

Key: C — Conversion; A — Anchorage/Berth repair; Y — Annual Repair; D — Dock Repair

Source: Drewry

3. SHIP REPAIR MARKET

3.1 Introduction

Shiprepair activity splits between scheduled and unscheduled work. However, the parameters that determines the scale of repair include seaborne trade growth and its geography (as this will influence competing facilities' "catchment areas"), world fleet growth (and changes on a sectoral basis), the fleets' age profiles (older ships expect to have faced more "wear and tear") and the health of the freight market (which might influence the deferring of repair work timing or the continue to trade versus scrapping decision).

Scheduled repairs to merchant ships provide the largest work element. This involves routine maintenance work and any other work necessary to keep the vessel in a satisfactory, seaworthy condition. The main requirements for this work are set out by the ship's classification society, and refurbishment requirements.

Any shipping operation has to deal with the unexpected. Vessels can be damaged in port (perhaps by impact with a dock wall or from an incident while loading or discharging cargo) and at sea (perhaps due to adverse weather or sea conditions, collisions, groundings, etc.). Vessels can also encounter machinery failure (e.g. engine problems, steering gear problems, etc.

Titan Quanzhou Shipyard aims to exploit its location close to main trade routes and China's high GDP growth to secure a significant share of the ship repair market. 25% of the world fleet is around 20 years of age and will require substantial refurbishment to continue trading.

3.2 Ship repair market influencers

The evolution of seaborne trade is a key driver of fleet size and therefore, shiprepair demand. In theory it might be expected that over the time, supply/demand equilibrium would arise as new tonnage take up new and replacement demand while superannuated tonnage is removed from the fleet. Unfortunately, shipping has a tendency to avoid the "rational" approach with the result that the mainstream shipping markets operate cyclically — and with an uncomfortable history of short-term "peaks" and longer term "troughs".

In the context of influencing shiprepair demand, fleet related factors break down into three key components:

- The existing fleet, the orderbook and the future potential fleet.
- Sectoral factors within the fleet — such as changing charterer preferences on ship sizes (including the size change evolution within generic categories) and economic or "political" as opposed to real obsolescence.
- The fleet age profile — the probability that modern fleets ought to require less repair and maintenance work than ageing fleets.

The health of the shipping freight markets has a number of influences on ship repair demand — in terms of both timing and owner/manager choices. Amongst the more significant of these are:

- The timing of repair yard visits for mandatory survey inspections. Class allows short periods of leeway on timing. If freight markets are particularly firm, then these may be 'pushed' to the limit.

- Deferral of "minor" repairs in buoyant market conditions.

- Strong freight markets increase the value of the opportunity cost of being off-hire. Clearly, under normal circumstances the desired goal of owners and managers is to:

  — Achieve the lowest reasonable repair bill.

  — Achieve the highest work standards and quality possible — allowing for the specific capabilities of the particular repairer.

  — Not be obliged to commit to "excessive" levels of supervision by the ship owner/manager's superintendents, etc.

  — Achieve the quickest reasonable turn round time by the yard.

  — In some circumstances, achieving the lowest cost on the repair bill will justify extensive diversion and off-hire.

Strong freight markets — and, crucially, a belief that they will continue to be strong — will make it attractive to maintain and keep older ships in service. Increased wear and tear probably means these ships will generate bigger repair bills but, compared to newer ships.

3.3 Offshore sector

FPSOs (Floating Production Storage and Offloading) tend to be mainly focused on conversions of tankers for specific project, rather than ordered as new builds. Over period Aframax tankers (95–110,000 dwt) have been the more popular choice, for such undertakings. Conversion is complex, and is spread over 240 days to a year, occupying shipyards dry dock and quay space for the entire duration.

FPSO advantages include low cost, storage capacity, short lead times and reusability. The use of FPSOs is threatened by environmental factors and the risk of pollution. Technological innovation will help FPSOs overcome current capacity limitations and reduce costs further.

Conversion accounts for two thirds of the current FPSO fleet. With the trend towards more sophisticated vessels, a larger proportion of FPSOs are expected to be new built in the future. Conversions will continue to prevail for shallower and marginal fields whereas the trend in deepwater will be towards new buildings. The number of FPSO conversions at any given time will be limited by the number of hulls available for conversion. With tanker freight rates currently at peak levels, finding suitable candidate is a challenge, but on the other hand single hull tankers are likely to become more available as the phase-out date approaches closer.

3.4 Global shiprepair facilities and competition

Work on vessels at a repair facility — depending on the specific tasks to be undertaken — might be undertaken either with the vessel afloat or with the vessel out of the water. The former involves the vessel mooring at, or alongside, a repair berth — with the berth providing the access to and from the necessary facilities. Any underwater work would involve divers and/or the construction of some form of temporary structure (e.g. a cofferdam) that could remove the water from a specific area of the hull.

For out of water work, the facilities that might be encountered will be:

- Slipways
- Floating docks
- Graving docks
- Shiplift systems with related onshore dry "berths" or shore positions.

Global competition

With China becoming such a major — and highly competitive — player in the shiprepair market, it seems an obvious expectation that its competing near neighbours would be faring less well. Indeed, even operations within the Hong Kong SAR have reported their own problems in staying competitive.

The shiprepair industry's profile has also diminished in South Korea — although, with burgeoning/bulging orderbooks for new ships, this is not viewed as any sort of catastrophe.

Vietnam began to have a serious presence in the shiprepair sector in 1999 with the opening of the Hyundai Vinashin Shipyard Co. (HVS) — a joint venture between the domestic Vinashin Shipyard and Hyundai Mipo Dockyard.

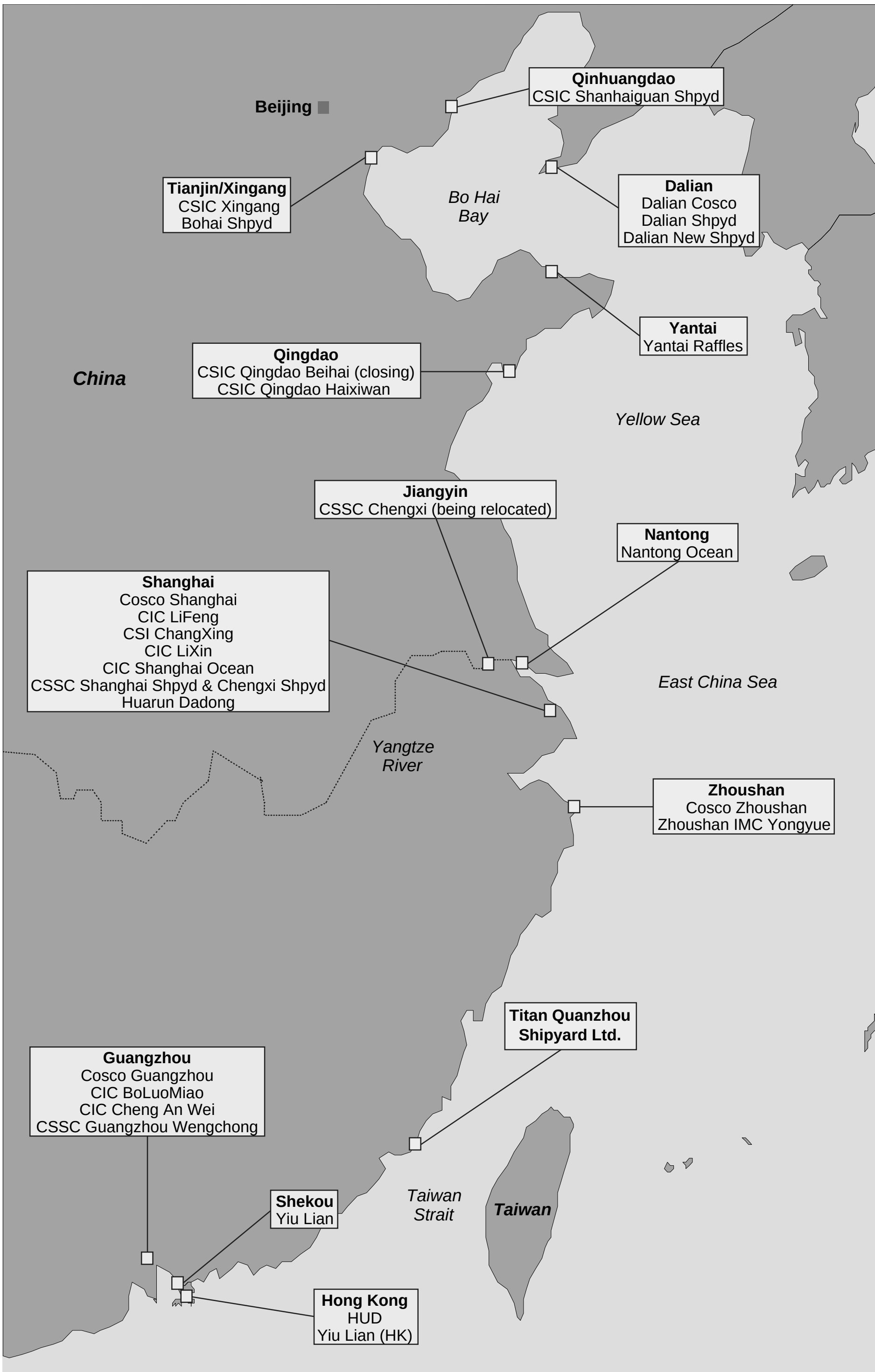
Despite the rapid emergence and expansion of the Chinese shiprepair sector, Singapore still remains one of the dominant global ship repair industry. Geographically, it has the advantage of virtually nil diversion from major sea lanes — which has been a critical factor in attracting large tankers working AG-East business.

The yards in Singapore are also successful in capturing sizeable portions of key value-added business such as FPSO conversions, construction activity related to the offshore sector and LNG ship repairs. The only "downside" factor that is sometimes directed at Singapore is labour — that is, it does not possess a large indigenous workforce for its yards and so has a significant reliance on "imported labour". However, this in no way acts to the detriment of Singapore or the quality and reputation of its shiprepair facilities.

China competition

It is beyond dispute that China has transformed the global shiprepair sector over the past decade or so. Furthermore, current evidence points to China continuing to add to its existing portfolio of large scale repair facilities. The expansion of new shiprepair facilities in China is expected to have a profound impact on established facilities in Singapore as well as on major competitors in Middle East and Japan. Chinese governmental support for the development and expansion of shipbuilding and shiprepair industry is expected to maintain a downward pressure on forward prices within the region, focussing efforts on cost cutting and productivity improvements among established repairers. Foreign investments in Chinese repair facilities is expanding with established repairers in Hong Kong, Singapore and Japan seeking joint ventures to establish facilities supported by low cost base.

Figure 3.1
Principal shiprepair locations in China



3.5 Price competition

The feature most likely to focus in the mind of yards, owners and managers in terms of competitive economics will be regional price competition. The basic repair cost, especially labour and steel components remain the most important factor when negotiating repair operation.

With labour typically accounting for between 70% of total costs for normal shiprepair work, clearly unit labour costs are an important element in determining competitiveness. Table 3.1 provides a guide to relative labour costs in various regions:

Table 3.1
Indicative ship repair labour cost groupings

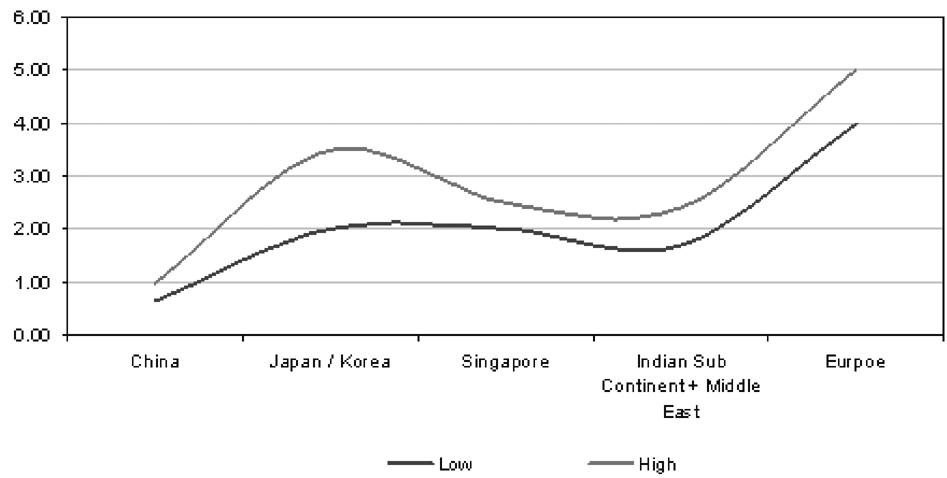
	Type of Labour Group	Countries
Group1	High Cost Labour Group	Germany, Norway, Finland, Japan, Belgium, Denmark, France, Sweden, Netherlands, USA, UK, Italy, Spain
Group 2	Medium Cost Labour Group	Singapore, Greece, Taiwan, Australia, Portugal, South Korea, Hong Kong, Malaysia, Croatia, Poland, Gibraltar, UAE, Malta, India
Group 3	Lower Medium Cost Labour Group	Uruguay, Chile, Lithuania, Oman, Saudi Arabia, Kuwait, Iran
Group 4	Low Cost Labour Group	Bulgaria, Romania, Russia, Ukraine, China, Vietnam,

Source: Drewry

Turning to steel renewal, the most commonly quoted figure for steel renewal price is expressed in terms of US$/kg. However, even this is subjected to considerable variation depending on the volume of work and the areas of steelwork being replaced.

Figure 3.2 seeks to provide an indicative overview of the current approximate steelwork costs. However, considerable care needs to be taken in interpreting steelwork price as costs quoted for steelwork sometimes need to be viewed beyond "face value".

Figure 3.2
Indicative steel work price comparison (US$/Kg.)



Source: Drewry (derived from various sources)

Table 3.2
Deviation distance comparison

Vlcc	Deviation (Days)	Capesize Bulk Carrier	Deviation (Days)
Diversion to AG via		**Diversion to Vancouver via**	
China (Dalian)	2.40	China (Dalian)	5.86
China (Titan Quanzhou Shipyard)	0.70	China (TQSL)	7.00
Singapore	0.00	Singapore	17.46
Dubai	0.12	**Diversion to Dampier via**	
Bahrain	0.16	China (Dalian)	3.32
Diversion to W. Africa via		China (TQSL)	4.30
China (Dalian)	2.54	Singapore	5.30
China (Titan Quanzhou Shipyard)	0.70	**Diversion to Mormugao via**	
Singapore	0.58	China (Dalian)	2.40
		China (Titan Quanzhou Shipyard)	0.70
		Singapore	0.00
		Diversion to Richards Bay via	
		China (Dalian)	2.54
		China (Titan Quanzhou Shipyard)	0.70
		Singapore	0.38

Source: Drewry

Generally the benchmark price for steel renewal is accepted to be with the Chinese yards at around US$1/kg for uncomplicated steel, and whilst many other yards are unable or unwilling to match this. It is true however that for steelwork intensive repairs such as late special surveys in bulk carriers, many owners are prepared to consider a diversion of the ship to China for such repairs, looking for a cargo that can be carried into that region to mitigate loss of earnings.

3.6 The effect of China

In recent years China has been the single most important factor driving the growth in global seaborne trade. It has become a world centre for goods manufacturing. Chinese exports continues to contribute greatly to the blossoming of seaborne trade additionally since its entry into WTO. Chinese imports have also grown significantly, with emerging need for raw materials such as crude oil and iron ore, capital goods and intermediate/semi finished goods.

China's annual GDP for year 2000–2020 is expected to grow at 7.3%, external trade is expected to grow at 6.2% per annum. 90% of China's trade is seaborne. At the end of 2002 China had a total of 55 million dwt capacity of which 20 Million dwt was engaged in international trade. The continuing increase in import into China will create favourable conditions for domestic fleet expansion.

More importantly import of major commodities to China is at a historical high. Oil imports are projected to reach 160 Million in 2010 rising form 120 m in 2005, Iron ore imports is expected to increase form 70 million tons in 2000 to 200 million tons in 2010 The continued increase in import into China will create favourable opportunity for ship yards engaged in ship repair.

Cheaper repair prices from mainland China has led to many general repair contracts being placed in Chinese shipyards. However, as mentioned earlier ship repair costs alone do not influence the decision of owners as the other factors to consider are the deviation costs and freight market conditions.

The factors favouring Titan Quanzhou shipyard are:

- Titan Quanzhou Shipyard is located along one of the busiest shipping routes in the vicinity of straits of Taiwan at the Douwei area of Meizhou bay, Quanzhou city in the Fujian province.

- The yard can potentially attract large volumes of ship repair business due to its location which probably allows for minimum deviation for vessels discharging at Far East ports.

- Titan Quanzhou Shipyard is located in natural deep water. The Meizhou bay is 1,200 metres wide and 5,000 metres long with a depth of between 10 and 23 metres allowing for easy access and manoeuvrability of VLCCs up to 300,000 dwt in ballast condition.

- The sub tropical location of the yard would perhaps provide all year round favourable weather and access.

- The local Fujian and Taiwanese refineries (including Titan storage facilities) and LNG power generating plants are located close to the yard and this is expected to bring heavy traffic into the area leading to possible ship repair business.

- Titan Group's own vessel fleet as listed on their website consisting of 27 ships including Vlccs, product tankers, bunker barges and floating storage with a total capacity of approximately 3.7 million dwt. may provide with assured workload.

Table 3.3
Distance of key discharge ports in Far East from major shiprepair locations in China

	Shanghai	Ningbo	Pusan	Kaohsiung	Keelung
Titan Quanzhou Shipyard	554	573	845	179	192
Guangzhou	940	958	1,231	435	571
Shanghai	0	130	475	638	448
Nantong	71	168	509	676	486
Yantai	489	544	521	1011	821
Dalian	527	583	559	1049	859

Source: Drewry

Even though there are many factors in favour of Titan Quanzhou Shipyard, due regard must be made to the already established shipyards in China (e.g. COSCO, CIC, CSIC, CSSC) which offer competitive rates and operate in similar environment. These yards have an advantage since:

- These yards have built-up a reputation by being in service for a number of years.

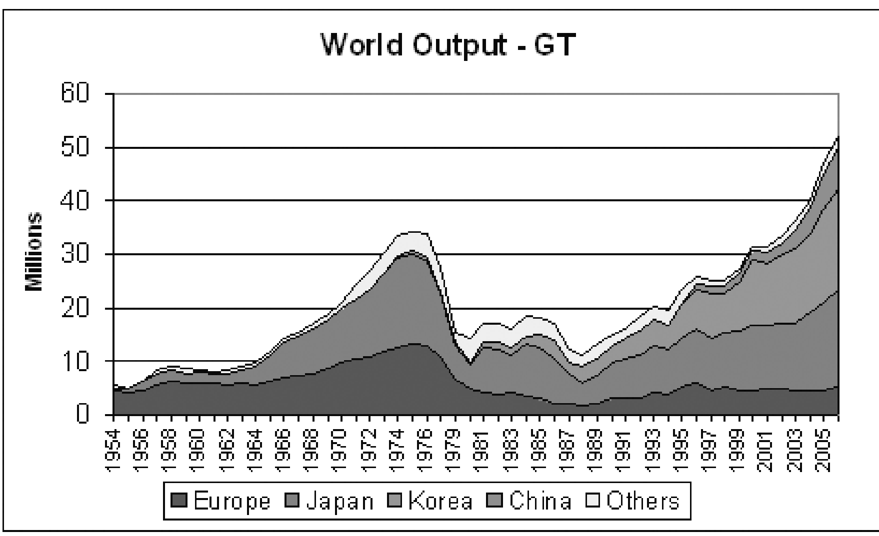
- The long term relation these yards share with ship owners, repair agents, vendors and business partners may develop future potential for them.

4. SHIPBUILDING MARKET

4.1 Introduction

Shipbuilding is a highly competitive global business. Its geographical focus has moved as economic conditions and worldwide industrialisation have developed. The industry has been cyclical as the graph below illustrates. The end of the 1970s saw a massive collapse in shipbuilding demand after a steady increase in the late 1960s. Since 1989 output rose again, achieving output levels equivalent to the 1970s boom in 2002, output levels have surpassed this level significantly since that year.

Figure 4.1
World shipbuilding completions — GT



Note: AWES — Poland member 1996, Romania 2001, Croatia 2004

AWES — Association of European Shipbuilders and Shiprepairers (renamed as Community of European Shipyards Association (CESA))

Source: Drewry, Lloyds Register

High levels of new ordering pushed the total orderbook at the end of 2006 to just over 6,900 ships of 208.9 million gt (130 million compensated gross tons — cgt), while in 2000 the orderbook stood at just 2,573 vessels. The majority of this orderbook is taken up by the fleet of containerships, oil tankers and dry bulk vessels at respectively 25%, 23% and 14% of total cgt.

Shipbuilding price

Prices in the shipbuilding market have always been volatile reflecting the influences of a variety of supply and demand side factors. Price volatility is not consistent across all sectors and there can also be significant localised differences at any given time. Different and varying levels of correlation are identified for the following factors: **shipbuilding orderbook, metal prices, freight rates and exchange rates**. Analysis shows there is no one single dominant factor that influences ship prices, rather more that these can be influenced by a number factors, and the price at any point in time is a reflection of the differing influence of these various factors.

Shipyard costs

Shipbuilding costs comprise both direct and indirect costs.

- **Direct costs** predominantly involve the costs of the labour and materials required to design and build a vessel, but also include certain other expenses such as classification fees, financing costs and brokers' commissions.

- **Indirect costs** relate to the recovery of the general costs of operating the shipyard, rather than being directly attributable to a particular ship or series of ships built for a customer.

Shipbuilding costs can vary from country to country and from yard to yard due to the following factors amongst other:

- **Economies of scale,** large ships tend to be cheaper to build per unit of size/ volume than smaller ships. Secondly, building series of ships can bring significant savings over one-off ships. Thirdly, high volume production throughputs can generate significant cost reductions in both direct costs and the overhead recovery burden.

- **Employment cost,** shipyards enjoy different employments costs depending on the country of residence.

- **Productivity** per person varies per country, Korean and Japanese yards offset high employment cost by high levels of productivity.

- **Material costs** consist for the majority of costs of steel, paint and machinery.

- **Exchange rates,** shipbuilding contracts are largely denominated in US dollars, but materials and expenses of construction may be incurred in local currency.

- **Payment terms,** shipbuilding contracts consist of stage payments.

Shipbuilding demand

In essence, demand for new ships is a function of two key variables:

- **Incremental demand,** arising from increases in seaborne trade and ship demand.

- **Replacement demand** for tonnage that is scrapped, either as a result of age or technical obsolescence.

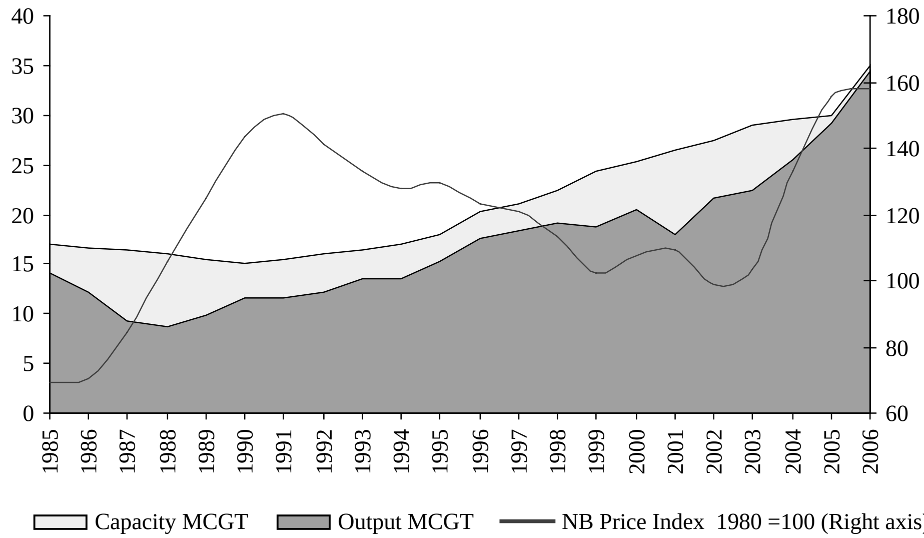
In combination they create an on-going requirement for new ships within each fleet sector. In addition, the pace of new ordering can be subject to a number of external influences, such as: **newbuilding prices, freight rates and legislative changes**.

Newbuilding requirement forecasts based on expected seaborne trade growth were made by Koshipa, Cesa and Drewry and vary between 23.6 m cgt to 30.8 m cgt per annum until 2020. This is far below the level of current output capacity in the next figure.

Shipbuilding capacity

The trends in global shipbuilding capacity and output from 1985 to 2006 are shown in the next figure. Newbuilding price index development is also shown in the figure, clearly demonstrating the volatile behaviour of newbuilding prices. The figure illustrates the tight capacity situation currently being experienced. However, shipyard capacity will increase as result of new facilities being built in China and to a lesser extent in countries such as Vietnam and India. At the same time, continued improvements in technology and productivity will also boost capacity further. As yards clear the current backlog of orders and if shipbuilding capacity continues to grow as expected, prices will come under renewed pressure, especially in a climate where Chinese yards in particular are trying to win market share from their South Korean and Japanese counterparts.

Figure 4.2
Newbuilding price index/shipyard capacity and output



Source: Drewry

In Drewry's view therefore, there is a risk that as the decade draws to a close, prices will once again come under pressure. If this happens, it will affect all shipyards, irrespective of their location.

4.2 Titan Quanzhou Shipyard target markets

The newbuilding of Titan Quanzhou Shipyard focuses on two ship designs: small chemical tankers and bunker tankers. The market for these ships is analyzed below.

Chemical tankers

Chemical tankers are trading the following products: *organic chemicals, inorganic chemicals, vegetable oils and fats and other products such as molasses and lubes*. Transport of such cargoes is regulated under the International Bulk Chemical Code (IBC).

The chemical trade demand is given in tonne-miles. By applying average trading distances and fleet utilization figures, the demand for chemical tanker tonnage is calculated. Drewry considers that the base case estimates an annual growth of 3.5%, leading to a demand of 846 billion tonne-miles in 2020 for the above chemical products.

According to Drewry the increased activity in shipbuilding has not neglected the chemical tanker sector, especially the chemical tankers of 10–20,000 and 30,000+ dwt are well represented in the global orderbook. This fits the trend that smaller tankers are losing market share to bigger ships.

From the analysis it appears that short term supply of chemical tanker is superior to demand for chemical tanker based on the forecasts up to 2011. After this date — when the orderbooks are still undecided — demand may overtake supply and additional tonnage is required to keep the market in balance.

Bunker tankers

Bunker tankers are small tankers operating in a defined area to supply ships with bunker oil. According to Drewry, the tankers fleet of 1,000 to 10,000 dwt consists of 4,502 vessels that have an aggregate cargo capacity of 15.9 million dwt, with a quarter of ships older than 30 years.

According to Drewry, the orderbook of tankers between 1,000 dwt and 10,000 dwt shows 435 vessels on order, with a total capacity of 2,539,000 dwt.

Incentives by the Singapore Port Authorities and the European Union have increased pressure on bunker tanker owners to comply with the latest regulations. This is taken into account in analysing the supply and demand balance.

Drewry considers that the current orderbook for small tankers seems sufficient to cater for the short term demand for vessels. But the average age of the tankers is high, with restrictions on age supply of tonnage could be restricted. Demand for new tankers may be increased by this.

4.3 Competition

A number of yards in China, Korea and Japan have also specialized in the construction of small tankers, Titan Quanzhou Shipyard's target market. The client base of Japanese yards consists largely of domestic ship owners; this is less the case for Chinese and Korean shipyards. The competitive position of Titan Quanzhou Shipyard is considered below.

Competitive factors

- **Delivery** times seem to favour the Chinese yards. All Korean shipyards have an impressive orderbook well into 2009 and sometimes 2010. The orderbook of Titan Quanzhou Shipyard, well into 2009, gives rise to the need to market and secure new orders for itself.

- **Track record** A shipyard achieves a good reputation in the market by delivering ships of good quality and design. A good reputation gives a competitive edge to the shipyard. A new shipyard, like Titan Quanzhou Shipyard, does not have a track record, because it has not delivered any ships yet.

Cost competitiveness

The cost competitiveness for Chinese yards will improve based on the following assumptions:

- **Labour productivity** Chinese labour productivity levels are expected to rise and ultimately level with Korean and Japanese labour productivity.

- **Labour Cost** Korea is gradually closing in on Japan in terms of labour cost; both countries' high costs are compensated for by high labour productivity.

- **Hull** includes all steelwork required to build the vessel. Titan Quanzhou Shipyard should have an advantage due to low cost domestic steel prices.

- **Outfitting** All elements other than the steel hull and accommodation are considered to be part of outfitting. Local production is a cost advantage for Chinese yards.

Market share

To estimate the possible market share for Titan Quanzhou Shipyard the orderbook for product/chemical tankers between the range of 5,000 and 15,000 dwt scheduled for delivery in 2008 is reviewed. The size of the orderbooks shows that 2008 is a very healthy year for shipyards. Korean shipyard 21st Century Shipbuilding has the largest number of tankers for delivery in 2008: sixteen, whereas Titan Quanzhou Shipyard projects to build eighteen units, albeit partly from the parent company.

5. OFFSHORE MARKET

5.1 Demand drivers

High oil prices increase the activity in exploration and development. The average price for Brent oil was US$65.14 per barrel in 2006, nearly 20% more than the 2005 average and recorded peaks above US$78 per barrel, where in 1999 the cost for a barrel of Brent oil was just US$17.99. Continued high oil prices make the extraction of fields at difficult locations more attractive. It is assumed that:

- Oil prices to remain highly sensitive to supply and demand shifts due to the low price elasticity's of global demand and non-OPEC supply.

- Base line oil price scenario expects a price of US$35 per barrel in 2030, based on 2000 oil price level.

Oil consumption

In Drewry's opinion, oil demand is expected to show the strongest increase in non-OECD Asian countries, an increase of 30.90 quadrillion BTU in annual consumption between 2004 and 2030 is forecasted, 2.7% consumption increase per annum.

Oil reserves and production

According to Drewry, in the development of oil reserves in the last two decades, the Middle East continues to account for approximately two-thirds of global proved reserves, while increasing close to 40% in reserves between 1986 and 2006. Outside of the Middle East newly-discovered reserves tend to be smaller and more expensive to develop, being increasingly offshore.

Generally, high oil prices results in increased exploration and activities and consequentially increased proven reserves, albeit at higher production cost.

According to Drewry, oil production in Middle East and Africa rose by over 90% and 80% respectively in the last two decades. The North American region produced less oil than two decades ago and also Europe lost market share significantly despite its increasing production in Eurasia. In 2006 the level of oil production was equivalent to 40 years of oil the amount of proved oil reserves.

According to Drewry, the production forecast up to 2030 shows West Africa expecting the highest growth rates at 3.9% per annum, followed by Central and South America at 2.3%. Oil production in these regions can typically be found in offshore — deepwater — locations.

Deep water

According to Drewry, the increase in production in Latin America and West Africa will require the development of deep water locations. Deepwater oil production currently accounts for only 10% of total offshore oil production, but over the next 10 years its total share relative to shallow water output will grow rapidly, accounting for around 25% of offshore production by 2015.

Technological progress

Advances in technology, particularly in mooring systems and innovative hull designs, are allowing production from greater water depths to be viable on both a technical and economic basis.

Improved seismic mapping methods, deeper onshore and offshore drilling and production techniques, reservoir simulators and other advances have increased the Earth's accessible oil. According to Drewry, in 1950, it was estimated that the conventional, recoverable resource base was one trillion barrels. By 2000, that had tripled to three trillion barrels. New state-of-the-art platforms and sub-sea drilling technologies unlock resources offshore across the globe.

5.2 Offshore fleet

Offshore drilling rigs

The three largest groups of drilling rigs are:

- **The jackup fleet** represents the biggest group of offshore rigs. Jackups are mobile bottom-supported offshore drilling structures with columnar or open-truss legs that support the deck and hull. When positioned over the drilling site, the bottoms of the legs rest on the seafloor.

- **Platform rigs** are the second-largest group of rigs. These are immobile offshore structures from which development wells are drilled and produced. Platform rigs may be built of steel or concrete and may be either rigid or compliant.

- **Floating offshore drilling units** are the third largest offshore rig group. These are units that have a pontoons and column structure. When flooded the pontoons cause the unit to submerge in the water to a predetermined depth.

Short term Rig fleet demand

Indications on current demand of the rig fleet can be derived from the available contract information: contract terms and day rates.

According to Drewry:

- **Jackup rig demand.** An increase in forward contracting is seen, also the average day rate for rig hire has increased significantly. This indicates a significant increase in jackup demand in the last two years.

- **Semi submersibles and drillships** The floaters' contracted days in 2007 are somewhat higher than for the jackup fleet: 76% vs. 69%. The contracting of floaters peaked in 2005. The higher oil prices in 2005 have spurred contacting of drilling rigs and helped increasing the day rates. In 2006 oil prices levelled off a bit and this is reflected in the contracting of the floating rigs.

The demand for floating rig time is stronger than demand for jackups, this is a consequence of the trend to develop projects in deep water, where jackups are unusable.

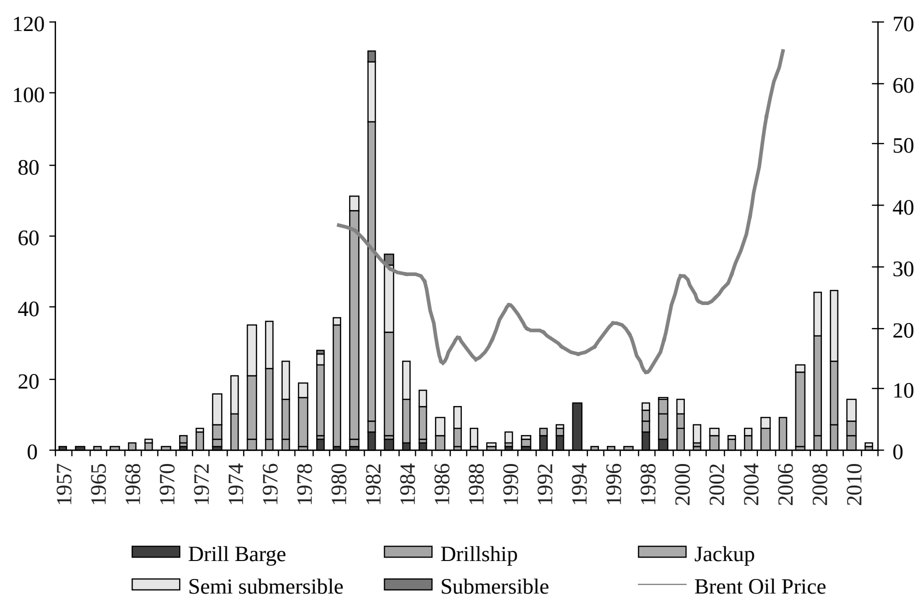
Long term rig fleet demand

Rig owners are taking advantage of the strong demand by ordering new rigs. According to Drewry, in 2006 a significant number of jackups and submersibles were ordered at dominantly shipyards in the Far East, but also some orders were won in India and the UAE.

The volatile character of rig building is reflected in the number of deliveries per year displayed in the figure. The high oil price in the early eighties resulted in a large number of additions to the fleet. The current orderbook of offshore rigs is taken into account for the delivery projection from 2007 onwards. The currently ordered jackups are more expensive than 25 years ago, due to the increased capacity in drilling and water depth and the suitability for more harsh environments.

According to Drewry as a consequence of the heavy influx of rigs in the Eighties, approximately 80% of the rigs is now older than 20 years, and in 2012 about three quarters of the fleet will be older than 30 years. There currently is no age restriction on rigs.

Figure 5.1
Mobile offshore rig deliveries 1957-2011*



* Based on data from current fleet, due this the delivery peak in 1957 is not reflected in this graph.

Source: Various

Production units

The fleet of floating production systems (FPS) can be divided into four types:

- **Floating Production Storage & Offloading** vessels (FPSOs) are traditional ship-shaped with production facilities on deck.

- **Floating Production Semi-Submersibles** (FPSSs) have the same hull configuration as semi submersible rigs, but are equipped with a production facility instead of a drilling installation.

- **Tension Leg Platforms** (TLPs) are platforms fixed to the seabed by anchors to restrict vertical movement.

- **Spars** are based on the same principle as TLPs but are fixed to the seabed using more conventional mooring lines.

According to Drewry, in 2006 a fleet of 175 FPSOs were on deployment worldwide, 50 percent more than all other floating production systems put together. FPSO are dominant for the following reasons:

- A major advantage that FPSOs have over other production systems is their process plant carrying capacity and storage capacity. This, coupled with their relatively short lead time which allows oil companies to undertake fast track development of some fields, suggests that the popularity of FPSOs is set to continue.

- FPSOs can be relocated to other fields.

- Due to the relative cost advantages of FPSOs over other production systems as well as their mobility, they are well suited to such marginal and shorter life fields.

According to Drewry, converted FPSOs account for two thirds of the current FPSO fleet, for the following reasons:

- Two of the most obvious factors in determining the decision between a newbuilt and converted FPSO are cost and time.

- Due to the difference in turnaround time, marginal and short-life fields are more likely to adopt conversions than larger, longer term developments. Most newbuildings have been for fields with a life expectancy of over 10 years.

- Due to the number of variables involved in an FPSO conversion, time and cost over-runs can easily occur. However, this may negate the main benefits of choosing a conversion, therefore owners may opt for the newbuilding option instead.

Drewry observes that Far Eastern yards account for most newbuilt FPSOs in most regions of the world, and that Asia Pacific shows the most positive correlation between the region of operation and the newbuilding yards, while Europe is the only other region where a positive correlation exists, yet even here, over half the newbuilt FPSOs were partly or wholly constructed/outfitted in Asia.

According to Drewry, a third of the world FPSOs are operated in Asia Pacific, as a result of increased offshore activities and financial resources attracted to the region. The growth areas in FPSOs are considered to be Asia Pacific and the so-called "Golden Triangle" (West Africa, US Gulf, Brazil).

Drewry's analysis of correlation between region of build and region of operation indicates that the issue of yard location in relation to the field is an important factor when it comes to securing contracts for the construction of MOVs. Apart from convenience and time saving, if an FPSO construction yard is close to the field on which the vessel will operate, there is a cost saving in terms of towage cost and insurance. This support the potential for Singapore shipyards in securing MOV contracts especially FPSOs, given their relative geographical proximity to major FPSO operation locations such as West Africa.

Forecast floating production 2007–2011

According to Drewry at total number of 124 FPS prospects have been identified for completion between 2007 and 2011. FPSOs are expected to represent the largest share of the market for floating production units. Africa, Asia and Latin America have the brightest prospects and together expect almost two-thirds of all projects. Douglas-Westwood expects the CAPEX for the period to be some US$28 billion is likely to be spent on deepwater floating production systems, US$40 billion on drilling and completing subsea wells, and US$14 billion on flowlines and control lines, while subsea hardware and surface completed wells could account for a further US$10 billion.

Forecast

The demand for FPSO is linked to the development of offshore fields. Especially where no subsea infrastructure is present, or where there is a marginal field only, a FPSO is the most logical option for field production. It is expected that with the increasing interest for development of deepwater oil and gas field FPSOs will remain the preferred choice of production platform.

While the single hull tankers suitable for conversion to FPSO are becoming scarcer, the number of newbuilt FPSOs is likely to rise compared to converted FPSO. Newbuilt FPSOs will allow for optimized hull shapes, for instance cylindrical shape.

5.3 China

Offshore activity in China

According to Drewry, China's oil consumption has risen by 6.7 percent in 2006 over 2005 and is expected to continue to grow. Consumption of oil from has doubled between 1996 and 2006 to 7.4 million barrels.

According to Drewry, oil and gas exploration in offshore China is mainly concentrated on Bohai Bay, Yellow Sea, East China Sea and the northern continental shelf of South China Sea, where hydrocarbon resource potential reaches 27.53 billion tons of oil and 10.6 BCM of natural gas as predicted, while discovery rate there is only 18.5% and 9.2% for oil and gas respectively.

China recently made its first steps into deep-water exploration, in 2006 when a "significant gas discovery" in the South China Sea at a depth of 1,500 meters was announced.

Offshore fleet in China

The construction of newbuilding rigs in China is currently divided over four yards: Yantai Raffles, Zhoushan Shipyard, Dalian New Shipyard and Nantong Shipyard.

Drewry considers it notable that there are orders for nine semi submersibles, of which two are designed for operations in ultra deep water. The large orderbook of Yantai Raffles and Dalian New Shipyard indicate that these two yards have made a successful entry into the newbuilding of offshore structures.

According to Drewry, China has together with Brazil, West Africa and the North Sea the largest concentration of FPSOs. The Chinese shipyards currently have some more FPSO under construction.

Offshore repair

FPSO's are mainly made by conversions from existing — single hull — tankers. It is expected that the phase-out of single hull tankers will reduce availability of suitable tanker for conversion and will thus require more newbuildings instead of conversion.

Rigs are commonly bound to their geographical location for maintenance and modification. Since the high loss of opportunity cost due to low transit speed and high day rates significantly offsets higher docking costs, unlike shipping in markets of low demand.

According to Drewry, historically the number of rigs undergoing maintenance and repair work was between 5 and 8 percent of the total rig fleet, on a monthly basis for 2000 through 2005.

5.4 Titan Quanzhou Shipyard

According to Drewry, the demand for newbuilding rigs is currently high, although the number of rigs on order is only one-third of the rigs delivered during the first years of the 1980s. Drewry expects that demand for rigs will decrease due to lower oil price levels. However, according to Drewry, a very large group of MOVs was delivered in early 1980s and these vessels are approaching the age of thirty and need to be phased out at some point. This may increase replacement demand for rigs, but the exact age of phasing-out of rigs is undefined.

Titan Quanzhou Shipyard currently does not have a track record in building rigs, it has however gathered together personnel who have excellent track record from their previous employment Mr M.S Tan ex MD of Sembcorp is appointed the Senior Consultant of Titan Quanzhou Shipyard brings some 30 years of management skill to this shipyard.

Geographical location is very important for repair and modification work of offshore structures. Titan Quanzhou Shipyard is located in between two of China's major exploration areas. The repair and modification on MOVs require a large dock — an asset scarce across the globe — the availability of such a drydock at Titan Quanzhou Shipyard and its suitable location, with its planned draft of 18 m, should give Titan Quanzhou Shipyard a share of the repair and modification work of offshore structures in the surrounding offshore fields.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained herein the omission of which would make any statement contained in this circular misleading.

2. SHARE CAPITAL

Authorised, issued share capital and shares to be issued

The authorized and issued share capital of the Company as at the Latest Practicable Date and shares which fall to be issued on Completion of the Shipyard Purchase Agreement were as follows:

Authorised share capital as at the Latest Practicable Date:		*HK$*
10,000,000,000	Titan Shares	100,000,000.00
Shares issued and to be issued, fully paid or credited as fully paid (Notes):		*HK$*
5,427,440,202	Titan Ordinary Shares in issue as at the Latest Practicable Date	54,274,402.02
555,000,000	Non-voting convertible redeemable preferred shares in issue as at the Latest Practicable Date	5,550,000.00
1,046,198,808	Titan Ordinary Shares to be issued on Completion of the Shipyard Purchase Agreement	10,461,988.08
354,406,844	Titan Ordinary Shares to be issued when all NPBT Targets are met or exceeded	3,544,068.44
7,383,045,854	Total number of Titan Shares	73,830,458.54

Notes:

1. As at the Latest Practicable Date, the Company has issued warrants (which is comprised in the WP Securities) to subscribe up to HK$195 million of Titan Ordinary Shares at the initial subscription price of HK$0.644 per Titan Ordinary Share. The table assumes no exercise/conversion of the WP Securities between the Latest Practicable Date and Completion.

2. As at the Latest Practicable Date, there are outstanding options to subscribe for up to 166,940,000 Titan Ordinary Shares which have been granted under the Company's existing share option scheme. The table assumes no exercise of such options between the Latest Practicable Date and Completion.

All the existing issued Titan Ordinary Shares rank pari passu in all respects including all rights as to dividends, voting and return of capital. As at the Latest Practicable Date, save for the WP Securities and options granted pursuant to the share option scheme of the Company, the Group did not have any outstanding options, warrants or other securities carrying rights of conversion into or exchange or subscription for Shares.

3. DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under section 352 of the SFO were as follows:

(i) *Long positions in Shares*

Name	Capacity	Number of Shares	Approximate % shareholding
Mr. Tsoi Tin Chun	Interest of controlled corporations/ Interest of spouse	4,158,785,854 *(Note 1)*	76.63

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

(ii) *Short positions in Shares*

Name	Capacity	Total number of Shares	Approximate % shareholding
Mr. Tsoi Tin Chun	Interest of a controlled corporation	438,836,815 *(Note 1)*	8.09

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

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

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

(iv) *Interest in associated corporations*

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

** Amount of capital contribution*

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

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

(b) Interests of Shareholders

Based on the register required to be kept under the SFO, as at the Latest Practicable Date, so far as is known to the Directors and the chief executives of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any member of the Group.

(ii) *Long positions in Shares*

Name	**Capacity**	**Number of Shares**	**% shareholding**
Ms. Tsoi Yuk Yi	Interest of spouse/Interest of a controlled corporation	4,158,785,854 *(Note 4)*	76.63
Titan Oil	Interest of a controlled corporation/Beneficial Owner	3,409,741,952 *(Note 3)*	62.82
Great Logistics	Beneficial owner	2,758,180,202 *(Note 1 above)*	50.82
Saturn Petrochemical Holdings Limited	Beneficial owner	857,795,031	15.80
Warburg Pincus & Co.	Interest of a controlled corporation	857,795,031 *(Note 7)*	15.80
Warburg Pincus IX, LLC	Interest of a controlled corporation	857,795,031 *(Note 7)*	15.80
Warburg Pincus Partners LLC	Interest of a controlled corporation	857,795,031 *(Note 7)*	15.80
Warburg Pincus Private Equity IX, L.P.	Beneficial owner	857,795,031 *(Note 7)*	15.80
HSBC Trustee (C.I.) Limited	Trustee	556,423,009	10.25
ABN AMRO Holding N.V. — Amsterdam	Interest of a controlled corporation	526,300,000	9.70
N M Rothschild & Sons Ltd.	Interest of a controlled corporation	526,300,000	9.70
Titan Shipyard Investment Company Limited	Beneficial Owner	420,181,695 *(Note 4)*	7.74

Name	Capacity	Number of Shares	% shareholding
Nederlandse Financierings — Maatschapplj Voor Ontwikkelingslanden N.V.	Holding Shares as security	356,971,112	6.58
The State of the Netherlands	Interest of a controlled corporation	356,971,112 *(Note 5)*	6.58
Vision Jade Investments Limited	Beneficial Owner	328,862,207 *(Note 4)*	6.06
Ms. Tse Lai Hing	Beneficial owner	280,000,000	5.16
Mr. Tse Yin Tuen	Interest of spouse	280,000,000 *(Note 6)*	5.16

(ii) *Short position in Shares*

Name	Capacity	Number of Shares	% shareholding
Great Logistics	Beneficial owner	438,836,815 *(Note 1 above)*	8.09
Titan Oil	Interest of a controlled corporation	438,836,815 *(Note 3)*	8.09
Ms. Tsoi Yuk Yi	Interest of spouse	438,836,815 *(Note 4)*	8.09

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

Note 4: Ms. Tsoi 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. As Titan Shipyard Investment Company Limited is beneficially and wholly owned by Mr. Tsoi, Ms. Tsoi Yuk Yi is deemed to be interested in the shareholding interests of Titan Shipyard Investment Company Limited in the Company. Ms. Tsoi is also deemed to be interested in the shareholding interests of Vision Jade Investments Limited in the Company as a result of her shareholding in Vision Jade Investments Limited.

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

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

Note 7: Pursuant to the SFO, as Warburg Pincus & Co. ("WP"), Warburg Pincus LLC and Warburg Pincus IX, LLC has 100% control over Warburg Pincus Private Equity IX, L.P., WP, Warburg Pincus LLC and Warburg Pincus IX, LLC are deemed to be interested in the shareholding interest of Warburg Pincus Private Equity IX, L.P. in the Company.

Based on the register required to be kept under the SFO, save as disclosed above, the Directors and the chief executives of the Company are not aware that there is any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any other member of the Group.

4. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Enlarged Group within two years before the date of this circular and are or may be material:

(a) the Shipyard Purchase Agreement;

(b) a memorandum of agreement dated 10 April 2007 entered into between Sino Ocean Development Limited ("Sino Ocean") and Korea Line Corp., in relation to the sale of the oil tanker "Titan Taurus" for a consideration of US$41,000,000;

(c) a memorandum of agreement dated 10 April 2007 entered into between Sino Ocean and Asian Tanker AS in relation to the purchase of an oil tanker named "Titan Taurus" for a consideration of US$25,200,000;

(d) a subscription agreement dated 28 March 2007 between the Company, Warburg Pincus Equity IX, L.P. and Warburg Pincus (Bermuda) Private Equity IX, L.P. in relation to the subscription of the WP Securities and convertible redeemable preferred shares and warrants of Titan Group Investment Limited for a total consideration of HK$1,365 million;

(e) a memorandum of understanding dated 28 March 2007 entered into between Titan and Titan Oil pursuant to which both parties agreed to continue in good faith to explore and agree terms upon which Titan would acquire Titan Quanzhou Shipyard and the Vessel Building Contracts at a price to be agreed by reference to independent valuation and to be satisfied in cash or Titan Shares or a combination of both;

(f) a sale and purchase agreement dated 27 July 2006 entered into between Forever Fortune Holdings Ltd. and Quanzhou City Quangang You Lian Investment Company Limited in respect of the acquisition of 5% equity interest in Fujian Titan Petrochemical Storage Development Co. Ltd. for a consideration of RMB7,004,000;

(g) a sale and purchase agreement dated 27 July 2006 entered into between Titan Oil Storage Investment Ltd., Mr. Wong Ming Yeung, Think Ahead Trading Limited, Great Fine Trading Limited and Moneylink Co. Ltd. in relation to the acquisition of an aggregate of 60% of the total issued share capital in Sky Sharp Investment Limited of a consideration of RMB220,596,000; and

(h) a conditional shipbuilding contract dated 3rd July, 2006 entered into between the Company and Titan Quanzhou Shipyard under which the Company agreed to purchase, and Titan Quanzhou Shipyard agreed to build and deliver, two bunker barges together with options on up to eight additional bunker barges at US$8.67 million each.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into or proposed to enter into any service agreement with any member of the Enlarged Group excluding service agreements expiring or determinable by the Enlarged Group within one year without payment of any compensation (other than statutory compensation).

6. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration proceedings of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group.

7. MATERIAL CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, being the date to which the latest published audited financial statements of the Group were made up.

8. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and his/her respective associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Enlarged Group other than those businesses to which the Directors and his/her associates were appointed to represent the interests of the Company and/or the Enlarged Group.

9. EXPERTS AND CONSENTS

Set out below are the qualifications of the expert who has given an opinion or advice which is contained in this circular:

Name	Qualification
Grant Sherman Appraisal Limited	Valuer, Chartered surveyor
Ernst & Young	Certified Public Accountants
CIMB-GK Securities (HK) Limited	A licensed corporation to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities for the purpose of the SFO
Drewry Shipping Consultants Ltd.	Shipping Consultant

Each of Drewry Shipping Consultants Ltd., Grant Sherman Appraisal Limited, Ernst & Young and CIMB-GK Securities (HK) Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its valuation report and references to its name, in the forms and context in which it appears.

As at the Latest Practicable Date, none of Drewry Shipping Consultants Ltd., Grant Sherman Appraisal Limited, Ernst & Young nor CIMB-GK Securities (HK) Limited was beneficially interested in the share capital of any member of the Enlarged Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

Drewry Shipping Consultants Ltd.

The Company has engaged the services of Drewry Shipping Consultants Ltd., which monitors all shipping markets on a continuous basis, to prepare a report on Titan Quanzhou Shipyard and the various shipping sectors that Titan Quanzhou Shipyard plans to serve.

Drewry Shipping Consultants Ltd. was established in 1970. Its activities cover bulk and liner shipping, ports, shipbuilding, shipmanagement and maritime intensive logistics.

Data on the historical performance of the shipbuilding market was gathered from a variety of sources including the Association of European Shipbuilders and Shiprepairers (renamed as Community of European Shipyards Association (CESA)), The Korean Shipbuilders Association and Lloyds Register. Information on the global orderbook for target vessel size was collated by Drewry Shipping Consultants Ltd. from various sources.

The research was supplemented by a visit to Titan Quanzhou Shipyard during which facilities were studied and interviews were held with management. Such visit also provided the information related to development plans, facilities and capacity and also to the orderbook of Titan Quanzhou Shipyard.

The Company has included certain information from the report prepared by Drewry Shipping Consultants Ltd. for the purpose of this circular because the Company believes such information, which is not publicly available, facilitates an understanding of Titan Quanzhou Shipyard and the markets in which it operates for the Titan Shareholders. Although the Company believes the data compiled by Drewry Shipping Consultants Ltd. fairly represents the analysis of the markets mentioned above, the Company has not vertified the accuracy of the data compiled by Drewry Shipping Consultants Ltd.

10. GENERAL

(i) Save as disclosed in this circular, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date, which is significant in relation to the business of the Enlarged Group.

(ii) Save as disclosed in this circular, none of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to, any member of the Enlarged Group since 31 December 2006, the date to which the latest audited consolidated financial statements of the Company were made up.

(iii) The secretary and the qualified accountant of the Company for the purpose of Rule 3.24 of the Listing Rules is Mr. Allen Tu Chung To, a fellow member of The Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants.

(iv) The share registrar and transfer office of the Company in Hong Kong is located at Tricor Tengis Limited, of 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong.

(v) The English version of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the office of the Company at 4901 Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong from the date of this circular up to and including 12 October 2007, the date of the SGM.

(i) the memorandum of association and bye-laws of the Company;

(ii) the annual reports of the Company for the years ended 31 December 2004, 31 December 2005 and 31 December 2006;

(iii) the valuation reports as referred to Appendices IV and V of this circular;

(iv) the material contracts referred to in the section headed "Material contracts" in this appendix;

(v) the circular of the Company dated 3 May 2007 in relation to a discloseable transaction involving the purchase and sale of a vessel;

(vi) the circular of the Company dated 25 May 2007 in relation to a HK$1,365 million (US$175 million) investment by Warburg Pincus through an issue of Titan Securities (as defined therein) and China StorageCo Securities (as defined therein) involving a major disposal in connection with the issue of the China StorageCo Securities and possible major transaction upon redemption of the China StorageCo Preferred Shares (as defined therein);

(vii) the accountants' report on Titan Quanzhou Shipyard from Ernst & Young dated 24 September 2007, the text of which is set out in Appendix II of this circular;

(viii) the letter on the unaudited pro forma financial information of the Group from Ernst & Young dated 24 September 2007, the text of which is set out in Appendix III of this circular; and

(ix) the report prepared by Drewry Shipping Consultants Ltd. as referred to in Appendix VI of this circular.

TITAN PETROCHEMICALS GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1192)

NOTICE IS HEREBY GIVEN that a special general meeting of the Company will be held at 11:00 a.m. on Friday, 12 October 2007 at Salon IV, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong, for the purpose of considering and, if thought fit, passing the following resolutions, with or without amendments:

ORDINARY RESOLUTION

1. "**THAT**:

(a) the terms of the conditional sale and purchase agreement dated 3 September 2007 as amended and restated in an agreement dated 21 September 2007 (the "Shipyard Purchase Agreement") both entered into between the Company and Titan Oil Pte Ltd, Vision Jade Investments Limited and Titan Shipyard Investment Company Limited (together the "Shipyard Vendors") pursuant to which the Company has agreed to purchase or procure its nominee to purchase the entire issued share capital of Titan TQSL Holding Company Ltd (the "Shipyard Holdco") for a total consideration of US$170 million, which is to be satisfied as to approximately US$56.9 million by cash payment on Completion and as to the balance of US$113.1 million by the issue of up to 1,400,605,652 ordinary shares of the Company ("Shipyard Ordinary Shares") in accordance with the terms and conditions set out in the Shipyard Purchase Agreement, a copy of which has been produced to this meeting marked "A" and signed by the chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby approved;

(b) the issue of up to the 1,400,605,652 Shipyard Ordinary Shares, be and is hereby approved;

(c) the directors of the Company be and are hereby authorised to do all things and acts and sign all documents which they may consider necessary, desirable or expedient to implement and/or give effect to any matters relating to or in connection with the Shipyard Purchase Agreement."

By Order of the Board
Titan Petrochemicals Group Limited
Barry Cheung Chun Yuen, ***JP***
Chief Executive

Hong Kong, 24 September 2007

Notes:

1. Any member of the Company entitled to attend and vote at the meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person duly authorised to sign the same.

3. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority shall be delivered to the Company's principal place of business at 4901 Sun Hung Kai Centre 30 Harbour Road Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or the adjourned meeting or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 24 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid.

4. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of execution, except at an adjourned meeting or on a poll demanded at a meeting or an adjourned meeting in cases where the meeting was originally held within 12 months from such date.

5. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.

6. Where there are joint holders of any Titan Ordinary Shares, any one of such joint holder may vote either in person or by proxy in respect of such Titan Ordinary Shares as if he/she was solely entitled thereto; but if more than one of such joint holders be present at the Meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the Register in respect of the joint holding.