Titan Petrochemicals Group Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 1192)

Announcement of Results for the Year Ended 31 December 2011

FINANCIAL HIGHLIGHTS

HK$ Million	**2011**	2010
Revenue		
– Continuing Operations	**2,108**	1,924
– Discontinued Operation	**89**	187
	2,197	2,111
Loss attributable to shareholders		
– Continuing Operations	**(570)**	(503)
– Discontinued Operation	**(213)**	(78)
	(783)	(581)

BUSINESS HIGHLIGHTS

– The continued bad markets in all business sectors, other than Onshore Storage, has had a continuing significant negative impact on Group results

– On 18 March 2012, the Group announced that Grand China Logistics Holding (Group) Company Limited ("Grand China") had not fulfilled its payment obligations in accordance with the agreed schedule and, therefore, the Shipyard Disposal transaction has not yet been consummated

– On 27 March 2012, the Group announced the appointment of Nomura International (Hong Kong) Limited as its sole financial adviser in connection with the restructuring and implementation of its refinancing plans

- Shanghai Futures Exchange awarded A* Standard Delivery Point status and designated an additional 50,000 cubic meters capacity at Nansha Terminal, bringing the total physical delivery terminal capacity to 300,000 cubic meters

- Fujian Terminal became the only dangerous liquid bonded storage in Quanzhou and also completed construction of Phase II comprised of 339,000 cubic meters of oil and products fuel oil storage tanks together with a 100,000 DWT jetty in August 2011

- Shanghai Yangshan Terminal completed construction of Phase II of its 47,000 cubic meters aviation kerosene and diesel oil tanks and started trial operations in March 2011

- JP Morgan recognises Shanghai Yangshan Terminal as a high standard storage facility with quality management

- Shandong Yantai Terminal began trial operations with 360,000 cubic meters and 2 jetties and it is currently one of China's national strategic oil reserve bases for crude oil

CHAIRMAN'S STATEMENT

On 18 March 2012, the Group announced that Grand China had not fully complied with its payment obligations under the sale and purchase agreement for the disposal of its 95% equity interest in Titan Quanzhou Shipyard Co. Ltd ("QZ Shipyard"). The Group has not yet received the residual payments and the payments for the subscription of 500,000,000 ordinary shares at HK$0.61 per subscription price (which has now lapsed) for approximately HK$898,307,000 and HK$305,000,000, respectively. These proceeds would have been sufficient to enable the Group to meet its debt repayment obligations in fixed rate guaranteed senior notes ("Senior Notes Due 2012") and the Company's convertible preferred shares.

In the above circumstances, the Group has been unable to repay the overdue principal and interest on the Senior Notes Due 2012 which were due on 19 March 2012 amounting to approximately HK$825,786,000 and approximately HK$35,092,000, respectively. As a result, a cross default was triggered in respect of a bilateral loan with a financial institution in the outstanding principal amount of approximately HK$10,140,000 and an early redemption event was also triggered in respect of the Company's and its jointly-controlled entity's convertible preferred shares.

Having given careful consideration to the future liquidity and performance of the Group and its available sources of finance, the Group have taken the following measures to mitigate the liquidity issues faced as well as to improve its financial position:

(i) Actively working to require Grand China to honor its obligations under the sale and purchase agreement;

(ii) Negotiating with potential strategic investors in respect of a possible equity investment in the Company;

(iii) Appointment of independent financial advisor(s) to restructure the debts and equity status of the Group;

(iv) Refinance the existing bank loans to match the Group's bank repayments when they fall due; and

(v) Review the Group's financial and operational position and take steps to improve cash flow management with a view to conserving productive assets and operations.

Results

The Group's revenue for the year 2011 was HK$2,197 million, which is a 4.1% increase compared to the prior year, and a 9.6% increase in continuing operations revenue over 2010. The Group's operations recorded losses before interest expenses, tax, depreciation and amortisation (LBITDA) of HK$209 million as compared to LBITDA of HK$120 million in 2010. The loss for the year was HK$783 million as compared to a loss of HK$580 million in 2010.

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

Financial Resources

The Group's cash position stood at HK$1,354 million, of which HK$1,132 million was pledged, as at 31 December 2011 compared to HK$506 million, of which HK$252 million was pledged, twelve months ago. The Group's gearing was 0.60 at the end of 2011, compared to 0.57 at the end of 2010.

General Business Review

Titan was listed on the Hong Kong Stock Exchange in 2002. Subsequently, we acquired an interest in the Fujian Terminal, started the floating storage unit ("FSU") business and entered into the oil and distribution market in Singapore. Over the years, the Group continued to expand its onshore terminal business by signing joint-venture contracts for the Shanghai Yangshan Terminal and the Nansha Terminal. We further expanded in this business sector by increasing our stakes in the Fujian Terminal and the Nansha Terminal to 100% in 2006 and 2008, respectively. Soon after Nansha Terminal commenced operations, it was recognised by the Shanghai Futures Exchange as a designated physical delivery point for its fuel oil.

We are one of the leading onshore storage terminals in China with over 2.7 million cubic meters strategically located along the coastline at Guangdong Nansha, Fujian Quanzhou, Shanghai Yangshan and Shandong Yantai. We will continue to focus on the storage businesses which have been seeing stable revenue growth.

In 2011, the Group operated seven FSUs and commercially managed one other in Singapore and Malaysia which permit ship-to-ship operations with fully laden very large crude carriers (VLCC) and have a combined capacity of 2.5 million cubic meters. It is important to also note that we were the first in Asia, and remain the only fleet to operate double-hulled FSUs.

Our Storage businesses have been affected by the global economic uncertainties, the tighter monetary policies implemented by the Chinese government in 2011, the social unrest in the Middle East and North Africa which resulted in an unforeseen oil price spike, and the continued volatile markets in oil prices. Despite this, our business plans for expansion of our storage terminals remain on track. By the end of 2011, we had become one of the largest independent onshore storage operators in China with a total operating capacity of over 2.7 million cubic meters. Developments in our onshore storage operations during the year included as follows:

- The Shanghai Futures Exchange designated an additional 50,000 cubic meters capacity at Nansha Terminal, bringing the total physical delivery terminal capacity to 300,000 cubic meters. Nansha was also awarded A* Standard Delivery Point status by the Exchange.

- Fujian Terminal, the only dangerous liquid bonded storage in Quanzhou, completed construction of Phase II comprised of 339,000 cubic meters of oil product and fuel oil storage tank facilities and a 100,000 DWT jetty which were put into trial operation in August 2011.

- Shandong Yantai Terminal, our newly established facility with a total of 360,000 cubic meters of operating capacity and 50,000 DWT and 5,000 DWT jetties, commenced operations in 2011. It is currently one of China's national strategic oil reserve bases for crude oil.

- Shanghai Yangshan Terminal, recognised by JP Morgan as a high standard storage facility with quality management, completed construction of Phase II for a total of 47,000 cubic meters of aviation kerosene and diesel oil tanks which started trial operations in March 2011.

Floating Storage Units (Offshore Storage)

Revenue for the year was HK$497 million as compared to HK$514 million in 2010 and the segment LBITDA slightly decreased to HK$50 million as compared to HK$53 million in the prior year.

By the end of 2011, the Group was operating seven FSUs with a total operating capacity of approximately 2.2 million cubic meters, as compared to five FSUs with approximately 1.6 million cubic meters which operated during the same period last year. We continued to be the leading FSU operator in Southeast Asia at the end of 2011. Our bonded storage business status in Malaysia and Singapore as well as having approval status as a designated physical delivery point by Platts, together with our ability to provide heating and blending services, allows Titan to continue to have an edge over competitors and cater to the demand standards of international oil trading companies.

China Terminals (Onshore Storage)

Revenue for our Onshore Storage business from China Terminals decreased by 3.7% to HK$192 million compared to HK$200 million in 2010 and segment earnings before interest expenses, tax, depreciation and amortisation (EBITDA) dropped from HK$156 million to HK$122 million during the year. This drop was mainly attributed to the oil price spike in mid-2011 which, in turn, resulted in lower utilisation rates, as well as the continued volatile market in oil prices.

In 2011, the overall utilisation rate for the Nansha Terminal dropped from 73% to 65% in contrast to 2010, with the average utilisation rate for fuel oil storage facilities decreasing to 64%, and the average utilisation rate for the chemical storage facilities dropping slightly to 73% as compared to 2010.

Overall, the average utilisation rate for the Fujian Terminal decreased from 89% to 77% in 2011 as compared to the same period last year, with the average utilisation rate for the chemical storage facilities dropping from 89% to 78%. During 2011, our Fujian chemical jetty recorded a total of up to 55 million tons, an increase of 35% as compared to last year, accounting for more than 70% of the total chemical movements in the region.

The average utilisation for the Shanghai Yangshan Terminal, consisting of 1,067,000 cubic meters storage capacity, reached 97%, a remarkable achievement in the short life of the operations.

The first phase of our newly established Shandong Yantai Terminal, consisting of 360,000 cubic meters of storage capacity together with a 50,000 DWT jetty and a 5,000 DWT jetty was completed and commenced operations in 2011 and achieved an utilisation rate of 43% by the end of the year. Despite being in trial operations, we have successfully secured a number of long term storage agreements. By mid-2011, the utilisation rate for our bonded storage of 100,000 cubic meters reached almost 100%. In order to meet the demands of valued customers, we successfully received approval to increase our bonded storage by 130,000 cubic meters thereby raising our bonded capacity to 230,000 cubic meters.

Transportation and Supply/Distribution

Revenues from transportation in 2011 totalled HK$351 million, an increase of 96.9% as compared to 2010. This increase was a result of the increase in the Group's transportation fleet capacity to a total of twelve vessels or 187,309 DWT.

During the year, we faced several challenges from high bunker prices and competition from new emerging owners in Malaysia, China, and Vietnam. However, we have continued to offer competitive and consistent quality services to our valued clients and our vessels have met all local and international requirements including those of the oil majors.

Revenues in our supply/distribution business increased by 3.4% to HK$1,067 million, however, the segment EBITDA decreased from HK$26 million to HK$4 million during the year.

Shipyard

Due to the adverse shipbuilding market conditions during the year, the revenues for the Shipyard were only HK$89 million as compare to HK$187 million in 2010 and segment LBITDA was HK$170 million as compared to HK$31 million in 2010.

During the year, the Shipyard continued with the construction work on bunker tankers and started ship repair work towards the end of the year. In March 2012, we successfully delivered two bunker tankers. As publicly announced on 18 March 2012, Grand China have not fulfilled its payment obligations in accordance with the agreed schedule and, therefore, the Shipyard Disposal transaction has not yet been consummated. The Group has been actively working with Grand China and will continue to seek to finalise the Shipyard Disposal transaction.

The Shipyard is a unique multifunctional facility that will be one of the largest ship repair, offshore engineering and specialized shipbuilding yards in Asia when fully operational. Since its shipbuilding operations began in 2007, the Shipyard has successfully delivered a total of sixteen vessels.

Outlook

The world economy continues to face exceptional uncertainties as it enters 2012 and market sentiments will most likely remain weak during the ensuring year. As previously announced, we face certain difficulties in our financial status due to the delays in consummation of the Shipyard Disposal transaction. We are now working diligently to seek optimum alternatives to resolve the situation in order to strengthen its financial position to meet the market needs and challenges in the future.

Despite the challenges ahead, Titan, will continue with the expansion of its core businesses at the opportune time in order to remain as one of the largest independent storage operators in China. In respect of these commercial activities, we will step up the Group's efforts to extend our reach to more international customers for our terminals and thereby pursue higher utilisation and seek to secure more long term leases. We believe our good strategic locations, together with a strong customer service culture, competitive pricing, a good safety track record, and high qualify terminal facilities will give us a competitive advantage in the medium term and in the long run.

Being one of the largest offshore facility operators in Southeast Asia, Titan will continue to offer both dirty and clean petroleum product storage services to our customers. We will also continue to work with customers who have a preferential demand for double-hulled FSUs and attract term leases by offering flexible and tailored storage solutions in order to meet customer needs.

Summary

We are aware that the mission ahead is full of challenges and obstacles, however, we will not be disheartened by the recent setbacks. With the support of our valuable customers, suppliers, bondholders and, most importantly, our shareholders, we are determined to recuperate from our current financial problems.

Tsoi Tin Chun
Chairman

Hong Kong, 11 May 2012

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Notes	**2011** **HK$'000**	2010 HK$'000
CONTINUING OPERATIONS			
Revenue	2	**2,108,012**	1,924,169
Cost of sales		**(2,312,382)**	(1,987,032)
Gross loss		**(204,370)**	(62,863)
Other revenue		**65,321**	18,776
Change in fair value of derivative financial instrument not qualifying as hedges		**103,682**	—
Gains on restructuring of fixed rate guaranteed senior notes	13	**—**	476,495
General and administrative expenses		**(208,742)**	(229,268)
Finance costs	5	**(342,138)**	(273,943)
Share of profits of associates, net		**22,778**	9,336
Losses on disposals of vessels, net		**—**	(446,649)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	6	**(563,469)**	(508,116)
Tax	7	**(6,292)**	6,076
Loss for the year from continuing operations		**(569,761)**	(502,040)
DISCONTINUED OPERATION			
Loss for the year from discontinued operation, shipbuilding	4	**(213,571)**	(78,348)
LOSS FOR THE YEAR		**(783,332)**	(580,388)
Attributable to:			
Owners of the Company		**(783,332)**	(580,800)
Non-controlling interests		**—**	412
		(783,332)	(580,388)
BASIC LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Continuing operations		**(HK7.31 cents)**	(HK7.11 cents)
Discontinued operation, shipbuilding		**(HK2.74 cents)**	(HK1.11 cents)
Total		**(HK10.05 cents)**	(HK8.22 cents)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
Loss for the year	**(783,332)**	(580,388)
Other comprehensive income:		
Exchange differences on translation of foreign operations	**161,931**	80,666
Gain on acquisition of non-controlling interests of a subsidiary	**—**	1,026
Other comprehensive income for the year, net of tax	**161,931**	81,692
Total comprehensive loss for the year, net of tax	**(621,401)**	(498,696)
Attributable to:		
Owners of the Company	**(621,401)**	(498,983)
Non-controlling interests	**—**	287
	(621,401)	(498,696)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,960,620**	2,745,611
Prepaid land/seabed lease payments		**435,137**	464,776
Licences	9	**21,133**	32,383
Goodwill	10	**434,571**	470,371
Interests in associates		**324,768**	330,647
Deposits for construction in progress		**8,273**	155,887
Total non-current assets		**4,184,502**	4,199,675
CURRENT ASSETS			
Bunker oil		**36,846**	48,196
Inventories		**2,891**	12,506
Accounts receivable	11	**83,501**	81,424
Prepayments, deposits and other receivables		**170,724**	463,535
Amount due from a jointly-controlled entity		**25,184**	—
Contracts in progress		**—**	10,104
Pledged deposits and restricted cash		**1,124,918**	243,997
Cash and cash equivalents		**159,782**	182,280
		1,603,846	1,042,042
Assets of a disposal group classified as held for sale	4	**4,834,243**	4,275,495
Total current assets		**6,438,089**	5,317,537
CURRENT LIABILITIES			
Interest-bearing bank loans		**1,609,849**	801,061
Accounts and bills payable	12	**469,839**	205,421
Other payables and accruals		**1,321,970**	650,758
Amount due to a jointly-controlled entity		**12,303**	—
Fixed rate guaranteed senior notes	13	**844,690**	—
Liability portion of convertible preferred shares		**363,176**	—
Notes payable		**197,464**	191,341
Tax payable		**18,458**	11,885
		4,837,749	1,860,466
Liabilities directly associated with the assets classified as held for sale	4	**2,843,577**	2,225,014
Total current liabilities		**7,681,326**	4,085,480
NET CURRENT ASSETS/(LIABILITIES)		**(1,243,237)**	1,232,057
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,941,265**	5,431,732

	Notes	**2011** **HK$'000**	2010 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		**889,688**	1,506,873
Fixed rate guaranteed senior notes	13	**—**	840,333
Guaranteed senior convertible notes	14	**328,215**	408,734
Guaranteed senior payment-in-kind notes	15	**84,483**	84,360
Liability portion of convertible preferred shares	16	**398,932**	719,331
Liability portion of convertible unsecured notes	17	**92,901**	83,081
Deferred tax liabilities		**40,455**	45,618
Total non-current liabilities		**1,834,674**	3,688,330
Net assets		**1,106,591**	1,743,402
EQUITY			
Equity attributable to owners of the Company			
Issued capital	18	**78,206**	77,667
Equity portion of convertible preferred shares	16	**75,559**	75,559
Reserves		**390,728**	980,062
		544,493	1,133,288
Equity portion of convertible unsecured notes in a jointly-controlled entity	17	**85,015**	92,277
Contingently redeemable equity in a jointly-controlled entity	16	**477,083**	517,837
Total equity		**1,106,591**	1,743,402

Notes to Financial Statements

1.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. All the assets and liabilities as at 31 December 2011 included in the disposal group classified as held for sale, representing the shipbuilding and building of ship repair facilities operations, were stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 4. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern basis

During the year ended 31 December 2011, the Company and its subsidiaries (the "Group") incurred losses of HK$783,332,000 and, as of the date, the Group and the Company had net current liabilities of HK$1,243,237,000 and HK$2,131,051,000 respectively. In addition, aggregate outstanding interest-bearing bank loans in continuing operations of HK$1,609,849,000 were due for payment within the next twelve months after 31 December 2011 of which RMB111,000,000 (approximately HK$137,407,000) fell due as at 31 December 2011.

Due to the failure of Grand China Logistics Holding (Group) Company Limited ("Grand China") to comply with its payment obligations under the sale and purchase agreement regarding the disposal of the Group's 95% equity interest in Titan Quanzhou Shipyard Co., Ltd ("QZ Shipyard"), the Company has not received, at the date of this announcement, the outstanding obligations of stage payments of an aggregate of RMB725,670,000 (approximately of HK$898,307,000) and the payments for the subscription for 500,000,000 ordinary shares at the subscription price of HK$0.61 per share for an aggregate amount of HK$305,000,000 (the latter of which has now lapsed).

These proceeds would have been sufficient to enable the Company to meet its debt repayment obligations in fixed rate guaranteed senior notes ("Senior Notes Due 2012") and the Company's convertible preferred shares, which become redeemable at the election of the holder or the Company at any time from 22 June 2012.

In these circumstances, the Company was unable to repay overdue principal and interest on the Senior Notes Due 2012 of US$105,870,000 (approximately HK$825,786,000) and US$4,499,000 (approximately HK$35,092,000) which became due on 19 March 2012. As a result, a cross default was also triggered in respect of a bilateral loan with a financial institution in an outstanding principal amount of US$1,300,000 (approximately HK$10,140,000) and an early redemption event was also triggered in respect of the Company's and Titan Group Investment Limited ("TGIL")'s convertible preferred shares as set out in note 19.

The above conditions raise uncertainty about the Group's ability to continue as a going concern. In view of such circumstance, the directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

The directors of the Company have taken the following measures to mitigate the liquidity issues faced by the Group and the Company and improve its financial position which include, but are not limited to, the following:

(i) The Company's management is actively working to require Grand China to honor its obligations under the sale and purchase agreement;

(ii) The Company is in negotiations with potential strategic investors in respect of a possible equity investment in the Company which may result in a change in control of the Company;

(iii) The Company has appointed an independent financial advisor, Nomura International (Hong Kong) Limited, to advise the restructuring of its debts and equity structure to help the Group to return to a solvent position and continue with the development and enhancement of its businesses;

(iv) The Company has appointed FTI (Hong Kong) Limited to undertake a realisation analysis;

(v) The Company has reviewed the Group's financial and operational position, and is taking steps to improve cash flow management of the Group with a view to conserve its productive assets and operations; and

(vi) The Company intends to refinance the existing bank loans to match the Group's bank repayments when they fall due.

Based on the aforesaid factors, the directors of the Company consider that the Group will have sufficient working capital to finance its operations and/or settle or arrange its financial obligations upon the collection of outstanding balance of stage payments for QZ Shipyard disposal and the successful implementation of debts restructuring and, accordingly, are satisfied that it is appropriate to prepare the financial statements on a going concern basis. On this basis, the consolidated financial statements do not include any adjustments relating to the carrying amounts and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive loss within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits/accumulated losses, as appropriate.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements:

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly-controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent considerations do not apply to contingent considerations that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net asset in the event of liquidation are measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also adds explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements:* The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group has elected to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements:* The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

2. REVENUE

Revenue, under continuing operations, represents the gross income from offshore oil storage and onshore storage services, gross freight income from the provision of oil transportation services, net invoiced value of oil products sold (after allowances for returns and trade discounts) and income from the provision of bunker refueling services, while gross income from shipbuilding is included under the revenue of discontinued operation, shipbuilding as set out in note 4. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and are principally engaged in (a) provision of logistic services (including offshore oil storage, onshore storage and oil transportation); and (b) supply of oil products and provision of bunker refueling services. In 2010, the Group discontinued its shipbuilding operation.

Management monitors the results of its operating segments separately for the purposes of making decisions about resource allocations and performance assessments. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from continuing operations. The adjusted profit/(loss) before tax from continuing operations is measured consistently with the Group's profit/(loss) before tax from continuing operations except that interest income, other gains, finance costs, as well as head office and corporate expenses are excluded from such measurement.

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.

	Provision of logistic services															
	Offshore oil storage		Onshore storage		Oil transportation		Supply of oil products and provision of bunker refueling services		Total continuing operations		Discontinued operation, shipbuilding		Adjustments and eliminations		Consolidated	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue																
— Revenue from external customers	**497,450**	514,388	**192,126**	199,610	**351,460**	178,514	**1,066,976**	1,031,657	**2,108,012**	1,924,169	**89,021**	187,330	**—**	—	**2,197,033**	2,111,499
— Intersegment revenue	**—**	—	**—**	—	**—**	—	**224,117**	129,025	**224,117**	129,025	**—**	—	**(224,117)***	(129,025)*	**—**	—
Total	**497,450**	514,388	**192,126**	199,610	**351,460**	178,514	**1,291,093**	1,160,682	**2,332,129**	2,053,194	**89,021**	187,330	**(224,117)**	(129,025)	**2,197,033**	2,111,499
Segment results	**(133,791)**	(89,093)	**27,750**	83,569	**(191,779)**	(146,187)	**3,237**	26,106	**(294,583)**	(125,605)	**(207,899)**	(68,138)	**—**	—	**(502,482)**	(193,743)
Adjusted for:																
— Interest income and other revenue	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**137**	617	**35,486**	482,779	**35,623**	483,396
— Other expenses	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**(88,694)**	(154,034)	**(88,694)**	(154,034)
Share of profits/(losses) of associates, net	**—**	—	**22,877**	9,160	**—**	—	**(99)**	176	**22,778**	9,336	**—**	—	**—**	—	**22,778**	9,336
	(133,791)	(89,093)	**50,627**	92,729	**(191,779)**	(146,187)	**3,138**	26,282	**(271,805)**	(116,269)	**(207,762)**	(67,521)	**(53,208)**	328,745	**(532,775)**	144,955
Add: Depreciation and amortisation	**83,509**	36,325	**71,489**	63,268	**14,869**	31,867	**379**	165	**170,246**	131,625	**37,505**	36,784	**12,336**	12,818	**220,087**	181,227
Operating EBITDA/ (LBITDA)	**(50,282)**	(52,768)	**122,116**	155,997	**(176,910)**	(114,320)	**3,517**	26,447	**(101,559)**	15,356	**(170,257)**	(30,737)	**(40,872)**	341,563	**(312,688)**	326,182
Losses on disposals of vessels, net	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	(446,649)	**—**	(446,649)
Change in fair value of derivative financial instrument not qualifying as hedges	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**103,682**	—	**103,682**	—
EBITDA/(LBITDA)	**(50,282)**	(52,768)	**122,116**	155,997	**(176,910)**	(114,320)	**3,517**	26,447	**(101,559)**	15,356	**(170,257)**	(30,737)	**62,810**	(105,086)	**(209,006)**	(120,467)
Depreciation and amortisation	**(83,509)**	(36,325)	**(71,489)**	(63,268)	**(14,869)**	(31,867)	**(379)**	(165)	**(170,246)**	(131,625)	**(37,505)**	(36,784)	**(12,336)**	(12,818)	**(220,087)**	(181,227)
Finance costs	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**(5,809)**	(10,827)	**(342,138)**	(273,943)	**(347,947)**	(284,770)
Profit/(loss) before tax	**(133,791)**	(89,093)	**50,627**	92,729	**(191,779)**	(146,187)	**3,138**	26,282	**(271,805)**	(116,269)	**(213,571)**	(78,348)	**(291,664)**	(391,847)	**(777,040)**	(586,464)

* Intersegment revenues are eliminated on consolidation.

	Provision of logistic services													
	Offshore oil storage		Onshore storage		Oil transportation		Supply of oil products and provision of bunker refueling services		Total continuing operation		Discontinued operations, shipbuilding		Consolidated	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other segment information														
Depreciation and amortisation	**83,509**	36,325	**71,489**	63,268	**14,869**	31,867	**379**	165	**170,246**	131,625	**37,505**	36,784	**207,751**	168,409
Unallocated depreciation and amortisation									**12,336**	12,818	**—**	—	**12,336**	12,818
									182,582	144,443	**37,505**	36,784	**220,087**	181,227
Capital expenditures	**109,784**	101,736	**392,584**	480,582	**9,770**	133,948	**2,023**	15	**514,161**	716,281	**498,887**	815,678	**1,013,048**	1,531,959
Unallocated capital expenditures									**2,299**	339	**—**	—	**2,299**	339
									516,460	716,620	**498,887**	815,678	**1,015,347**	1,532,298
Impairment/(reversal of impairment) of accounts receivable	**—**	1,451	**—**	—	**(412)**	1,933	**(33)**	—	**(445)**	3,384	**—**	—	**(445)**	3,384
Unallocated impairment/ (reversal of impairment) of accounts receivable									**(223)**	157	**—**	—	**(223)**	157
									(668)	3,541	**—**	—	**(668)**	3,541
Unallocated impairment of property, plant and equipment									**—**	3,822	**—**	—	**—**	3,822

Geographical information

	Mainland China		Other Asia Pacific countries		Consolidated	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
(a) Revenue						
Revenue from external customers	**1,317,161**	1,397,985	**879,872**	713,514	**2,197,033**	2,111,499
Attributable to discontinued operation, shipbuilding	**(89,021)**	(187,330)	**—**	—	**(89,021)**	(187,330)
Revenue from continuing operations	**1,228,140**	1,210,655	**879,872**	713,514	**2,108,012**	1,924,169
(b) Other information						
Segment non-current assets	**4,015,116**	4,008,935	**31,441**	51,627	**4,046,557**	4,060,562
Unallocated non-current assets					**137,945**	139,113
					4,184,502	4,199,675
Capital expenditures	**893,665**	1,296,275	**2,128**	375	**895,793**	1,296,650
Unallocated capital expenditures					**119,554**	235,648
					1,015,347	1,532,298
Impairment/(reversal of impairment) of accounts receivable	**—**	—	**(668)**	3,541	**(668)**	3,541
Impairment of property, plant and equipment	**—**	—	**—**	3,822	**—**	3,822

The revenue information above is based on the location of the customers. The other information is based on the location of the assets and impairment of accounts receivable recorded/reversed.

Information about major customers

Revenues of approximately HK$463,612,000 from a single customer reported under the supply of oil products and provision of bunker refueling services segment exceeded 10% of the Group's total revenue.

4. DISCONTINUED OPERATION, SHIPBUILDING

On 11 December 2010, the Company entered into (i) a sale and purchase agreement in relation to the disposal of its 95% equity interest in QZ Shipyard; (ii) a subscription agreement in relation to the issue of subscription shares to Grand China; and (iii) a management agreement in relation to the engagement of the Company to manage the business operations of QZ Shipyard for the term commencing from the completion of the sale and purchase agreement until 31 December 2012. The consideration for the proposed disposal is RMB1,865,670,000 (approximately HK$2,309,513,000) or a maximum reduced consideration of RMB1,465,670,000 (approximately HK$1,814,353,000) if QZ Shipyard's profit targets for the two years ending 31 December 2012 are not met.

While the requisite regulatory and shareholder approvals for the first two stage payments (totaling RMB800,000,000 (approximately HK$990,320,000) have been obtained, as at the date of this announcement, only RMB740,000,000 (approximately HK$916,050,000) has been received and the equity interests of QZ Shipyard have not been transferred to Grand China.

As at 31 December 2011 and 2010, the assets and liabilities related to the discontinued operation, shipbuilding, are presented in the consolidated statement of financial position as "Assets of a disposal group classified as held for sale" and "Liabilities directly associated with the assets classified as held for sale" and the results for the years ended 31 December 2011 and 2010 are presented separately in the consolidated income statement as "Loss for the year from discontinued operation, shipbuilding".

The results of QZ Shipyard for the year are presented below.

	Notes	**2011** **HK$'000**	2010 HK$'000
Revenue	2	**89,021**	187,330
Cost of sales		**(196,657)**	(222,690)
Gross loss		**(107,636)**	(35,360)
Other revenue		**638**	1,128
General and administrative expenses		**(100,764)**	(33,289)
Finance costs	5	**(5,809)**	(10,827)
Loss before tax		**(213,571)**	(78,348)
Tax	7	**—**	—
Loss for the year from discontinued operation, shipbuilding		**(213,571)**	(78,348)

The major classes of assets and liabilities of QZ Shipyard classified as held for sale as at 31 December 2011 and 2010 are as follows:

	2011	2010
	HK$'000	HK$'000
Assets:		
Property, plant and equipment	**3,099,607**	2,515,315
Prepaid land/seabed lease payments	**516,477**	513,827
Goodwill	**570,618**	570,618
Inventories	**133,671**	136,742
Accounts receivable	**98,540**	285,719
Prepayments, deposits and other receivables	**142,362**	136,165
Contracts in progress	**203,876**	37,364
Pledged deposits and restricted cash	**7,466**	8,302
Cash and cash equivalents	**61,626**	71,443
Assets of a disposal group classified as held for sale	**4,834,243**	4,275,495
Liabilities:		
Interest-bearing bank loans	**2,338,177**	1,482,125
Accounts and bills payable	**92,701**	55,846
Other payables and accruals	**300,519**	574,863
Deferred tax liabilities	**112,180**	112,180
Liabilities directly associated with the assets classified as held for sale	**2,843,577**	2,225,014
Net assets directly associated with the disposal group	**1,990,666**	2,050,481

The net cash flows incurred by QZ Shipyard are as follows:

	2011	2010
	HK$'000	HK$'000
Operating activities	**(296,703)**	346,647
Investing activities	**(492,091)**	(785,629)
Financing activities	**781,397**	294,123
Net cash outflow	**(7,397)**	(144,859)

5. FINANCE COSTS

	Group	
	2011	2010
	HK$'000	HK$'000
Interest on:		
Bank loans wholly repayable within five years	**99,077**	69,012
Bank loans not wholly repayable within five years	**175,001**	128,923
Senior Notes Due 2012	**74,549**	75,249
Guaranteed senior convertible notes ("Convertible Notes Due 2015")	**52,754**	16,472
Guaranteed senior payment-in-kind notes ("PIK Notes Due 2015")	**7,842**	4,288
Notes payable ("K Line Notes Due 2013")	**6,124**	6,003
Convertible unsecured notes ("TGIL Notes Due 2014")	**17,149**	14,817
Dividends on convertible preferred shares:		
Titan preferred shares	**37,855**	35,225
TGIL preferred shares	**37,721**	39,000
Other finance costs	**5,841**	10,818
Total interest expenses	**513,913**	399,807
Less: Interest capitalised	**(165,966)**	(115,037)
	347,947	284,770
Attributable to continuing operations	**342,138**	273,943
Attributable to discontinued operation, shipbuilding (note 4)	**5,809**	10,827
	347,947	284,770

6. LOSS BEFORE TAX

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

	Group	
	2011	2010
	HK$'000	HK$'000
Depreciation	**205,266**	174,226
Amortisation of prepaid land/seabed lease payments	**3,571**	4,485
Amortisation of licences	**11,250**	2,516
Bank interest income	**(27,885)**	(4,750)

7. TAX

Taxes on profits have been calculated at the rates of tax prevailing in the jurisdictions where the Group operates.

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

	2011	2010
Hong Kong	**16.5%**	16.5%
Singapore	**17.0%**	17.0%
Mainland China	**25.0%**	25.0%

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

Singapore
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 is 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 current and prior year.

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

	Group	
	2011	2010
	HK$'000	HK$'000
Hong Kong:		
Current charge for the year	**—**	—
Elsewhere:		
Current charge for the year	**5,023**	455
Underprovision/(Overprovision) in prior years	**3,227**	(6,531)
	8,250	(6,076)
Deferred taxation	**(1,958)**	—
Total tax charge/(credit) for the year, continuing operations	**6,292**	(6,076)

8. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share is based on the total consolidated loss for the year attributable to ordinary equity holders of the Company of HK$783,332,000 (2010: HK$580,800,000) represented by the loss from continuing operations of HK$569,761,000 (2010: HK$502,452,000) and the loss from discontinued operation, shipbuilding of HK$213,571,000 (2010: HK$78,348,000), and the weighted average of 7,798,175,987 (2010: 7,068,392,864) ordinary shares in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2011 and 2010 in respect of a dilution as the share options, Convertible Notes Due 2015, warrants and convertible preferred shares outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

9. LICENCES

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

10. GOODWILL

As at 31 December 2011, no impairment provisions have been made against the goodwill arising from the acquisitions of the oil supply business, onshore storage businesses or the shipbuilding and ship repair businesses.

11. 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 are no significant concentrations of credit risk. Accounts receivable are non-interest-bearing.

An aged analysis of accounts receivable as at the end of the reporting period, based on the dates of recognition of the sales and net of provisions, is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
1 to 3 months	**57,019**	49,957
4 to 6 months	**19,211**	6,081
7 to 12 months	**5,058**	8,214
Over 12 months	**2,213**	17,172
	83,501	81,424

12. ACCOUNTS AND BILLS PAYABLE

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers. Accounts and bills payable are non-interest-bearing.

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

	Group	
	2011	2010
	HK$'000	HK$'000
1 to 3 months	**176,942**	71,317
4 to 6 months	**109,681**	67,877
7 to 12 months	**101,767**	49,235
Over 12 months	**81,449**	16,992
	469,839	205,421

13. FIXED RATE GUARANTEED SENIOR NOTES ("SENIOR NOTES DUE 2012")

The Company issued the Senior Notes Due 2012 in the aggregate principal amount of US$400 million (equivalent to approximately HK$3,120 million) on 17 March 2005. The Senior Notes Due 2012 bear interest at the rate of 8.5% per annum, payable semi-annually in arrears on 18 March and 18 September each year, commencing on 18 September 2005, and are listed on the Singapore Exchange Securities Trading Limited.

On 28 July 2010 (27 July 2010, New York City Time), the Company issued US$78,728,000 (approximately HK$614,078,000) aggregate principal amount of Convertible Notes Due 2015 and US$14,193,000 (approximately HK$110,705,000) aggregate principal amount of PIK Notes Due 2015, and paid US$43,154,940 (approximately HK$336,609,000) in cash, in exchange for an aggregate principal amount of Senior Notes Due 2012 for US$209,490,000 (approximately HK$1,634,022,000). As a result, the Company recognised a gain on the restructuring of Senior Notes Due 2012 of HK$476,495,000 in 2010.

At 31 December 2011, the effective interest rate on the Senior Notes Due 2012 was 9.27% per annum. The outstanding principal of the Senior Notes Due 2012 as at 31 December 2011 and 2010 were US$105,870,000 (approximately HK$825,786,000), while the fair value of the Senior Notes Due 2012 as at 31 December 2011 and 2010 was US$75,962,000 (approximately HK$592,504,000) and US$66,698,000 (approximately HK$520,244,000) respectively.

The Senior Notes Due 2012 was due for repayment on 19 March 2012 and, therefore, are classified as current liabilities as at 31 December 2011. On 19 March 2012 and as of the date of this announcement, the Company was unable to repay such Senior Notes Due 2012. Further details are set out in note 19.

14. GUARANTEED SENIOR CONVERTIBLE NOTES ("CONVERTIBLE NOTES DUE 2015")

The Company issued US$78,728,000 (approximately HK$614,078,000) aggregate principal amount of Convertible Notes Due 2015 on 28 July 2010 (27 July 2010, New York City Time) in exchange for tendered Senior Notes Due 2012. The Convertible Notes Due 2015 are due on 13 July 2015 with a single repayment at 151.621% of its principal amount, unless earlier redeemed, repurchased or purchased by the Company or converted. The Convertible Notes Due 2015 bear no interest, and are listed on the Singapore Exchange Securities Trading Limited. Holders of the Convertible Notes Due 2015 are entitled to convert their Convertible Notes Due 2015 with a minimum principal amount of US$1,000 or integral multiples of US$500 in excess thereof based on an initial conversion rate of 10,915 conversion shares per US$1,000 in principal amount of Convertible Notes Due 2015, subject to adjustments.

During the year, Convertible Notes Due 2015 with an aggregate principal amount of US$3,991,000 (approximately HK$31,130,000) (2010: US$16,680,000 (approximately HK$130,104,000)) was converted into 43,561,764 ordinary shares (2010: 182,062,197) of HK$0.01 each in the Company at the conversion price of approximately US$0.0916 (approximately HK$0.7145) per share.

In prior year, an aggregate principal amount of US$10,097,000 (approximately HK$78,757,000) were repurchased by the Company at an aggregate consideration of US$9,782,000 (approximately HK$76,299,000).

The Convertible Notes Due 2015 comprise a financial liability at amortised cost and an embedded derivative. The effective interest rate on the Convertible Notes Due 2015 was 18.66% per annum. At 31 December 2011 and 2010, the fair value of the embedded derivative liability was HK$27,212,000 and HK$123,632,000 respectively.

At 31 December 2011, the outstanding principal and fair value of the Convertible Notes Due 2015 was US$47,960,000 (approximately HK$374,088,000) and US$18,033,000 (approximately HK$140,657,000), respectively. At 31 December 2010, the outstanding principal and fair value of the Convertible Notes Due 2015 was US$51,951,000 (approximately HK$405,218,000) and US$50,285,000 (approximately HK$392,223,000), respectively.

15. GUARANTEED SENIOR PAYMENT-IN-KIND NOTES ("PIK NOTES DUE 2015")

The Company issued US$14,193,000 (approximately HK$110,705,000) aggregate principal amount of PIK Notes Due 2015 on 28 July 2010 (27 July 2010, New York City Time) in exchange for tendered Senior Notes Due 2012. The PIK Notes Due 2015 are due on 13 July 2015 with a single repayment of the principal, unless earlier repurchased pursuant to the terms of the PIK Notes indenture. The PIK Notes Due 2015 bear interest at the rate of 8.5% per annum payable semi-annually in arrears commencing on 13 January 2011 either by cash or in the form of additional PIK Notes Due 2015, and are listed on the Singapore Exchange Securities Trading Limited.

During the year, PIK Notes Due 2015 with an aggregate principal amount of US$1,040,000 (approximately HK$8,112,000) (2010: US$3,539,500 (approximately HK$27,608,000)) were repurchased by the Company at an aggregate consideration of US$1,040,000 (approximately HK$8,112,000) (2010: US$3,448,000 (approximately HK$26,893,000)).

The PIK Notes Due 2015 are carried at amortised cost with an effective interest rate of 11.03% per annum. At 31 December 2011 and 2010, the outstanding principal of the PIK Notes Due 2015 was US$10,467,868 (approximately HK$81,649,000) and US$10,653,500 (approximately HK$83,097,000) respectively.

16. CONVERTIBLE PREFERRED SHARES

In 2007, the Company issued 555,000,000 Titan preferred shares at the stated value of HK$0.56 per share and TGIL, a jointly-controlled entity, issued HK$780,000,000 (US$100,000,000) TGIL preferred shares. The fair values of the liability portion of Titan preferred shares and TGIL preferred shares were estimated at the issuance date. The residual amount of Titan preferred shares and TGIL preferred shares were assigned as the equity portion and included in shareholders' equity of the Company and contingently redeemable equity in a jointly-controlled entity, respectively.

17. CONVERTIBLE UNSECURED NOTES ("TGIL NOTES DUE 2014")

On 14 July 2009, the Company, Titan Oil Storage Investment Limited ("TOSIL"), Warburg Pincus and TGIL entered into an agreement by which TOSIL and Warburg Pincus became entitled to provide, pro rata to their shareholdings in TGIL, funding of up to HK$312,600,000 (approximately US$40,100,000) through the subscription of TGIL Notes Due 2014. On the same date, Warburg Pincus exercised its option to subscribe for TGIL Notes Due 2014 in the principal amount of HK$156,000,000 (US$20,000,000). The residual amount of HK$85,015,000 of TGIL Notes Due 2014 was assigned as the equity portion and was included in the equity portion of convertible unsecured notes in a jointly-controlled entity.

On 13 January 2011, TOSIL exercised its right to subscribe for TGIL Notes Due 2014 in the principal amount of HK$156,600,000 (approximately US$20,100,000) and the subscription was completed when the relevant TGIL Notes Due 2014 were issued on 21 January 2011. Further details are included in the Company's announcement dated 13 January 2011.

The liability portion of TGIL Notes Due 2014 comprise a financial liability at amortised cost and an embedded derivative. As at 31 December 2011, the fair value of the embedded derivative liability was HK$348,000 (2010: HK$348,000).

18. SHARE CAPITAL

During the year, Convertible Notes Due 2015 with an aggregate principal amount of US$3,991,000 (approximately HK$31,130,000) (2010: US$16,680,000 (approximately HK$130,104,000)) were converted into 43,561,764 ordinary shares (2010: 182,062,197) of HK$0.01 each in the Company at the conversion price of approximately US$0.0916 (approximately HK$0.7145) per share.

During the year, certain share options granted on 1 February 2008 were exercised for 10,260,000 ordinary shares of a par value of HK$0.01 each at an exercise price of HK$0.45 per share.

19. EVENTS AFTER THE REPORTING PERIOD

On 19 March 2012 and as of the date of this announcement, the Company was unable to repay overdue principal and interest on the Senior Notes Due 2012 of US$105,870,000 (approximately HK$825,786,000) and US$4,499,000 (approximately HK$35,092,000) respectively. The failure to repay the Senior Notes Due 2012 will not, in and itself, constitute an event of default under the PIK Notes Due 2015 and the Convertible Notes Due 2015. However, actions taken by creditors or the trustee of the Senior Notes Due 2012 to enforce the security over the Senior Notes Due 2012, as well as any actions taken by creditors of the Company, could result in the acceleration of the requirement to pay the PIK Notes Due 2015 and the Convertible Notes Due 2015. A cross default was also triggered in respect of a bilateral loan with a financial institution in an outstanding principal amount of US$1,300,000 (approximately HK$10,140,000) and an early redemption event was also triggered in respect of the Company's and TGIL's convertible preferred shares.

On 2 May 2012, Warburg Pincus, the other shareholder of the jointly-controlled entity, fully exercised its warrant on the ordinary shares of TGIL. Upon exercise, the shareholding interest in TGIL held by the Group dropped from 50.1% to 49.9%.

Further details in respect of the above are included in the Company's announcements dated 18 March 2012 and 6 May 2012.

LIQUIDITY, FINANCIAL RESOURCES, CHARGES ON ASSETS AND GEARING

The Group finances its operations largely through internally generated resources, term loans and trade finance facilities provided by banks in Hong Kong, Singapore and Mainland China. As at 31 December 2011,

a) The Group had:

- Cash and bank balances of HK$222 million (2010: HK$254 million) of which HK$62 million (2010: HK$72 million) was from the discontinued operation; pledged deposits and restricted cash of HK$1,132 million (2010: HK$252 million) of which HK$7 million (2010: HK$8 million) was from the discontinued operation. These were comprised of:

  – an equivalent of HK$38 million (2010: HK$56 million of which HK$15 million was from the discontinued operation), denominated in US dollars

  – an equivalent of HK$1 million (2010: HK$2 million) denominated in Singapore dollars

  – an equivalent of HK$1,313 million (2010: HK$445 million) of which HK$69 million (2010: HK$65 million) was from the discontinued operation, denominated in RMB

  – HK$2 million (2010: HK$3 million) in Hong Kong dollars

- Interest-bearing bank loans of HK$4,838 million (2010: HK$3,790 million), of which HK$544 million (2010: HK$18 million) were floating rate loans denominated in US dollars. The Group's bank loans have maturities within one year was HK$3,948 million (2010: HK$2,283 million) of which HK$2,338 million (2010: HK$1,482 million) was from the discontinued operation.

b) The Group's banking and other facilities, including those classified as held for sale were secured or guaranteed by:

- Construction in progress with an aggregate carrying value of HK$902 million (2010: HK$716 million)

- Bank balances and deposits of HK$1,065 million (2010: HK$135 million)

- Machinery with an aggregate net carrying value of HK$218 million (2010: HK$194 million)

- Buildings with an aggregate net carrying value of HK$480 million (2010: HK$443 million)

- Prepaid land/seabed lease payments with an aggregate net carrying value of HK$915 million (2010: HK$945 million)

- Storage facilities with an aggregate net carrying value of HK$1,563 million (2010: HK$1,384 million)

- Accounts receivable with an aggregate carrying value of HK$56 million in 2010 but such security was released in 2011.

- Corporate guarantees executed by the Company

- Personal guarantees executed by a related party and a director of the Company

c) The Senior Notes Due 2012 of HK$845 million (2010: HK$840 million), the Convertible Notes Due 2015 of HK$328 million (2010: HK$409 million) and the PIK Notes Due 2015 of HK$84 million (2010: HK$84 million) were secured by the shares of certain subsidiaries.

d) The Group, including those classified as held for sale, had the following:

- Current assets of HK$6,438 million (2010: HK$5,318 million) and total assets of HK$10,623 million (2010: HK$9,517 million) of which HK$4,834 million was from the discontinued operation

- Total bank loans of HK$4,838 million (2010: HK$3,790 million) of which HK$2,338 million (2010: HK$1,482 million) was from the discontinued operation

- Senior Notes Due 2012 of HK$845 million (2010: HK$840 million)

- Convertible Notes Due 2015 as a non-current liability to the extent of the liability portion of HK$328 million (2010: HK$409 million)

- PIK Notes Due 2015 of HK$84 million (2010: HK$84 million)

- Convertible preferred shares as a current liability to the extent of the liability portion of HK$363 million and as a non-current liability to the extent of the liability portion of HK$399 million (2010: a non-current liability of HK$719 million)

- K Line Notes Due 2013 as a current liability to the extent of the liability portion of HK$216 million (2010: HK$210 million)

- TGIL Notes Due 2014 as a non-current liability to the extent of the liability portion of HK$92 million (2010: HK$83 million)

The Group's current ratio was 0.84 (2010: 1.30). The gearing of the Group, calculated as the total bank loans, Senior Notes Due 2012, Convertible Notes Due 2015, PIK Notes Due 2015, K Line Notes Due 2013 and TGIL Notes Due 2014 to total assets, has increased to 0.60 (2010: 0.57).

e) The Group operates in Hong Kong, Singapore and Mainland China and primarily uses US dollars for its businesses in Singapore, Renminbi for the storage business in Mainland China and Hong Kong dollars in Hong Kong for both income and expenses. Therefore, the Group's foreign currency exposures are minimal in view of the natural hedge between costs and revenues. The Group has not used any financial instruments for speculative purposes.

CONTINGENT LIABILITIES

At 31 December 2011, the banking facilities granted to certain subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of HK$10 million (2010: HK$19 million).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2011, the Company and its subsidiaries had approximately 1,140 employees (2010: 1,311), of which approximately 509 employees (2010: 584) were working in Mainland China, and 631 employees (2010: 727) were based in Singapore and Hong Kong. Included in those working in Mainland China, approximately 494 employees (2010: 543) are from QZ Shipyard. In addition, the jointly-controlled entity for onshore storage also had approximately 399 employees (2010: 247) in Mainland China. Remuneration packages, including basic salaries, bonuses and benefits-in-kind, are structured by reference to market terms and individual merit and are reviewed on an annual basis based on performance appraisals. No share options were granted to employees of the Group during the year.

AUDITORS' OPINION

The auditor's opinion on the Group's financial statements for the year ended 31 December 2011 as follows:

"BASIS FOR DISCLAIMER OF OPINION

Uncertainties relating to going concern

As set out in note 1.1 to the consolidated financial statements concerning the adoption of the going concern basis on which the financial statement have been prepared, the Group incurred a loss of HK$783,332,000 for the year ended 31 December 2011 and, as of that date, the Group's and the Company's current liabilities exceed its current assets by HK$1,243,237,000 and HK$2,131,051,000 respectively. In addition, the Group was in default to repay certain secured bank borrowings of RMB111,000,000 (approximately HK$137,407,000) as at the year end. Subsequent to the year end, the Company was unable to repay the overdue principal and interest of the Senior Notes Due 2012 of US$105,870,000 (approximately HK$825,786,000) and US$4,499,000 (approximately HK$35,092,000) which were due on 19 March 2012. As a result, a cross default was also triggered in respect of a bilateral loan with a financial institution in an outstanding principal amount of US$1,300,000 (approximately HK$10,140,000).

As set out in note 1.1 to the consolidated financial statements, Grand China Logistics Holding (Group) Company Limited ("Grand China") has failed to comply with its payment obligations relating to the sale and purchase agreement for the Group's disposal of its 95% equity interest in Titan Quanzhou Shipyard Company Limited ("QZ Shipyard") at a consideration of RMB1,865,670,000 (approximately HK$2,309,513,000) or a maximum reduced consideration of RMB1,465,670,000 (approximately HK$1,814,353,000) if QZ Shipyard's profit targets for the two years ending 31 December 2012 are not met. At the date of approval of the consolidated financial statements, the Company had not received the balances of the stage payments in the aggregate amount of RMB725,670,000 (approximately of HK$898,307,000) that were due in accordance with the terms of the agreement and, accordingly, the equity interests in QZ Shipyard have not been transferred to Grand China. As further explained in that note, the ability of the Group to meet its debt repayment obligations for the Senior Notes due on 19 March 2012 and the Company's preferred shares redeemable on 22 June 2012 (at the election of the holder or the Company), based on the current liquidity of the Group, is dependent upon the receipt of the QZ Shipyard sale stage payments.

As further explained in note 1.1, the directors of the Company are taking steps to improve the Group's liquidity and solvency position. These steps mainly include (i) negotiations with potential strategic investors in respect of a possible equity investment in the Company; (ii) actively working to require Grand China to comply with its obligations under the sale and purchase agreement; and (iii) negotiations with the Senior Notes holders and other creditors to defer or renew the Group's bank and other borrowings. As at the date of approval of the financial statements, these measures had not yet been concluded.

These events indicate the existence of material uncertainties which cast significant doubt about the Group's ability to continue as a going concern.

The validity of the going concern assumption on which the consolidated financial statements are prepared is dependent on the successful and favourable outcomes of the steps being taken by the directors of the Company as described above. The consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern and, therefore, do not include any adjustments relating to the realisation and classification of non-current assets and non-current liabilities that may be necessary if the Group is unable to continue as a going concern.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at other than the amounts at which they are currently recorded in the statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities.

Uncertainty relating to the carrying amount of a disposal group classified as held for sale

The assets and liabilities of the shipbuilding operations of the aforementioned QZ Shipyard were classified as a disposal group held for sale in the Group's consolidated statement of financial position at 31 December 2011 and stated at the net carrying amount of HK$1,990,666,000. The recovery in full of the carrying amount is heavily dependent on Grand China honouring its obligations. Depending on the final outcome of the negotiations, a provision for impairment to state the net assets to the recoverable amount may be required. As at the date of approval of the financial statements, pending the conclusion of the negotiations, the directors of the Company are unable to determine if any, provision for impairment may be required.

Disclaimer of opinion

Because of the potential interaction and possible cumulative effect of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view in accordance with Hong Kong Financial Reporting Standards or whether they have been properly prepared in accordance with the disclosure requirement of the Hong Kong Companies Ordinance."

DIVIDENDS

The Board of Directors does not recommend the declaration of a final dividend (2010: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2011, the Company purchased a number of its PIK Notes Due 2015 (the "Notes") in an aggregate principal amount of US$1,040,000 (approximately HK$8,112,000). The Notes are listed on the Singapore Stock Exchange.

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

CORPORATE GOVERNANCE

The Company is committed to maintaining good corporate governance to effectively oversee/guide operations and to enhance long term shareholder value, with an emphasis on having a quality board, transparency, independence and accountability. The Company has applied the principles and complied with the code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in the Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31 December 2011, except for a deviation as required under code provision A.2.1 of the CG Code which provides that the role of chairman and chief executive should be separate and should not be performed by the same individual. During the relevant period, Mr. Tsoi Tin Chun held dual positions of Chairman and Group Chief Executive.

On 3 January 2012, Mr. Tsoi Tin Chun resigned and Mr. Cai Jian Jun Henry was appointed as Group Chief Executive. After segregation of the roles of Chairman and Chief Executive, the Company has been in compliance with code provision A.2.1 of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 to the Listing Rules as the Company's code of conduct regarding director securities transactions. Having made specific enquiries of the directors, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the year.

REVIEW OF FINANCIAL STATEMENTS

The audit committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2011 and discussed the same with the external auditors and is of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and other reporting requirements, and that adequate disclosures have been made.

As at the date of this announcement, the Executive Directors are Mr. Tsoi Tin Chun and Mr. Patrick Wong Siu Hung; and the Independent Non-executive Directors are Miss Maria Tam Wai Chu, JP, Mr. Abraham Shek Lai Him, JP and Mr. John William Crawford, JP.